

SELF-MANAGING ORGANISATION (SMOS): BEST PRACTICES AND EMPIRICAL CHALLENGES OF EVIDENCE IN AN EMERGING ORGANISATIONAL FIELD

Marek Vich

Abstract

Self-Managing Organisations (SMOs) are defined as organisations that radically decentralize authority in a formal and systematic way throughout the organization. Dozens of organisations such as Valve, Morning Star or Buurtzorg in the last three decades have flourished while using and developing this approach. Recent studies have also presented the theoretical framework of SMOs. However, despite the growing popularity of the discussion of the best practices in the field, there seems to be no study that would examine SMOs empirically. This paper identifies and discusses three main challenges of the empirical research in the field of SMOs, namely the 1) discrimination of the construct; 2) identification of the dimensions and factors of SMOs; and 3) creation of a valid measure, and presents the recommendation for the development of a new scale that would measure the level of decentralisation and self-management in organisations.

Key words: Self-Managing Organisations, Managerial Hierarchy, Scale Development

JEL Code: M14, M53, O35

Introduction

Modern organisations face increasing amount of challenges that are influenced by ongoing globalisation, fast advances in technology and various aspects of economic and political instability (Baard et al., 2014). Hamel (2007) suggests that complex and changing conditions create demand for the alternative and less hierarchical models to the traditional model of managerial hierarchy, that tend to be more suited for stable working environments of markets.

One of the promising approaches is represented by self-managing organizations (SMOs; Lee and Edmondson, 2017) that are suggested to address the limits of managerial hierarchy and thus contribute to better adaptation of contemporary organizations into fast and complex world (Robertson, 2015; Puranam and Håkonsson, 2015). Basic characteristic of SMOs is the formal

elimination of managerial hierarchy on all levels (Lee and Edmondson 2017; Laloux, 2014). The most recognized model of SMOs is called holacracy that has been adopted by dozens of organizations so far (Robertson 2015; Bernstein et al. 2016). Among the other famous companies that use to models similar to holacracy are leading computer games developer Valve (Puranam and Håkonsson 2015; Foss & Dobrajaska 2015; Baldwin 2015) or food processing company Morning Star that supplies approximately 40% of the U.S. industrial tomato paste and diced tomato markets (Hamel 2011; Laloux 2014). Those organisations and many others are recognized as successful, reliable and socially responsible players on global market today. (Laloux, 2014; Robertson, 2015; Puranam and Håkonsson 2015).

This paper reviews the current theory around SMOs and suggests the new measurement instrument, the multifactor scale focused on assessment of the level of decentralisation and self-management in organisations.

1. Theoretical discrimination of SMOs

Theoretical foundations of SMOs are rooted in several preceding approaches. Those approaches, together with progress in organisations practice laid foundations for the current theory of SMOs.

1.1. Predecessors of SMOs

Understanding of the predecessors of SMOs is the first step to understand the concept of the SMOs as well as the rationale of its importance. Predecessors can be generally divided into 2 streams, the organisational types and organisational approaches.

1.1.1. Preceding organisational types

Martela (2019) presents SMOs as a successor for bureaucracy and adhocracy. Both those types are based on managerial hierarchy (MH), which is rooted in subordinate relationship between senior and junior organizational members. The seniors hold most of the decision-making power over their department while the juniors are obliged to report (hierarchy of authority). Seniors are also ultimately accountable for all work and processes below in the organization chart (hierarchy of accountability) (Lee and Edmondson 2017).

MH is still a predominating organizational today (Pfeffer, 2013), but Lee and Edmondson (2017) state that MH is limited in the sense that: 1) it functions more effectively in stable conditions but faces serious challenges in dynamic and uncertain conditions; 2) MH works to ensure reliable execution of known tasks but inhibits solving complex non-routine

problems; 3) MH also tends towards rigidity, making it best suited for the execution of plans or tasks without need of rapid change; 4) it supports development of status differences that may further limit the co-operation and development of organizational members; 5) increasing number of organizations engage in the knowledge-based work which requires contribution of information and ideas of individuals rather than expertise of the managers; 6) new working generation of so called “millenials” requires to feel more personal meaning and control over their work and rather narrow style of distributing work and values in the case of MH seems to rather inhibit fulfilment of this need.

Bureaucratic organisations are the general conception for the type organisation that roots most (or all) of these domains or organising on MH. The newer type adhocratic organisation bases its strategic and tactic decision-making on MH, but also included decentralized and more participative aspects of co-operation in operational decision making, mostly in the form of matrix structures and cross-functional teams (Martela, 2019).

