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The Long View of Leadership

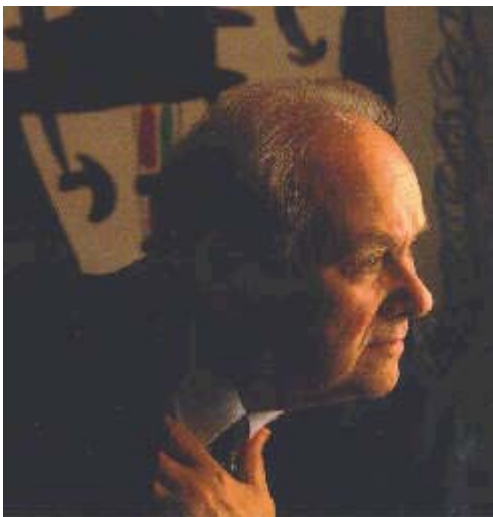
by Alexander Ross

Article #06-01-21-1

THE LONG VIEW OF LEADERSHIP

"Most people can't think beyond next week. If you can think years ahead, you're the boss--or probably should be. That's the basis of a management theory that's working miracles for its corporate disciples."

By Alexander Ross



The clock ticks for father time:
Elliott Jaques measures managers against millennia

If your employees don't know who their real boss is, if their pay scales bear little relation to the work they do, if the lower-downs think management is incompetent and the higher-ups are fighting turf wars with each other, help is on the way. Despite what countless consultants have been telling you, setting up teams and quality circles is not an automatic cure for bureaucratic sclerosis. Such democratic solutions are like trying to steer a car by twisting the rear-view mirror back and forth—it may seem to work for a while, but sooner or later you will probably crash, because you're operating under false assumptions. The only lasting solution is to set up clearly demarcated levels of authority and accountability, and to make sure the people at each level of your organization are mentally equipped to do their jobs.

That's a drastic oversimplification of the prescription offered by Canadian-born psychoanalyst and management expert Elliott Jaques. His organizational theories, shaped by more than 40 years of on-the-job research, are beginning to revolutionize management thinking around the world. Some admirers believe that Jaques and his Stratified Systems Theory (SST) represent a major intellectual achievement—a

comprehensive body of insights that explains organizational behavior the way Adam Smith described economic systems or Sigmund Freud explained the mysteries of the human psyche. Others have dismissed Jaques' work as a form of managerial fascism that arbitrarily slots people into organizational cages. But the handful of companies that have actually applied Jaques' theories have reported almost magical results, including quantum leaps in productivity and profits, and happier, more dedicated employees throughout the organization.

EXECUTIVES WHO HAVE APPLIED JAQUES' THEORIES SAY "MOST OF THEM BOIL DOWN TO COMMON SENSE."

What Jaques claims to have discovered, at these and other organizations, is that natural hierarchies assert themselves wherever human beings organize themselves to fight or work. "This structuring is true regardless of whether it's a factory in Calcutta, a mine on Bougainville Island in the Solomons, or a mine out in the middle of the Namibian desert," he says. "Everywhere you find the same phenomenon."

Much of what Jaques says directly contradicts current management doctrines, which stress the importance of teamwork, employee participation and the removal of management layers. These touchy-feely approaches to management, he argues, aren't merely misguided. They are fundamentally, disastrously, dangerously *wrong*; and if pursued, they will make North American industry even less competitive than it already is. "Everything is teams, teams, teams," he says. "But we've brought in the teams in ways that have totally undermined the importance of effective managerial leadership. It's total quality management, right? And everybody's agreed on this stuff. And as long as this goes on, the Japanese will "knock bloody hell out of us."

JAQUES SAYS "TOUCHY-FEELY APPROACHES TO MANAGEMENT ARE FUNDAMENTALLY, DANGEROUSLY WRONG!"

SST applications have produced such dramatic results that some people can't understand why Jaques is not as famous or fashionable as, say, Tom (*In Search of Excellence*) Peters or Edwards Deming, whose statistical theories provided the intellectual underpinnings for the postwar revival of Japanese manufacturing. For one thing, Jaques is primarily a scientist, not a management consultant. Until recently, he has shown little interest in popularizing his work. For another, his stuff is not easy to understand. He has written 16 books that articulate his theories; but almost no one has succeeded in the daunting task of reading all of them. His theories also generate built-in resistance because they sound so, well, undemocratic.

