

Leading into the Future XIb: Holding the Center While Innovating and Opening Boundaries

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In this essay and the two that follow, I am not primarily interested in the analyses offered by contemporary theorists and researchers, given that things haven't changed a whole over the past four decades – but rather have mostly intensified. Rather, I am interested in the solutions they have offered. I want to know how they suggest that the center can hold in Second Decade organizations that are often unbounded, forced to be agile, and surviving through collaboration rather than competition. Specifically, I wish to focus on five suggestions and will provide quotations from the new organizational theorists and researchers, as well as add my own thoughts and recommendations associated with each of these suggestions.

Evolving and Innovating

I will be guided in the selection and description of these five suggestions by a set of concepts that come from a field of study that initially seems to be far afield from organizational leadership. This field is evolutionary biology where we find a classic (sometimes controversial) mathematical model called the Hardy-Weinberg Equilibrium. This model provides some rich insight for not only those interested in evolutionary change, but also those leaders who are facing the challenge of introducing innovation and change in their organization while retaining its core principles and practices. The Hardy-Weinberg Equilibrium model works backwards regarding evolutionary change—it is about the five key assumptions that lead to NON-change in terms of biological evolution.

The first assumption is that there are no mutations in a population. This would mean that all of the genes that form the basis of all life forms are the same for all members of one species. There is no room, in other words, for variations or mistakes. The second assumption is that any specific population is isolated. Individual members of a specific population (community) can't migrate into or emigrate out of that specific community. The members of any species within a specific community can only breed with individuals from the same community.

The third assumption that would block biological evolution concerns the size of the population. The population must be very large for the blocking of evolution to occur—leading to the averaging out of differences among members of any one species. If the community is small then any differences will

make a big difference (big frog in a small pond), whereas in a large community, differences will be absorbed and not have much of an impact.

The fourth Hardy-Weinberg assumption leading to equilibrium is about mating preferences. There will be little evolution if mating is random—anyone from the other gender will do and there is not much discrimination. If members of a species show preferences for those of the opposite sex who are bigger, stronger, prettier, faster, smarter or hairier, then evolution is more likely to occur. The final assumption to be made is closely related to the fourth. It concerns survival and reproduction in a specific population. Evolution is unlikely to occur if everyone in the community has an equal chance of survival and an equal opportunity, as a surviving adult, to mate and produce offspring.

What if anything does this rather theoretical model of evolution have to do with the very real world of organizational innovation and the challenges of fostering change within a complex system (such as exists in 21st Century organizations)? I suggest that all five assumptions can be applied to organizational life. If all or most of the five Hardy-Weinberg assumptions are descriptive of an organization, then it is likely to remain in equilibrium and innovation is unlikely to occur. The center might hold, but at the expense of the agility needed for a 21st Century organization to remain viable. The key, therefore, for the organizational leader is to ensure that these assumptions aren't being met. Let's focus briefly on each assumption and see what it says about organizational innovation and sustainability.

Innovating and Breaking the Set

I begin in this essay by examining ways in which the center can be held in the midst of innovation and the opening of organizational boundaries.

Mutations and Organizational Variation

If there are no mutations in a population then evolution will not take place. There is no room for variations or mistakes in a system in equilibrium. What are the implications: innovation requires that things are not always going right in an organization? There must be variations if the organization is to generate innovations. Scott Page (2011) writes about the generation of multiple ideas (mutations) and suggests that a world filled with many perspectives is one in which good ideas, clear thinking and accurate information is likely to emerge: "if we have lots of diverse paths . . . , we are not likely to make mistakes. If we only have a few paths, mistakes are likely." (Page, 2011, p. 240) Page makes the strong case for the important interplay between complexity and diversity. Systems that are complex and diverse will be more resilient and amenable to change:

Systems that produce complexity consist of diverse rule-following entities whose behaviors are interdependent. . . . I find it helpful to think of complex systems as “large” in Walt Whitman’s sense of containing contradictions. They tend to be robust and at the same time capable of producing large events. They can attain equilibria, both fixed points and simple patterns, as well as produce long random sequences. (Page, 2011, pg. 17)

There is one thing we have learned in recent years with regard to the viability of organizations that has almost become an axiom: if there is extensive variability (disturbance) within the environment in which an organization operates, then there must also be extensive variability (diversity) inside the organization. Page identifies this axiom as the Law of Requisite Variety:

. . . the greater the diversity of possible responses, the more disturbances a system can absorb. For each type of disturbance, the system must contain some counteracting response. . . . The law of requisite variety provides an insight into well-functioning complex systems. The diversity of potential responses must be sufficient to handle the diversity of disturbances. If disturbances become more diverse, then so must the possible responses. If not the system won’t hold together. (Page, 2011, p. 204, 211)

What are the ways these insights can be applied to strategies that enable the center to hold? In order to promote organizational innovation, a leader must value variability within the organization. Variability, in turn, challenges the center of an organization. Variability requires that the leaders and other members of the organization tolerate increased ambiguity, effectively manage conflict, and provide safe settings in which alternative ideas can be explored. Therefore, leaders must identify strategies (training, setting of norms, creating supportive settings) that enable members of their organization live with ambiguity, work with conflict and provide safe places for idea exploration.

Breaking the Set

One of the major challenges in retaining the center of an organization is that of challenging basic assumption and frames of reference while also reaffirming the fundamental intentions of the organization and its programs. Children do this through sometime remarkable—it is called “play.” They can pretend and try out something without violating the rules and norms of the “real” world. We find that same thing occurring among dogs who are playfully fighting with one another, and among many young mammals who are enacting courtship rituals prior to actually seeking out a mate (which is not unlike the traditional square dances in North America that allowed young men and women to “court” one another in a safe and playful round of dances.).

I find that I can effectively introduce this element of play in my own work with organizations of many kinds—be they educational, governmental, security-based or human service-based. I have created a process called “morphological analysis” that encourages a program design team to “play” with alternative scenarios regarding a wide variety of parameters—such as the population being served, length of the program being offered, and location of the program delivery. We can design a program for 1 person that lasts five years and is totally digital, or a program for 1,000 people, provided for 5 minutes and offered in a National Park. Take your pick. The important point is that planning for this program enables a team to break their established set in a playful manner. Thus, they can come in with a looser framework when they sit down for “serious” deliberations regarding the envisioned programs—and might even incorporate some of the ideas generated in the morphological sessions (maybe a session or two that emanates digitally from a national park . . .).

Frans Johansson (2004, p. 59) offers a similar approach in suggesting ways to bring about the Medici Effect:

Apply the idea to someone or something else: Imagine that you are designing a beach house. What would it look like? Now assume that you are designing that house for Pablo Picasso- how would that change the design? Forget that you have no idea of what he actually wanted, but work from your perception of who Picasso was as a person. Then suppose you were designing the house for opera singer Luciano Pavarotti. What would happen to the size of the rooms, the curvature of the valves? The ideas you would get from these types of explorations could evolve into something interesting and unique when combined with your standard way of thinking about such a project.

Create constraints: When a yoga teacher broke her arm, she was not sure if she could continue teaching while it healed. She soon found, though, that without the use of her arm, she naturally resorted to new and inventive methods for both understanding her own body and teaching yoga. By creating constraints, by accident or on purpose, we may be pushed to explore alternative ways to solve a given problem. Say that you are trying to innovate your in-store customer service operation. What happens if you assume that the customer service personnel can't speak? Or can't use their hands? By creating constraints, you may break down the barriers and think of ideas that would never have occurred to you otherwise.

For both the architect and yoga teacher, the set has been broken without either of them abandoning their core focus and mission. They have broken barriers while not forgetting what is at the heart of their

work. The center holds while innovative ideas abound. These ideas are even more likely to emerge if the boundaries of not only our minds, but also our organizations, are opened up. I now shift my focus to this second suggestion about open organizational boundaries (and, in particular, the intersection of ideas and organizations).

Living with Open Boundaries

Evolution will not take place if a specific population is isolated—this is another critical element in the first assumption (Migration and Open Boundaries) embedded in the Hardy-Weinberg Equilibrium. If individual members can't migrate into or emigrate out of that specific community then evolution is likely to be stymied. What are the implications of this fundamental assumption? Organizational theorists and change agents have often emphasized the difference between open and closed systems. Organizations are systems that can be differentiated in this manner: some have relatively open boundaries and others have relatively closed boundaries. Closed systems and organizations with impermeable boundaries are likely to be stable and secure over the short term, but are also likely to soon die because of a lack of replenishing resources from outside the system and because of an inability to respond effectively to the impingement of outside (environmental) forces.

