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Challenges for the Decade

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In the wake of the Internet, traditional constraints of time, distance, and location are being dismantled. And in the world of consumers' market, the prevailing metaphor of business as shipping (be it physical goods or marketing messages) is losing its viability. Increasingly global, fast-paced and networked business renders existing structures unable to capture new opportunities or respond to new challenges. Linear, one-dimensional value chains with distribution channels and intermediaries shield companies from their end consumers, while bringing about costs and inefficiencies.

To meet the dramatically shortened business cycles, companies must reach out to each other and form networked ecosystems that pull together capabilities in a nonlinear fashion, eliminating time, distance and location. A virtually integrated business focuses on its core competencies and the key processes at which it excels, while partnering closely with other organizations that also focus on what they do best. In an extended enterprise, multiple companies work together to create customer value. This vision calls for radical rethinking of a company's identity and strategy.

The emergence of extended enterprise surpasses a mere horizontal trend and denotes a major transition to the next order of complexity: from the relatively stable, closed and controllable system of a self-sufficient enterprise to the relatively fluid, open and transformational system of an extended enterprise.

The upcoming decade will see this paradigm shift gain strength and shake many conventional structures. The increasingly interlinked and coevolutionary nature of extended enterprise entails a number of challenges in terms of strategy, governance, leadership, and enterprise architecture.

Strategy

Traditional strategic planning that focuses on defensible strategic positions is inadequate in today's high-velocity markets, in which the strategic position can be quickly eroded. Also, traditional strategic thinking that emphasizes competitive forces often results in imitative and reactive, rather than innovative and proactive behavior.

As the perspective shifts from value chain to value network, the nature of strategy changes from defensive to proactive. In the extended enterprise and knowledge economy, the focus of strategy is on value innovation. Rather than outperforming the competition, value innovation aims at making competition irrelevant by offering fundamentally new value and by creating new markets. In coevolutionary collaboration, agility, synergy and ecosystem dynamics are emphasized over efficiency and economies of scale.

Sustainable strategic management calls for continual alignment of the organization with its value proposition. As the only constant is constant change, the competitive advantages of organizations are in continuous flux. To be able to create this series of shifting advantages requires effective distributed decision-making at all levels of the organization.

Governance

As defined by IT Governance Institute, corporate governance refers to “a set of responsibilities and practices exercised by the board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the enterprise's resources are used responsibly”. As the definition implies, it is generally seen as the concern and responsibility of top management and top management only. The primary reason for corporate governance is to promote the financial and functional integrity of the corporations and to align the goals of shareholders with the strategic goals of the management.

More often than not, the underlying assumption of corporate governance seems to be that people are inherently self-interested, greedy and lazy, and that their behavior needs to be reined in through control and compliance frameworks. Not only does this negative view of employees—McGregor's Theory X—lead to mistrust, restrictive supervision and a punitive atmosphere, but it creates a vicious circle that instigates the type of negative behaviors the governance framework is designed for in the first place.

In contrast, by opening to a more positive view of workers, it is more likely to develop the climate of trust that is conducive to shared decision making, which is the cornerstone of organizational agility. The culture of trust is also of importance in an extended enterprise, as a company must trust its partners, share information and



sub-optimize its own operations for the best of the larger system. The mere belief that employees enjoy their work, are trustworthy and carry out their commitments—Theory Y—creates a virtuous circle that perpetuates the kind of conditions that render control frameworks more or less obsolete.

It can even be conjectured that top-down predict-and-control measures resist the natural, self-organizing dynamics in the organization. A considerable amount of energy is dissipated to uphold structures that intend to mitigate conflicts of interest in co-operative behavior, while these structures, in fact, inhibit co-operation to start with.

A network is managed by negotiation, not command. In the extended enterprise environment, governance should therefore be built around co-adaptive strategy, rather than ownership, as a unifying concept. Strategy drives transformations, and transformations must involve the entire organization. Prevalent governance frameworks fall short in serving organizations in uncertain, fluctuating environments, where a clear sense of direction and just-enough coordination is better than a precise plan and tight control.

Management cybernetician Stafford Beer maintained that an effective organization should maximize the freedom of its participants, while fulfilling its purpose as a whole. The founding CEO of Visa

International, Dee Hock, shares this sentiment and adds that healthy, adaptive systems exhibit a “chaordic” balance between chaos and order. Similarly, a governance model for an agile enterprise should distribute decision-making rights to the maximum degree and allow self-organizing mechanisms to determine what is requisite.

Agile Governance. Sounds like an oxymoron at the outset. Governance generally bears connotations pertaining to conformance such as defining policies and setting controls, whereas agile is about adaptation: minimal planning and iterative development. But on another look, these two share some common goals. At best, governance defines expectations that people hold to each other. In the form of roles, accountabilities and decision-making rights, it sets the framework of mutual understanding within which the daily business can run smoothly and decisions can be made readily. In a similar vein, agile software development encourages individual work within the expectations that the self-organizing team engenders.

Agile Governance is an adaptable means for continual definition of requisite organizational roles, accountabilities and policies in congruence with the organization's role in the wider ecosystem. It enables independent yet interconnected decision-making at all levels, allowing dynamic steering and propagation of requisite change throughout the organization. It is a departure from traditional views on organizational governance that assume people as inherently self-serving agents who need to be controlled by autocratic means or by introducing democratic de-



vices. Agile Governance starts from the very purpose of the organization and aligns the entire organization for the benefit of the whole. It is based on the tenet of “requisite alignment”, in which people and organizations find the best fit for the mutual benefit.

Leadership

Limits of Logical Thinking

Formal logical thinking is confined to closed systems that cannot size up non-physical moving targets. In itself, it allows for transformational thinking only to a limited degree. Developmental psychologist Otto Laske argues¹ that transformational thinking transcends formal logic and requires dialectical apparatus. Whereas in formal logic, non-A is discarded by saying that it is “false”, in dialectical thinking non-A is an “antithesis” to A that drives towards a higher level “synthesis” that embraces both A and non-A.

According to Laske, this inclusion of non-A in A goes to the core of open, living systems that always include contradictions and things “other” than what the system in its present form openly manifests. Transformation of such a system is a developmental movement across time that explodes any closed system in its entirety. It cannot be

predicted with logical thinking relying on lagging (past-oriented) indicators.

Systemic rethinking of process and value streams, developing new products and services, discovering new markets, creating new business models, understanding different stakeholder agendas, partaking in worldwide networking, and developing and pursuing alternative strategic plans—these are all transformational thinking exercises of various degrees that cannot be successfully conducted by using formal logical thinking as most people and organizations presently do.

Logical thinking views change as something external that can be “managed” or as something imposed from the outside that needs to be adapted to. Dialectic thinking, in contrast, regards unceasing change as an intrinsic part of reality that can be directed to developmental ends.

Inside-Out Approach to Leadership

Today’s leadership and executive development programs are usually based on formal logical thinking or integrative thinking at best. They are constrained by rational organizing principles, logical hierarchies and other obstacles for presuppositionless thinking. They also approach leadership development from the outside in: 1) identify a leader’s external challenges, 2) determine the competencies required to meet these challenges effectively.

In recent years, an inside-out approach has also emerged, focusing on the mental and emotional capacities needed for effective leadership. From this perspective, at least two notable books have been written that reveal findings about the relation-

¹ Laske, O. (2008): *Measuring Hidden Dimensions of Human Systems, Vol 2.*

ship between psychological development of adults and leadership effectiveness:

1. “Leadership Agility—Five Levels of Mastery for Anticipating and Initiating Change” by William B. Joiner and Stephen A. Josephs
2. “Action Inquiry—The Secret of Timely and Transforming Leadership” by Bill Torbert

Neither of the books makes references to Laske’s work or dialectical thinking, but they do recognize vertical leadership development through recognizable stages that enable the leaders to operate successfully in increasingly complex situations.

Aligning Accountability and Capability: Requisite Organization

The recognition that both the complexity of work and the capability of people occur at distinct levels is in the core of Elliot Jaques’ Stratified Systems Theory² that defends hierarchy as a natural form of social organization, reflecting the discontinuous steps in the nature of human capability. In what Ja-

ques calls the “Requisite Organization”, levels of work complexity, measured by the required time span of discretion in a role, are aligned with respective human capability levels to support effective managerial accountability.

Jaques maintains that the role complexity increases discontinuously in specific steps at time spans of 1 day, 3 months, 1 year, 2 years, 5 years, 10 years, 20 years and 50 years. These breakpoints stratify varying kinds of work into natural layers, or “strata”, in the hierarchy. A role falling into any given stratum should report to a role in the next stratum up. When roles are placed requisitely, an organization is likely to function effectively. When they are too close or too far, dysfunction is inevitable. Problems also arise when a person is in a role at a level higher or lower than his or her current capability or when there are too many or too few layers.