One implication of SST is that people's problem-solving abilities develop through youth and maturity in predictable patterns. This means that each person has an inherent potential for cognitive development and is thus equipped to rise only so high, and no higher, in an organization. Learning and experience will enhance our skills and knowledge, but no amount of positive thinking can change our potential to approach problems in increasingly sophisticated ways. Jaques is basically saying that some people are born with the ability to make CEO-and some aren't. In a culture that is obsessed with self-improvement, that amounts to a major heresy.

But the main barrier to acceptance, some of his adherents believe, has been the short-term fixation of North American management. "Jaques is not the instant pudding that everybody looks for," says Jos Wintermans, president of Canadian Tire Acceptance Ltd., who has used Jaques' SST to reorganize and nearly double the size of his company. "I don't think most managers have the stomach to live it and actually do it, because it's tough slugging. The people who succeed are the ones who have taken five or 10 years, consistently changing their environment."

But Jaques' hour may be about to strike. The Harding Consulting Group Inc., a Miami-based consulting firm with offices in Toronto and Houston, working exclusively within the Jaques context, has produced impressive results that CEOs are beginning to notice. Isolated pockets of support are beginning to surface in consulting firms and executive suites from Louisville, Kentucky, to Melbourne. Some US firms have applied Jaques' theories with such indecent success that for years they wouldn't talk about it publicly, for fear of tipping off their competitors. Now such firms as Whirlpool Corp. in Michigan, and Kentucky-based Commonwealth Aluminum Corp. are beginning to do a little on-the-record boasting. The Toronto office of Price Waterhouse is exploring how SST can be applied to the hiring process and, in February, sponsored a breakfast lecture by Jaques that attracted about 45 CEOs from major Canadian companies.

So who is Elliott Jaques and what is he telling us? He graduated with a BA from the University of Toronto in 1937, completed his medical degree at Johns Hopkins Medical School in 1941, and took a PhD at Harvard in social relations in 1952. He spent most of the war years as a liaison between the psychiatric units of the British and Canadian armies, working much of the time on officer selection methods. He stayed in Britain after the war, qualifying as a psychoanalyst at the British Psychoanalytical Society. His army work, combined with his clinical studies, gave him a dual interest in how people and organizations develop and interact. His research in human development prompted him to describe "the midlife crisis," a term Jaques invented that has become part of the language. From 1947 until 1965, he spent his mornings seeing seven psychoanalytic patients and his afternoons prowling around the premises of the Glacier Metal Co., an engineering firm that had retained him as a consulting social scientist.

He worked with the company for more than 30 years. It was his laboratory, a living microcosm of organizational behavior. Like a diligent anthropologist, he became an equally familiar presence in Glacier's boardroom and at meetings of the union shop stewards. "My concern," he says, "became how to develop social institutions that can enhance human morality, human effectiveness, human creativity."

That concern enlarged his role from scientific observer to a sort of specialized management researcher. The workers and managers of Glacier helped him shape his theory of stratified systems. Jaques, in turn, helped reshape Glacier into one of the few UK companies that was triumphantly immune to the British Disease-excessive trade unionism and heavy bureaucracy. The company was eventually absorbed into a conglomerate called Associated Engineering. But the managers whom Jaques had helped select and train at Glacier ended up running Associated and seven of its nine subsidiaries.

Since then, Jaques has worked with such diverse organizations as CRA Ltd., the Australian subsidiary of British-based mining conglomerate RTZ Inc.; the Church of England; and the US Joint Chiefs of Staff on organizational matters, and last year received a certificate of appreciation from Gen. Colin Powell for "outstanding contributions in the field of military leadership theory."

SOME US FIRMS USED SST SO SUCCESSFULLY THEY WOULDN'T TALK ABOUT IT FOR FEAR OF TIPPING OFF THEIR COMPETITORS.

Jaques argues that companies get into trouble when the layers on their organizational charts fail to correspond to the natural universal structure, and when hierarchical divisions are blurred so that managers aren't clearly accountable for the work of their subordinates. But his explanation of why organizations need hierarchies, and how they operate, may represent a fundamental advance in our understanding of people and organizations. What, he wondered, was the hidden principle that distinguished one level of hierarchy from another? It was his mates from the shop floor at Glacier who suggested the first clue: it has to do with time.