1.1.2. Preceding organisational approaches

When we look at the evolution of organisations in past 50 years, there seems to be a pattern of loosening the influence MH in the organisations. This process is related to emergence of a few organisational approaches that that were also examined empirically. These approaches are post-bureaucratic organisations, humanistic management and organisational democracy (Lee and Edmondson, 2017).

The approach of post-bureaucratic organisations promoted so called “organic organisational forms” participative processes across the organisations and establishing cross-functional self-organizing teams (e.g, Turco, 2016). Humanistic management is based on self-managed teams, that is working teams not-managed by MH, programs promoting empowerment of individuals, Results Only Work Environment allowing organisational members their workplace as well as style of work as long as they get the work done (e.g., Kelly et al., 2011). Finally, the organisational democracy represented reduction of MH throughout the organisation accompanied by establishment of gainsharing processes, allowing organisational members to financially participate on the profit of organisation as well as to influence its strategy (e.g., Collins, 1995). All of those approaches represent a tendency to decrease the influence of MH throughout organisations. In this sense they can be conceptualizes as preceding approaches to SMOs.

1.2. Modern construct of SMOs

Similarly to mentioned preceding approaches, the SMOs represent a deviation from MH in organisations. Lee and Edmondson (2017) define SMOs as organisations that radically decentralize authority in a formal and systematic way throughout the organization. This definition establishes the sovereignty of SMOs in the three main points and in this sense it represents stronger deviation from bureaucracy and MH. Firstly, contrary to all mentioned preceding approaches, the approach of SMOs represents a radical deviation from MH, meaning that it completely eliminates the reporting relationship between manager and subordinate. Secondly, the aspect of formal and systemic way means that SMOs perceive decentralisation of authority and deviation from MH as one of the main ground stones of their strategy and purpose. Thirdly, the SMOs apply the 2 previous principles throughout all departments and layers of the organisation (Martela, 2019). Companies, that represent the previously mentioned approaches of post-bureaucratic organisations, humanistic management and organisational democracy do not contain all of the key aspects of SMOs, thus they can be more likely labelled as more advanced examples of adhocratic companies. The organizations that tend to be labelled as SMOs, on the other hand are suggested as most progressive representants of endeavour towards democracy, participation and transparency in modern business word (Laloux, 2014; Lee and Edmondson, 2017).

1.3. Examples and best-practices of SMOs

In the organisational practice, the most recognized overlapping approaches compatible with SMO principles are called teal organisations (Laloux, 2014) and holacracy (Robertson, 2015). Laloux's (2014) work on teal organisations has mapped 20 established organisations such as Morning Star, Patagonia or Buurtzorg, most of them have adopted all three key aspects of SMOs to an advanced degree. Robertson (2015) with his colleagues have invented an approach called holacracy, that represents the most formalized model of establishing SMOs (Bernstein et al. 2016).

The mentioned approaches of SMOs share common best practices, that have proven to be essential for helping organisations to deviate from MH and to be able to prosper. The first best practice is establishment of the full transparency of information and means that everyone in the organisation has free access to the information, including the financial results; the exception is information restricted by GPDR. The second one is the promotion co-creation. In practice, this means SMOs give members full authority to participate in all decision-making processes, as well as the creation of rules and processes (although in might require to be elected in particular role in order to be empowered to do that). Another best-practice related to strategy and mission

is establishment of evolutionary purpose throughout the organisation. Evolutionary purpose is based on assumption that the main purpose of the organization is to develop itself into more complex, sustainable, open and learning cell within the wider organism of our society (Laloux 2014; Robertson 2015). Organization, therefore, rather serves as an experimental space that gives members possibility to find and fulfil their personal meaning and mastery at work, while the organizational strategy and goals more likely spontaneously emerges as results of personal meanings, values and skills of the members (Laloux 2014). On the contrary, the strategic decision-making of the organisations based on MH tends to be primarily rotted by the maximalization of the profit or turnover (bottom line). Some of those organisations also account to the corporate social responsibility (CSR) or sustainable triple bottom line of financial, environmental and social outcomes. However, all those strategies are pursued in managerial hierarchy style and thus they are like to narrow the understanding of members of the purpose of their work and co-operation (Laloux 2014). Most of the SMOs also use so called “holarchic design”, a formal and hierarchical organizational structure which organizes activities, members and resources in autonomous cells which relate to each other in fractal fashion (some “higher” cells such a marketing include “lower” cells such a social media) (Robertson 2015).