Jaques’ theories are directly at odds with the mainstream management doctrines that stress teamwork and call for the removal of management layers. These “touchy-feely” approaches to management, Jaques argues, are fundamentally misguided, disastrous and dangerously wrong. The hierarchy, per se, is not bad, but organizational dysfunctions can be traced to poor structure that prevents employees from working at their full potential.

The only lasting solution is to define roles by clear levels of work complexity (Accountability Architecture) and match each level with people cognitively and socio-emotionally equipped to do their jobs (Capability Architecture). A properly structured Requisite Organization can release

² Jaques, E. (1998): *Requisite Organization: A Total System for Effective Managerial Organization and Managerial Leadership for the 21st Century*, 2nd revised edition

energy and creativity and improve morale. And, indeed, the few companies that have applied RO principles have reported marked increases in productivity and profits as well as happier and more dedicated employees.

Extended Enterprise Calls for Post-Heroic Leadership

Both “Leadership Agility” and “Action Inquiry” acknowledge a marked shift from Achiever to Catalyst (from heroic to post-heroic leadership), or from Achiever to Individualist (from conventional to post-conventional action logic), respectively. Interestingly, these shifts seem to be in perfect line with Laske’s conjecture that the underlying inquiring system changes from Understanding (based on formal logic) to Reason (based on dialectical logic) between the IV and V strata of Jaques’ Requisite Organization, which is the demarcation line between the self-contained businesses and the wider ecosystem. This would further support the notion that the extended enterprise environment calls for qualitatively different kind of leadership.

At the first post-conventional level, the leader must, at least, be able to:

- Have a wide-angle view on the health of the natural environment and the well-being of the larger society.

- Create visions that challenge commonly held assumptions.
- Focus more on both present and historical context.
- Move through different time frames with ease.
- Think globally, regionally, and locally all at the same time.
- Recognize different frames of reference and respective biases.
- Let go of defense mechanisms.
- Accept mixed feelings and inner conflicts.
- Be attracted by difference and change more than by similarity and stability.
- Create empowering environments.
- Exhibit visionary leadership.

Strategic leadership in the extended enterprise context calls for the kind of systemic and transformational thinking that few leaders possess. Both Joiner & Josephs and Torbert report that only about 10% of leaders are functioning at the post-heroic/post-conventional levels.

An enterprise may want to measure its leadership capabilities and align the leaders with appropriate accountability levels. Particular attention needs to be paid in appointing the leaders at higher echelons. What usually happens when a CEO’s capability fails to match the accountability level is that the company is shrunk down to his/her own level. The leader’s ability to conceive transformational systems can be decisive of whether the company is a “keystone” or just a marginal player in the overall ecosystem.

Enterprise Architecture

Enterprise Architecture is a critical vehicle for supporting decision-making and aligning strategy with the structure. It provides a comprehensive representation of the extant status and projected future status of the enterprise in terms of relevant components and their relationships. In a dynamic environment, in particular, it is of essence that the enterprise architecture includes analytical methods that enable various kinds of impact analyses on hypothetical change scenarios and mechanisms that demonstrate business value of architecture solutions.

Traditionally, the focus of enterprise architecture has been on technology and information systems architectures, but the increasing responsiveness demands of the ecosystem have recently put a greater emphasis on information and business architectures. Usually, business needs drive information needs, which drive technology decisions, but the highly intelligent enterprises of the future also need to be able to leverage technology to create new business opportunities.

Consequently, the traditional approach of layering the Enterprise Architecture by architectural dimensions does not adequately address higher level IT considerations such as systemic competencies, system and project portfolios, or strategic platforms. In this “IT follows business” paradigm, the

enterprise architecture does not support strategic perspectives driven by IT strategy.

Following the tenets of Requisite Organization described herein above, organizational decision-making levels would provide a more viable basis for the abstraction levels of the enterprise architecture. By redirecting EA dimensions vertically, the external domain of IT strategy can be captured more clearly. The inherent abstraction hierarchies within architectural dimensions become more explicitly represented and can be linked laterally.

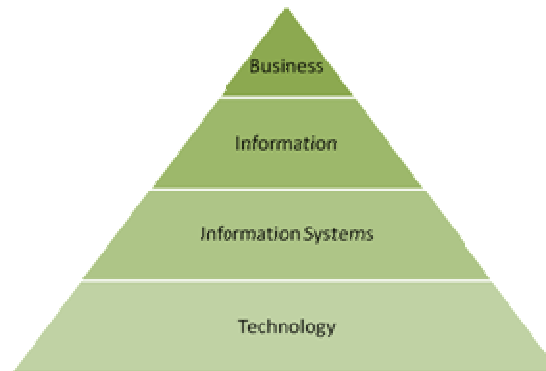


Figure 1. Traditional EA layering.

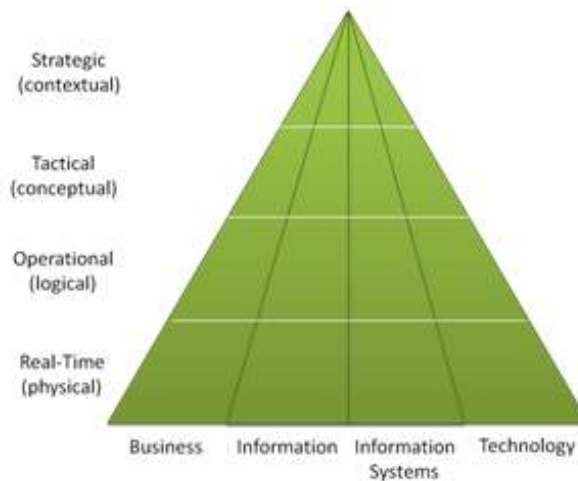


Figure 2. EA dimensions as verticals.

I have found it useful to distinguish four levels (in line with requisite strata I–IV) to segregate architectural elements and artifacts:

1. **Strategic** level answers to “what” and “why” questions of the current and future business models of the organization. Architectural elements at this level include the goals, core competencies, business models, success factors, and operational environment of an organization. In the extended enterprise setting, the larger context of external environment variables is of importance.
2. **Tactical** level addresses the “how” concern: with what kind of organization, end-to-end business processes and organizational capabilities can the resources be assembled to implement the business models.
3. **Operational** level integrates business to IT. Elements at this level include enterprise information systems and SOA services that translate underlying technical functions to applicable business functionality for users and service clients.

4. **Real-Time** level embraces the application and technology infrastructure: COTS applications, operating systems, infrastructure services, data stores, devices, etc.

These four levels are in line with the respective levels of abstraction that can be identified in planning and implementing enterprise architecture:

1. **Contextual** level at which the scope, key principles and the *raison d’être* of enterprise architecture are determined. Strategic steering and executive sponsorship for the EA endeavor resides here.
2. **Conceptual** level at which the requirements for enterprise architecture are identified. It is not yet specified how these requirements are fulfilled logically or physically. Enterprise-wide coordination, coaching and guidance related to enterprise architecture are provided at this level.
3. **Logical** level at which solution architectures are specified. The level of abstraction is still independent of physical implementation.
4. **Physical** level at which the logical solution is taken as the basis for further design and at which the detailed plans are carried out physically e.g. in information system deployments.

As the same abstraction levels can be used to structure both architectural elements and governance, a composite

framework for enterprise architecture and its governance would result in better business/IT alignment throughout the organization. The ownership and stewardship for different architectural artifacts can be readily assigned to governance roles at respective levels. Also, governance processes can be more easily defined around clearly allocated decision-making and responsibility areas.

In the extended enterprise setting, inwardly focused processes and applications must be turned to face outward to customers and business partners. Business and IT are merging and new business logic is emerging. The trend is toward increasing modularization, in which business capabilities are both outsourced and provided in a plug-and-play manner.

Service-Oriented Architecture (SOA) is a standards-based approach to provide software and information resources as context-independent network-accessible business services. Business Process Management (BPM) can stimulate the application of SOA by clearly identifying high value, high impact processes to consume, publish, and/or orchestrate services. Services can be used as implementations of activities within a business process that can be executed in a Business Process Management System (BPMS), and business processes can be exposed as services. BPM provides the context for process control, execution

and measurement and is the realm of stateful, long-lived transactions, whereas SOA performs the data access, complex calculations, business rules enactment and transaction processing.

The challenge is to integrate business goals, BPM processes, SOA services and the underlying application and technology infrastructure into a comprehensive framework. Once this holistic model of the organization is in place, however, it will enable flexible reassembly of processes, capabilities and services in new, innovative ways. BPM and SOA bridge the gap between the business processes and application landscape and EA provides visibility into the totality of organizational assets and interdependencies between architectural elements.

Summary

Extended Enterprise represents a paradigm shift from a closed and controllable system to an open, transformational system that calls for coadaptive coordination. Extant organizational and societal structures based on control, competition and coercion fall short in promoting proactive value innovation, coevolutionary collaboration and developmental transformations needed in the future. New, post-conventional ideas and structures are needed in areas including but not limited to strategy, governance, leadership and enterprise architecture.