What defines the level of work in a stratum, he realized, is "the target completion time of the *longest* task, project or program assigned to that role." At stratum 1, the production line or the typing pool, it might take a day to set up a lathe or 20 minutes to type a letter. At higher levels, tasks extend farther in the future: perhaps two years for a sales manager to rebuild a marketing organization or five years for a CEO to turn around a company.

Years of field work also revealed that people in organizations were remarkably unanimous about where the cut-off points should be between one stratum and another: three months for stratum 1, one year for stratum 2, two years for stratum 3, five years for stratum 4, and 10 and 20 years for strata 5 and 6. The perceived complexity of work within an organization, in other words, does not increase in a consistent way. It is *discontinuous*, just as water is discontinuous in its progression from solid to liquid to steam. The fact that so many people, in so many different cultures and situations, perceived the hierarchies of their organizations in the same way, persuaded Jaques that he'd stumbled on something fundamental.

The corollary of this notion turned out to be more controversial. If there are natural strata in human hierarchies, there are also people who are naturally meant to occupy them. Some people can't see past their next paycheck, and usually end up in stratum 1. Others, a miraculous few, are endowed with the Churchillian gift to glimpse across the centuries. In between are the rest of us. At any given time in our maturation, the level of sophistication with which we approach problems determines where in the hierarchy we really belong. Jaques has spent decades testing the cognitive abilities of people in various strata, and now believes he can reliably predict their capacity to rise to higher levels.

Jaques has identified various levels of cognitive ability ranging from the very concrete ("Hand me that broom") to the very abstract, in which a person is capable of imagining several chains of possible consequences and relating one possible outcome to the others. His research shows, he says, a strong correlation between cognitive ability and time horizons.

The smarter we are at processing information, in other words, the farther we are able to project ourselves into the future. That's the fundamental difference between Archie Bunker and Henry Kissinger—not just intelligence or acquired knowledge, but a measurable, qualitative difference in the way each solves problems, and in the time horizons of the roles in which each feels most comfortable. A Churchill, whose abilities Jaques would characterize as level 8 or 9, would probably feel bored running a company such as

General Motors Corp. And what usually happens when a CEO's cognitive abilities fail to match the level of hierarchy he occupies is that he shrinks that company down to his own level.

Yes, it sounds glib when stated that baldly. But the theory is being applied with astonishing results. Executives who have gone through the long and painful experience of reorganizing a company along these lines report that much of it boils down to common sense-but that Jaques' theories provide a powerful conceptual framework that validates what many smart CEOs do instinctively anyway. At Toronto-based Suncor Inc., the restructuring cut deep, the pain was pervasive and the results have been impressive. Doug MacKenzie, the executive vice-president in charge of refining and marketing, has worked with the Harding Group since 1989 to restructure the company's Sunoco Group, which runs refinery and retail operations in Eastern Canada. Suncor's operations in Alberta have not been affected. The exercise involved analyzing who was reporting to whom at what level, trimming down the organization from six to five strata, and combining some functions to promote accountability. He has tried to introduce SST concepts throughout the organization, right down to the truck driver level. Despite what MacKenzie calls "all the pain and agony"-they reduced staff overall from 908 to 750-Sunoco was the only major oil company that didn't lose money during the first half of 1991. Sales per employee have increased by 83%. It has become one of Canada's most profitable refining and marketing operations; four years ago it was one of the least profitable. MacKenzie says the reorganization has liberated the energies of people throughout the company. "Jet fuel sales are something I didn't even have a handle on," he says. "And all of a sudden we increased our sales last year by 157%."

Jaques argues that such victories are to be expected when companies achieve "requisite organization"-that is, when their hierarchies correspond to the natural divisions he's identified, and when people at each level clearly understand what's expected of them. A well-run hierarchy allows people to work to their full potential. He bristles at experts who compare the function of modern managers to those of coaches or orchestra conductors, and who try to replace individual accountability with group responsibility. The aim should not be to abolish or undermine hierarchies, but to make them work more effectively.

Will SST ever become widely accepted? Perhaps not, because it challenges conventional assumptions in so many fields, from compensation policy to personnel testing. Too many fields have too many vested interests in personality tests (useless, Jaques believes), bonus systems (which he says are disruptive) and office perks. Besides, the Harding Group is virtually the only consulting firm in the world with extensive experience in implementing SST, and George Harding believes his company must stay small to avoid diluting the purity of Jaques' theories, which he is convinced will be the conventional wisdom a century from now. "Once you get this stuff in your blood," he says, "you see everything through it. It's a way of understanding work, the world and people."