Cross-pollination of ideas in a cross-cultural context occurs in open-boundary organizations and is critical to innovation, sustained success and even organizational survival. At the individual level, we are talking about those men and women who are cosmopolitan in their perspectives as compared to those who are parochial in their perspectives on life and the world. The cosmopolitans create and live in a world of open boundaries. These are the early adopters in the diffusion of innovations. (Rogers, 2003)

Living with Flat Worlds and Blue Oceans

We see the increasing viability of open boundary systems in the flat world made famous by Thomas Friedman (2007). Clearly with the Internet and globalization of many markets, there is the need for more open boundaries. However, as I mentioned almost three decades ago in *The Postmodern Organization* (Bergquist, 1993), the challenge of open boundaries is the need for some "glue" that holds the organization together. This glue can be found in the clear and compelling mission, vision, values and social purposes of the organization, in the strong and enduring culture of the organization, or (sadly) in the absolute control exerted by a central leader or C-Suite coalition of leaders.

The flat world of Thomas Friedman (2007) is filled with many additional challenges--including the emergence of Power Law dynamics in the Internet-based markets of our 21st Century world. In many

instances, the market for specific products or services has expanded at an exponential rate (the Power Law in operation)—or collapsed at an exponential rate (also exemplifying the Power Law). As Taleb (2010) has noted in *The Black Swan*, a few products (books, technologies, etc.) and a few websites tend to account for most of the sales and traffic on the Internet. Furthermore, the tides created by these sales and Internet traffic tend to ebb and flow quickly and in unanticipated ways.

Thus, we find that temporary dominance and centralization will distort the open boundaries described by Friedman. The Power Law calls for new perspectives regarding the migration of ideas, people, products and services in our 21st Century world. We find the promise of diffusion and equity via the Flat World tempered by the challenge of temporary (or long-term) dominance and centralization in the global marketplace.

How do we apply these concepts as leaders of a 21st Century organization? In order to promote organizational innovation, a leader should focus on the creation, identification, clarification and/or institutional-embedding of mission, vision, values and social purposes—this is how the center will hold in the midst of innovation and evolution. A leader must appreciate, honor, strengthen and use the existing culture within their organization, recognizing its value as a source of stability and coherence in their organization.

Furthermore, the leader must gain a cosmopolitan perspective (learning about and visiting other organizations and geographic regions), as well as encouraging her client to find ways for other members of their organization (especially mid-managers) to gain this cosmopolitan perspective. The coach or consultant should also help her client recognize the need for contingency planning in their organization in response to the rapid, complex, and unpredictable Power Law changes that can occur in the marketplace and environment in which their organization operates.

The increasingly diffuse boundaries. Kim and Mauborgne describe this as venturing out in the blue oceans (in contrast to the red ocean that existed in a modern world of much clearer and tighter boundaries). Here is their description of both oceans (Kim and Mauborgne, 2005, pp. 4-5)

In the red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known. Here, companies try to outperform their rivals to grab a greater share of existing demand. As the market space gets crowded, prospects for profits and growth are reduced. Products become commodities, and cutthroat competition turns the red ocean bloody.

Blue oceans, by contrast, are defined by untapped market space, demand creation, and the opportunity for highly profitable growth. Although some blue oceans are created well beyond existing industry boundaries, most are created from within red oceans by expanding industry boundaries In blue oceans competition is irrelevant because the rules of the game are waiting to be set.

It will always be important to swim successfully in the red ocean by outcompeting rivals. Red oceans will always matter and will always be a fact of business life. But with supply exceeding demand in more industries, competing for a share of contracting markets, while necessary, will not be sufficient to sustain high performance. Companies need to go beyond competing. To seize new profit and growth opportunities they also need to create blue oceans.

Living at the Intersection

Kenneth Boulding prophetically described, almost four decades ago, something that he called the *intersect organization*. This Noble-prize winning economist and social analyst suggested that these new kinds of organizations held great promise in terms of their ability to solve longstanding problems in our society. Yet, these intersect organizations are also subject to troubling ambiguity. According to Boulding (1973, p. 179):

In the twentieth century many societies have witnessed the development of “peculiar” organizations which did not fall into any of the well-recognized categories. They are not quite government, although they are usually the result of some kind of government action. They are not quite business, although they perform many business functions. They are not quite educational or charitable organizations either, though they may also perform some of these functions. They frequently occupy “cracks” or interstices in the organizational structure of society. They have been named “intersects” because they have some qualities of more than one conventional type of organization.

The growing role played by the intersect organization in contemporary life is found in all four sectors of most 21st Century societies (and certainly in the United States). (1) public for-profit (corporations, utilities), (2) private, for-profit (closely-held businesses, partnerships), (3) public, non-profit (government and other tax-collecting and expending organizations) and (4) private, non-profit (human service agencies, advocacy organizations, philanthropic organizations and foundations). While 20th Century

America was filled with big business and big government, the days have passed in which these two sectors (private/for profit and public/nonprofit) dominate the American economy. Solutions to most of the pressing problems of Postmodern America no longer will be coming from either big business or big government—at least not in isolation from the other sectors. Much of the action in the near future will come from partnerships and consortia comprised of organizations from all four sectors. If Americans look for solutions in any one sector, they are likely to turn to the Intersect. They are likely to invest their trust in peculiar organizations that can readily move across traditional boundaries but also exhibit the troubling ambiguity that is inherent in the flexibility and adaptability of the Intersect.

Often the intersect organization involves organizations in two or more of these sectors. For example, an innovative California community college district operates a geothermal greenhouse project in cooperation with one of the counties in its region, funded by the California Energy Commission grant. This college also owns an environmental refuge outside its district, which has been deeded with the provision that certain structural maintenance be observed and that it also be used for instructional projects. Another California institution—an urban hospital in Northern California—began as an elitist institution that primarily served upper class clients. Its founding doctors remained splendidly isolated from the social changes of the 1960s and 1970s; however, as this institution enters the 1990s, the isolation could no longer hold up. The boundaries fell. Government regulations dictated what kind of patients must be served by the hospital. The state of California mandated that certain measures be taken to make the hospital earthquake proof.

This hospital suddenly became an intersect organization. It was now both private and public, receiving funds from both individual patients and government subsidies. It also became both a service organization and a business that must break even (if not turn a profit). Like the college in New York State that runs a roller rink or the human service agency in Illinois that provides corporate services, this hospital had to find a way to generate revenues while retaining its commitment to the provision of quality health care services (the center had to hold). With passage of the Affordable Care Act, the intersect challenges became even greater for those leading this hospital and those leading virtually every other hospital in the United States.

I would suggest that many organizations in the health-care sector are intersects, by Boulding's definition. They operate on behalf of the public—monitoring medical or dental costs, reviewing the performance of professionals in the field—and, as a result, often obtain not-for-profit tax status. These same companies, however, are run like for-profit businesses, and often attempt to influence federal and state legislation through lobbying efforts that typify for-profit companies. These health-oriented companies also often look more like governmental regulatory agencies than either for-profit or not-for-

profit organizations. They may control costs and determine the nature of appropriate licensing for the provision of certain professional services (though withholding of payment for services by unqualified personnel).

Kaiser-Permanente was one of the first of these intersect health organizations. Founded as a combination health delivery system and health insurance program, Kaiser has blazed the trail for many of the other HMOs in the United States and is a classic “intersect.” It is both a delivery and insurance organization, and both a human service agency and private business. The Delta Dental Insurance Companies in the United State provide yet another example of the intersect organization in the health field. Most of the states have a Delta Insurance plan that covers payments for dental services. Delta Dental is a nonprofit organization that makes a profit—excess funds being placed in reserve or given as bonuses to management staff. In many ways, Delta Dental operates like a private insurance company, having an active marketing and advertising program. Yet, it also operates as a quasi-governmental regulatory agency, given that it controls the cost of dental care by only reimbursing member dentists a specific amount of money for specific dental services.

The peculiar intersect organizations are quite challenging for those seeking to lead them. The challenge begins with the way in which success in the organization is defined (a challenge we shall return to later in this essay). The bottom-line mentality to be found in the traditional for-profit sector is typically not appropriate in the intersect organization. Organizations no longer (if they ever did) exist simply to make money for their owners or stockholders. This is an inadequate statement of intention for any organization, especially one with diffuse or highly flexible boundaries. In essence, a bottom-line mentality tends to hide or distort the founding or driving purpose of the institution and leaves it directionless in a rapidly changing world. The center no longer holds.

Even back in 1989, Peter Drucker (1989, p. 230) concluded: “neither the quantity of output nor the ‘bottom line’ is by itself an adequate measure of the performance of management and enterprise.” Peter Senge (1990, pp. 147-148) similarly noted at about the same time that a primary emphasis on profit in an organization diminishes the vision of the organization and leads to a focus on means rather than ends:

Many senior executives . . . choose “high market share” as part of their vision. But why?
“Because I want our company to be profitable.” Now, you might think that high profits [are] an intrinsic result in and of itself, and indeed it is for some. But for surprisingly many other leaders, profits too are a means toward a still more important result. Why choose high annual profit?
“Because I want us to remain an independent company, to keep from being taken over.” Why do you want that? Because I want to keep our integrity and our capacity to be true to our

purpose in starting the organization.” While all the goals mentioned are legitimate, the last—being true to our purpose—has the greatest intrinsic significance to this executive. All the rest are means to the end, means which might change in particular circumstances.

Kenneth Boulding predicted that the problems of measurement and evaluation associated with the intersect organization would become even more common in the future. He was quite accurate in his prediction. When these problems of measurement in intersects are compounded with the measurement problems induced by size then it is not hard to understand the more recent emphasis on relativistic social and organizational values, and its skepticism regarding clearly perceived and measured “realities.”

The intersect challenge is equally as daunting when it comes to building a strategic plan for an organization that resides between two or more sectors of our society. In reflecting on this challenge, we can return to the analysis provided by Kim and Muborgne about the red and blue ocean. Clearly, the blue ocean is filled with intersect vessels. As Kim and Mauborgne (2005, p. 5) note:

. . . blue oceans are largely uncharted. The dominant focus of strategy work over the past twenty-five years has been on competition-based red ocean strategies. The result has been a good understanding of how to compete skillfully in red waters, analyzing the underlying economic structure of an existing industry, to choosing a strategic position of low cost or differentiation or focus, to benchmarking the competition. Some discussions around blue oceans exist. However, there is little practical guidance on how to create them. Without analytic frameworks to create oceans and principles to effectively manage risk, creating oceans has remained wishful thinking that is seen as too risky for managers to pursue as strategy.

They go on to identify four major hurdles facing those who lead and seek to build strategies while swimming in the blue ocean. These hurdles are cognitive, political, resource and motivational in nature. We must think in new ways to overcome the cognitive hurdle and find new ways to address our differences and conflicts to overcome the political hurdle associated with the blue ocean (and intersect organization). Kim and Muborgne even suggest placing a consigliere on the management team. I will have much more to say about these necessary changes when offering the second suggestion. The resource and motivational hurdles relate directly to the peculiar nature of intersect organizations. There are competing goals and purposes associated with the interact. This means that there will inevitably be

competition for resources and varying level of motivation regarding specific operations among those working in and making decisions about the organization.

The hospital that has to make a profit while also providing high quality of health care services to all patients who seek assistance will inevitably be struggling with inadequate resources (time, energy, facilities, staff, money) to meet these competing demands. Similarly, some of those people working in the hospital are most concerned about and motivated to provide the high quality of health care—despite the cost. Others take pride in keeping costs down and in ensuring the survival of the hospital. The challenge is to keep both priorities in mind—to manage the polarities that exist in abundance in this intersect hospital. I offer ideas about the management of polarities when considering the fifth and final suggestion regarding an animating vision of the future.

Conclusions

There is one final point to be made about the hurdles and other actions to be taken in seeking to lead effectively in a world of blue oceans, rugged landscapes and tilted planes. This point comes from, Kurt Lewin (Lewin and Lewin, 1948), a wise and seasoned champion of organizational change. Writing and consulting during the mid-20th Century and being a witness to (and victim of) the demonic forces of Hitler's Third Reich, Lewin was quite mindful about what happens when one introduces new forces to bring about change in any system. Embedded in his well-known (but often mis-understood and mis-used) force field analysis is the cautionary note that new negative forces typically emerge when a strong positive force is introduced in a system. Put simply, a planned change effort holds the potential of being successful only if some new opposition to this change emerges. An ineffective change effort will typically elicit very little counter reaction, given that the opposition assumes this change will soon pass away (as is the case with most change initiatives). It is only when a change might make a real, lasting difference that the counter forces emerge.

It should therefore be proposed that hurdles become even higher and stronger if efforts are being made to leap over them, reduce them in size or simply go around them. While we might take some measure of pleasure in knowing that our initiative is being taken seriously, it is also critical that we plan from the first regarding ways to overcome the opposition. The noted behavioral economist, Daniel Kahneman (xxxx), suggests that we engage in a Premortem prior to the initiation of major new project. This would mean that we consider not just the upside to be found in possible success, but also the downside to be found in possible failure. How might we modify and adjust our plan if it isn't working as we would like—

at the very least we should set up a mechanism for critical, unbiased review regarding how we are doing. This might mean bringing in someone who is skeptical about our work, yet hoping for our success (the “friendly critic”). This might also mean doing some backward design work – tracing back various causal events that could lead to hypothetical failure.

This backward design often means gaining a clear assessment of our “opposition’s” strategy and strengths. What do we do to overcome the initial onslaught of opposition? Can we anticipate what the counter arguments will be (usually we can) and prepare our response. Perhaps we conduct a moot court session where one of us presents an articulate statement of the opposition and another of us prepares the response.

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