2. Measuring the SMOs

Despite apparent progress in the field, its evidence is very limited and there is also no validated method that would measure whether particular organisation is actually self-managing or not. Furthermore, there is less clarity about the focus of the particular measure.

2.1. Focus of the measure

Accoring to Martela (2019) the SMOs similarly to organisations that are based on managerial hierarchy (MHOs) need to deal with 4 main challenges of organising and development that is 1) distribution of work; 2) allocation of tasks, 3) provision of rewards and 4) provision of information. Contrary or organisations that employ HM, the SMOs use the deal with those challenges in the way that is consistent with radical formal decentralisation. Lee and Edmondson (2017) conclude that SMOs similarly to organisations based on MHOs decide on 6 key areas of 1) work execution; 2) work management / monitoring; 3) organisations / workflow design; 4) allocation of resources; 5) human resource and performance management and 6) strategy. Work execution represents area that tends to be decentralized in most of the companies including classic MHOs, while the strategy is rarely in the hand (and most of the

SOMs are not exception to the rule) of regular members and other areas are somewhere between.

Therefore, I suggest that a valid form of the measurement should assess SOMs more likely in the terms of a degree of decentralisation and self-management. SOMs is a conception that is recognized in organisational science today, but from the perspective of its possible measurement there seems to be no solid differentiation between SOMs and other types of organisations. The conception of SOMs as we know it today is still more likely a conceptualization of the best practices of several companies that were studied by less robust valid forms of observational and dialogue methods. Lee and Edmondson (2017) and Martela (2019) indicate that key challenges and decision-making dimensions are shared for all kinds of organisations.

Therefore, I perceive development of the measure that would assess the degree of decentralisation and self-management while dealing with those areas as the most feasible way. This rationale would solve the issue of measurement in the field of SOMs, but it would also support building the bridge between rather niche area of SOMs and other organisational disciplines, because such measure could be applied to every kind of organisation.

2.2. Scale development

I suggest development of a scale as the most feasible way to assess the level of decentralisation and self-management.

2.2.1. Pilot development

Previous authors in the field of SOMs have established basic framework and provided rich description of the best practices in the field (Laloux, 2014; Lee and Edmondson, 2017; Martela, 2019; Robertson, 2015). Initial development of the focus and factors of the scale should, therefore, follow the key principles and best practices that have been mentioned in the previous section. Similarly to other organisational scales in the field, the new scale would be based on report of the organisational members (e.g., Lyons et al. 2016; Torrente et al. 2013). I also suggest that the scale should be focused on measuring style of the processes in organisations as well as assumptions of organisational members.

The process part of the scale would measure the radicality, formality and range of decentralisation in organisation. As both Lee and Edmondson (2017) and Martela (2019) suggested, the formal radical decentralisation of authority in practice differs in particular areas and layers of the organisation. Lee and Edmondson (2017) provided vertical model by showing

that there are layers of organising that reach from the work execution that is most widely decentralised to strategy that tends to be decentralised rarely, even in most of the SMOs. On the other hand, Martela (2019) suggested rather horizontal model of task division, task allocation, provision of rewards and provision of information that can be self-managed to various degree. I suggest that both of those models could be integrated, as each of them could represent the one subscale.

Third subscale could potentially measure more subtle organisational dimension of the assumptions and motivating factors of the organisational members. Inclusion of this dimension in the scale is essential, because as Laloux (2014) concludes, assumptions that members hold are the driving force behind all processes in organisations. This subscale might focus on previously mentioned aspect of evolutionary purpose, that in practise represents tendency to 1) perceive co-workers or even members of other organisations not as a competitors but as potential partners, 2) not get attached to bottom-line and to 3) hold a wider picture of organisation purpose. Again, this subscale would be appropriate for members of all kinds of organisations, as they it would measure more likely a magnitude of those assumptions.

2.2.2. Analyses

If the initial pilot development does not clarify the factors and dimensions of a scale, Exploratory Factor Analysis (EFA) should be performed (Netemeyer et al., 2003). The second step is a classic Confirmatory Factor Analysis (CFA) that confirms whether particular items truly measure desired construct. Next, the rest-retest reliability based on sample at least 60 respondents (e.g. Neff, 2003) should follow in order to show that results of the scale do not significantly differ between T1 and T2. And finally, the analysis of the correlation with other related scales should be performed in order access the convergent and discriminant validity as well as to show the benefits of the construct that scale measures. Based on the common practice in the field (Edmondson 1999; Lyons et al. 2016), this analysis should include at least 450 respondents from at least 15 companies. It is also recommended to focus on wide sample selected from different economic sectors, companies and teams in order to control the effect of the sector (Torrente et al. 2013).

I have identified 6 scales that access qualities that are related to decentralisation and self-management (see Table 1 for the overview of the scales). Those scales are collective work-engagement (Torrente et al. 2013), collective resilience (Lyons et al. 2016), collective mindfulness (Vogus & Sutcliffe 2007), team safety (Edmondson 1999), and collective esteem (Luhtanen & Crocker 1992). The main challenge of this analysis is to prove that the new scale

is related to the suggested scales, but measures the unique construct. All mentioned scales focus on measurement of collective psychological qualities, rather than forms of organising. Therefore, they represent more likely the outcomes of the particular levels of decentralisation and self-management. Authors in the fields suggest that SMOs are positively linked with resilience, engagement, mindfulness, healthy esteem and safety (Laloux, 2014; Lee & Edmondson, 2017; Martela, 2019; Robertson 2015). Therefore, I expect that a new scale will show statistically significant positive effect on all those qualities. Such a scale could also bring another evidence to the ongoing debate about the ways how to sustainably develop those qualities in contemporary organisations.

3. Discussion

This paper has presented the possible way of bringing a measurement tool in the domain of Self-Managing Organisations (SMOs). I showed that this step would also create link between specific domain of SMOs with other and more established organisational disciplines, because the new scale would focus on measurement of self-management and decentralisation in every organisation. On the other hand, scale would also focus on measurement of both processes and assumptions and thus would have a potential to provide more complex examination of the specifics of particular organisations, both organisational and psychological. From the perspective of the field of SMOs, this measure will bring more light in an emerging field, where many organisations call themselves to be SMOs, but their processes and especially assumptions are closer to adhococracy of bureaucracy (Martela, 2019). Such a step could help many organisations as well as researchers to look beyond so called “holacracy hype” (Bernstein et al., 2016) and see what really means to be truly self-managing.

I have suggested that development of organisational scale based on report of individual members is the most feasible step from the perspective of the development of the measure as well as from the perspective of its application by both researchers and organisations. However, the scale development and application has several issues that need to be considered. Firstly, the research sample needs to be selected carefully in order to make the scale feasible for all kinds of organisations rather than few niche areas. If this scale is intended to be generally applicable, the selection of the sample should include organisations of all kinds of sizes and fields (Torrente et al., 2013). I also recommend to include samples from multiple countries and nationalities, although this step will more likely be a subject of the translated versions of the scales. Secondly, the scale development needs to address the fact, that some organisations do not contain the formal managerial or even working roles, while the others place great emphasis on formal roles

and well as on managerial hierarchy (MH). Therefore, development of items needs to use the language that would not discriminate organisations from either side of the spectrum. Thirdly the new scale will be also limited by the fact that it will be a self-report scale, an instrument that is prone to self-report biases and thus is problematic (Podsakoff and Organ, 1988). This limitation cannot be completely eliminated as it is basically a human's nature to see himself / herself in either better or lower picture. However, this scale would be focus on assessment of the whole organisation and not the individual which makes the whole process a bit less personal. Nevertheless, it is important to bear in mind that when the new scale will be created, it will be also one piece in the puzzle of understanding the today's organisations. I also recommend researchers willing to apply the scale to perform other research methods including observations and qualitative interpretative analyses in order to match and compare the obtained self-report data with data obtained by other independent means.

Conclusion

The magnitude of global challenges is growing today and organisations need to adapt to those challenges. Development towards decentralisation and self-management is one of the promising ways, but its understanding is still rather vague. New measure can help us better identify, understand and distribute the examples and processes that truly serve our society in sustainable and responsible way.

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Contact

Marek Vich

University of Economics, Prague.

Náměstí W. Churchilla 4, 130 67 Praha 3, Czech Republic.

marek.vich@vse.cz

TABLE 1

List of scales included in the proposed analysis of convergent and discriminant validity of SMO scale.

Study	Measured construct	N-items	N-participants	Subscales	Significant effects of the scale
Edmondson 1999	Team safety	7	427	-	higher team learning higher team performance
Lyons et al. 2016	Collective resilience	9	429	-	higher individual resilience higher psychological well-being higher life satisfaction
Luthanen & Crocker 1992	Collective esteem	16	887	Membership Esteem Public collective self-esteem Private collective self-esteem Importance of identity	Higher collectivism Higher collective identity Higher social identity Higher personal identity
Torrente et al. 2013	Collective work-engagement	18	511	Vigor Dedication Absorbtion	-
Vogus & Sutcliffe 2007	Collective mindfulness	9	1685	-	Higher organisational commitment Higher trust Lower work errors