THE THOUGHT PROCESSES OF FAST TRACKERS

How to measure cognitive levels has been a question that has obsessed Elliott Jaques for much of his career. After successive refinements, he now thinks he's developed a reliable, scientifically valid method. It involves asking the person to discuss some controversial question-such as, say, whether or not to legalize recreational drugs. Some people flatly declare that legalizing marijuana would be wrong. Others might draw

historical parallels with Prohibition. Others, the fast-track people, will set up two or three parallel lines of reasoning and are capable of grasping how a multiplicity of possible outcomes might interact with each other.

A trained observer, says Jaques, can spot these cognitive levels by watching for certain conversational cues. And these varying levels of sophistication are expressed as a person's natural time horizon, determining his or her fitness to occupy one or another stratum.

Problem-solving abilities; though, aren't the only determinant of competence, of course. Competent managers must also have the necessary knowledge and skills, have no destructive personality quirks, and must want to be in the roles they occupy. If these conditions are met, subordinates will feel their boss "knows what he's doing", and the boss himself will feel comfortable setting the context for people in the next level down in the hierarchy.

"THE RESULTS WERE TREMENDOUS -- AND ALMOST INSTANTANEOUS"

Jos Wintermans at Canadian Tire Acceptance Ltd.



Jos Wintermans' smart new managers:
their predecessors didn't measure up to the Jaques'
management model

When Jos Wintermans took over as CEO of Welland, Ont.-based Canadian Tire Acceptance Ltd. (CTA) in 1988, he found the management of Canadian Tire Corp. Ltd.'s data-processing arm seemed more interested in golf and curling than in building the business. Costs were rising and usage of Canadian Tire's card had slipped from 100% (before Visa and MasterCard) to as low as 38%. Wintermans realized that if a recession hit, the company would be in trouble.

He'd heard about Elliott Jaques' Stratified Systems Theory (SST) through his boss. In April, 1988, he hired George Harding's consulting group to analyze the company's structure and recommend changes. The results shocked Wintermans. "They told us we had 11 layers of management, when we should have had five," he says. "I hadn't anticipated that it would be that bad-but it was."

Too many middle managers, it turned out, were bunched up around level 2. Harding's team also recommended merging several departments, so that whoever was running them would be accountable for overall results. The next step was to identify managers who, according to Jaques' methodology, weren't equipped to occupy the positions they held. The results indicated that four of his vice-presidents were, as Wintermans expresses it, "not operating at the right level," and a fifth might eventually be capable of doing his job, but only with a lot of coaching. These findings coincided with what Wintermans already knew intuitively, so he fired four vice-presidents and eliminated the positions of two others. "This was not the crew that was going to bring this company into the next decade," he says.

Then he asked his managers to choose the people they wanted to keep and those they could do without. This resulted in another 10 firings. Wintermans and Harding stress that staff reductions are only a by-product of the process, not the goal. In fact, the company now employs more people than it did four years ago. Although CTA is only now attempting to apply SST at the lower echelons, the company is already transformed. As a percentage of revenues, salary costs have dropped from 13.2% in 1988 to 9.2% last year, and revenues have grown from \$100 million in 1988 to \$173 million in 1991. Profits, despite the recession, have increased every year since 1988.

"SST really works," says Harding, "and it works fast. In January, 1989, the year-over-year increase in revenues was 8%. By April it was 22%. The only thing that can account for that is the restructuring," he says. "People knew what their jobs were, knew what was expected of them. The results were tremendous-and almost instantaneous."

This article was originally printed in **Canadian Business**, May 1992.

This article courtesy of CB Media Limited
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The establishment and operation of a world-wide society of academics, business users and consultants interested in science-based management to improve organizational effectiveness for the purposes of:

Promoting among existing users increased awareness, understanding and skilled knowledge in applying concepts of Levels of Work Complexity, Levels of Human Capability, Accountability, and other concepts included in Requisite Organization and/or Stratified Systems Theory.

Promoting among potential users of the methods, appreciation of the variety of uses and benefits of science-based management, and access to resources.

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Sponsorship for the period 2005-2007 is provided in part by the generous support of the following organizations:

