

WHY ORGANIZATIONS FAIL: A CONVERSATION ABOUT AMERICAN COMPETITIVENESS

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Abstract

This paper offers a systemic organizational solution to the problems encountered by the U.S. government departments and corporations that the United States federal government has recently had to bail out. It also extends the applicability of a systemic organizational theory, called *Requisite Organization Theory* (Jaques, 1996) and *General Theory of Managerial Hierarchy* (Jaques, 2002). Ivanov recently expanded this work while conducting organizational studies in the U.S. Department of the Army and private corporations since 2000. Over the past fifty-years, this systemic research has been carried out and tested in the U.S. Army, Church of England, national and international corporations (Rio Tinto, Bank of Montreal, others), foreign governments, and organizations.

There is a bleeding wound within our large organizations, in the organizational system itself, in all corporations and government departments alike, slowly undermining society. This bruise fails good leaders and capable CEOs. It demolishes good institutions within our democratic societies because it diminishes trust in the organization and trust between people. Having become an invisible and silent trauma, the organizational system fails us individually and collectively in cloaking the workplace in suspicion and mistrust, resulting in low productivity.

There is an alternative. Instead of mistrust and suspicion our organizations generate because of systemic faults, we could redesign our organizations based on new scientific principles. This would increase trust in the organization and people, and create a healthier and more productive workplace. Citizens and national leaders must start noticing this anguish, starting with a realistic self-assessment and reevaluation of their organizations – systems presently not designed to succeed.

Keywords: Organizational Failure, Competiveness, Requisite Organization Theory

Introduction

"Organizations, worldwide, ... treat employees like commodities, generate general suspicion and mistrust, undermining self-esteem, generate conflict over compensation and in interpersonal relationships, cause unnecessary suffering for employees and their families, undermine the good society, and withal, reduce the potential productivity and effectiveness of even the best companies to 50% of what they might achieve."

Elliott Jaques, 2002

Organizations often fail because of catastrophic malfunctions in structure. These malfunctions are difficult to notice because of time delay in organizational cause and effect. Time flows differently in organizations than in the physical world. For example, when a ship sails, or a rocket is launched, it is easier to see the cause and effect within days/months or minutes/seconds. When the CEO of a large corporation makes a decision, the effects are often not clear for years or even generations from when the decision was made.

CEO decisions about the future of their enterprises are the most critical factors in any organization's survival. For example, a CEO's decision to invest \$100M today to develop a new geopolitical region would not provide clear results for at least ten years. This investment decision would include analyzing the types of economic developments (commercial or industrial) that might occur, predicting the type of investments adjacent countries would make, travel patterns that would emerge in ten to twenty years in the region, to deciding the terms of the investment, risk, and other compounding factors.

If the decision in year 0 is wrong, the organization will deal with a crisis in year 10. By this time, the people who made the decision may likely have already left the organization. In year 10, no one remembers how the organization even got into the "current" crisis.

We make such decisions every day in our organizations, at every organizational level. They are most profound when they occur at senior levels. When incorrect, these decisions lead the organization from one crisis to the next. This problem is compounded by the time-delayed crises of the year 0 decisions in larger societal, economic, military, political, and organizational systems.



Figure 1. Example of an Organizational Time Impact of a Ten-Year Decision.

Wrong structure of the organization is even more difficult to link to failures even when the CEO makes good decisions. U.S. Army General Max Thurman said that the U.S. loss in Vietnam was partly because of the incorrect structures of the U.S. battalions. He argued that the Vietnamese battalions of 300 troops were far more effective than the larger U.S. battalions of 900 troops. This organizational structure contributed to the overall failure of possibly good decisions at the strategic levels (Carnegie, 2008).

The question then becomes how can organizational structures sabotage good strategic decisions, and why? The author's research shows that improper structures prevent organizations from succeeding by pulling down and collapsing the organization, stagnating it from one crisis to the next.

Paradoxically, each person wants to do his or her best in the workplace. The structures of our organizations do not allow this to happen because they constrain the person into a too limiting role. This forces the person to work at 5 to 30% (at best) of his or her capability, creating massive underemployment and all kinds of symptomatic behaviors within our

organizations. This workplace arrangement contributes to the healthcare crisis in the United States by deteriorating the long-term health of employees and their families (Lynch, 2000), (Wilkinson, 1996). For example, when people are perennially stressed and depressed, they overeat and develop unhealthy behaviors, leading to obesity and health disorders. Jackson, Knight, and Rafferty (2010) write that people resort to unhealthy behaviors (overeating, smoking, drugs, substance abuse) to help alleviate stress. Some lose a will to live (Harvey, 1999), (Lynch, 2000).

The data from a recent study of a U.S. federal organization (Ivanov, 2011) showed that close to 40% of employees felt underemployed.

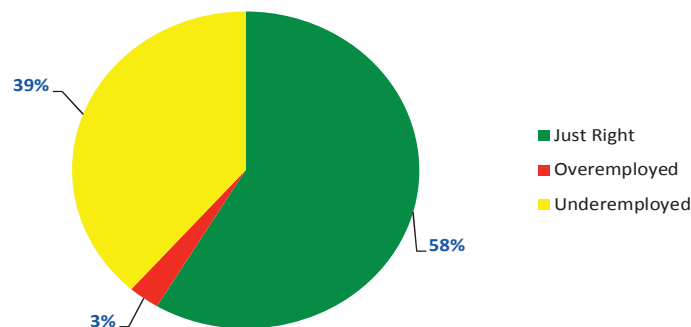


Figure 2. Underemployment, a U.S. Federal Government Organization.

During the study, Ivanov surveyed each employee how he or she felt about the level of work in the role. Close to 40% of people admitted that they were underemployed and could work at higher-levels. This finding is consistent among multiple studies, and confirms Jaques' findings (2002). Conducting a similar study in European and American corporations, Ivanov (2006) found that 50% of employees felt underemployed at work:

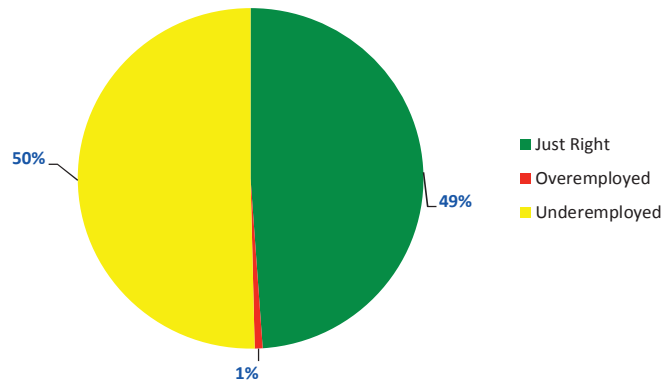


Figure 3. Underemployment, U.S. and European Corporations.

When people cannot work and contribute productively, they feel demoralized and wasteful. The person feels that the organization does not value and care. Employee, in this mode, cannot be fully engaged, innovative, and productive.

Furthermore, this data is understated because many employees are afraid to report honestly how underemployed they really are in the places of their employment because of the fear that the data could be reported back to their managers. Ivanov, working with graduate business students, mostly MBAs, asked the same question during his graduate business courses. In this setting, there was no relationship between the person's answer and the employment organization. The students, who have been employed fulltime in government, military, and corporate structures, admitted much higher levels of underemployment in the workplace.

The crisis that disintegrated the former Soviet Union in the 1990s, organizationally, was no different from what is happening with many United States organizations today. The United States may have a higher propensity to handle the crisis because it has private corporations, which, despite oppressive structures, innovate to survive, disappear from the market, or get

bailed out by the U.S. government. The U.S. federal and state governments, however, have no option to disappear or be bailed out despite its failing organizations (organizations that produce little and are wasteful).

The Soviet Union disintegrated partly because all of its organizations were state-run, dysfunctional, and constraining. Identically, they suffered from role compression, double-talk (Sharansky, 1998), and depression. Lower-level employees painfully observed their organizations falling apart because of inept higher-up management structures. These non-performing organizations contributed to Taleb's *Black Swan* crisis (2007), unpredictably disintegrating the former U.S.S.R. and most of its organizations. People were left out of work, and many had to leave the country. To many, it was a catastrophe because they lost jobs and means to earn a living. Recent and unexpected U.S. bankruptcies of major corporations, such as Lehman Brothers, high-levels of unemployment, outsourcing of manufacturing and other jobs abroad are modern crises in contemporary America.

Dixon (1976) studied incompetent leaders and leadership structures of the western militaries, finding similar dysfunctions. The U.S. departments of the federal and state governments suffer from identical systemic issues, all of which are addressable. Thus, these structures require analysis and optimization to free people to work effectively.

Ivanov has studied these systems since 2000, in European and American corporations, and agencies of the U.S. federal government (2006). He collected data and analyzed several headquarter organizations of the U.S. Department of the Army in 2007-2009 (2011). Ivanov developed a structured survey to gather data, in accordance with the General Theory of Managerial Hierarchy (2006). This data assesses the structure of all organizational roles by work levels.

The analysis shows that many organizations are compressed. For example, in one large organization, strategic executive roles were pushed down into the low mid-management level (Ivanov, 2011). Thus, no strategic work was done by this organization.

The current financial bailouts will not solve these types of organizational crises because we have not changed how our government and corporations function fundamentally. The latest solution to bail out and create more oversight over the failing structures is flawed because it would create another dysfunctional management layer over our already suffocating and failing organizational structures. Replacing senior management of failed corporations may not help because the system would remain the same and could become even worse.

Fixing our organizations and government departments is a solution that America drastically needs. Rethinking organizations based on new scientific principles, described later in this paper, could increase American productivity from an average 20-25% percent to over 80-90% percent. This would offer a way out by healing a major flaw within the capitalist democracy: its poorly designed organizations.

Jaques (1950s—2002) discovered a universal structural pattern appropriate to all hierarchical organizations, such as corporations, government departments, combat military, and others. This model reflects how work varies in terms of its underlying complexity from level to level (Clement, 2008). Understanding this arrangement, in turn, permits one to describe how these organizations actually function in reality. Disregarding this structure generates substantial internal stress, which culminates in undermining the organization and society in general (Clement, 2008). This failure, however, does not come instantly. Rather, it surfaces at much later dates. In effect, these failures are time-delayed.

The following table reflects the universal structure of all hierarchical organizations by work levels (strata):

Table 1. Universal Structure of Hierarchical Organizations

Stratum	Type of Company	Example	Annual Revenue, Comments
9	N/A	N/A	<i>Organizations of this type do not exist (have not been found yet).</i>
8	Large Multi-National	Exxon-Mobil, GAZPROM, Shell, U.S. Department of Defense	Over \$100B/year
7	Multi-National	Google, Apple, Oracle	\$10 to \$100B/year
6	N/A (long-term)	AOL	<i>Stratum 6 corporation is unstable, and would either grow to Stratum 7, or fall apart into stand-alone Stratum 5 companies.</i>
5	Business Unit of a Multi-National, or a Stand-Alone Company	Most Universities	\$100M to \$1B/year
4	Small Business Unit or a Stand-Alone Company		\$10 to \$100M/year
3	Small Stand-Alone Small Business		\$1 to \$10M/year
2	Mom-and-Pop Shop		up to \$1M <i>These “shops” are inherently unstable; they either fall apart, or grow to higher strata.</i>

According to this pattern, a stable and viable organization could have the top role (usually, CEO or President) in stratum 3, 4, 5, 7, or 8. There are no stratum 9 corporations. Expanding Jaques’ theory, the author’s research suggests that no stratum 6 corporation could survive long-term, and would either grow to stratum 7, or split into smaller stratum 5 companies.

A stratum of work determines the level of work in the role (complexity of work in the role), and the level of decision-making in that role. At the higher organizational strata, executives must adopt a longer and longer planning horizon (time span of 10-20 years) if their corporations are to succeed in the long run (Clement, 2008). This longer focus encompasses dealing with strategic uncertainty found at these levels (Raynor, 2007).

In a compressed organization, most people function in lower-strata roles. They focus on short-term solutions, without creating strategic plans for a longer future. The short-term solutions may be adequate for smaller organizations, but not for larger and especially mega-organizations, such as the United States federal government, or large multi-national corporations.

For example, the structure of a stable stratum 7 company always has six management levels:

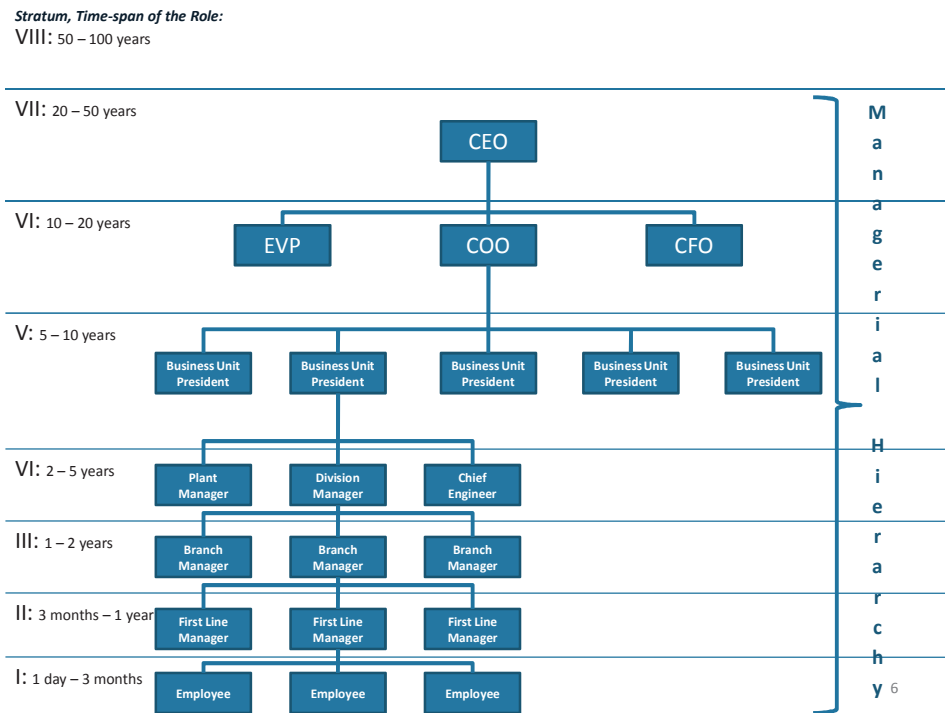


Figure 4. Optimal Hierarchical Structure of a Stratum 7 Organization.

In this structure, each managerial level adds value, and the entire organization works effectively to support the work of the CEO. The stratum 7 CEO makes decisions based on *generational thinking*, developing plans and strategy for next generations of customers, technology, and the next frontier. This would be the longest task in the role, defined as *time-span of the role* (Jaques, 1996). For example, the education executive would think about the next generation of incoming students into the school system. The military executive would plan for the next generation of weapon systems, and the upcoming new generation of troops, Generation Z versus Generation X. The corporate executive would think about the next generation of products, next generation of customers, and other future strategic positions. The decisions that these executives make get carried out effectively by the internal organizational systems.

Unfortunately, studies show that this structure is a rare occurrence in modern corporations or government departments ((Ivanov, 2006), (Ivanov, 2011), (Clement, 2008), (Jaques, 2002)). Most organizations have either too many levels or too few. Both arrangements lead to organizational role compression:

Stratum, Time-span of the Role:
VIII: 50 – 100 years

VII: 20 – 50 years

VI: 10 – 20 years

V: 5 – 10 years

VI: 2 – 5 years

III: 1 – 2 years

II: 3 months – 1 year

I: 1 day – 3 months

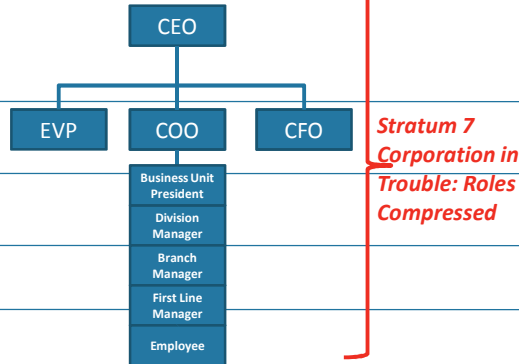


Figure 5. Common Problems in Hierarchical Structures: Compression.

The above structure defeats the stratum 7 organization, and compresses its work to a stratum 5 business unit, causing multiple reorganizations. Eventually, it fails the organization. Functioning at a lower stratum, this corporation has effectively stopped developing new strategic business units (Clement, 2008), working on new groundbreaking products and innovations, and thinking about the next generations of products, customers, and markets. Its current organizational structure is filled with conflict, and consists of pervasive double-talk, mistrust, and fear. Eventually compression leads to stagnation and failure. Managers breathe down the necks of their subordinates, and subordinates, in fear, submit to *bull* (Dixon, 1976) and non-value added work (Clement, 2008). Within a few years, this company will have failed by losing its market share, and may be bought by another corporation.

This is the most common problem that faces all western corporations and governments. Pumping more money into this organization through the bailout strategies simply delays the inevitable crash. Any rescue package must include a structural redesign that would allow the organization to succeed and innovate by raising the level of work of all employees. Hersberg's *job enrichment* and Argyris' *job enlargement* (1957) are comparable, but less precise ideas on how to increase the level of work in employment roles.

The compressed organizational structure (figure 5) is unworkable, suppressing, and unstable, causing multiple reorganizations, and ultimately time-delayed future crises. Taleb (2007) describes these types of organizational crashes as unanticipated and unpredictable Black Swan events. No one can work productively because of system-imposed conflicts, creating a volatile and non-desired future.

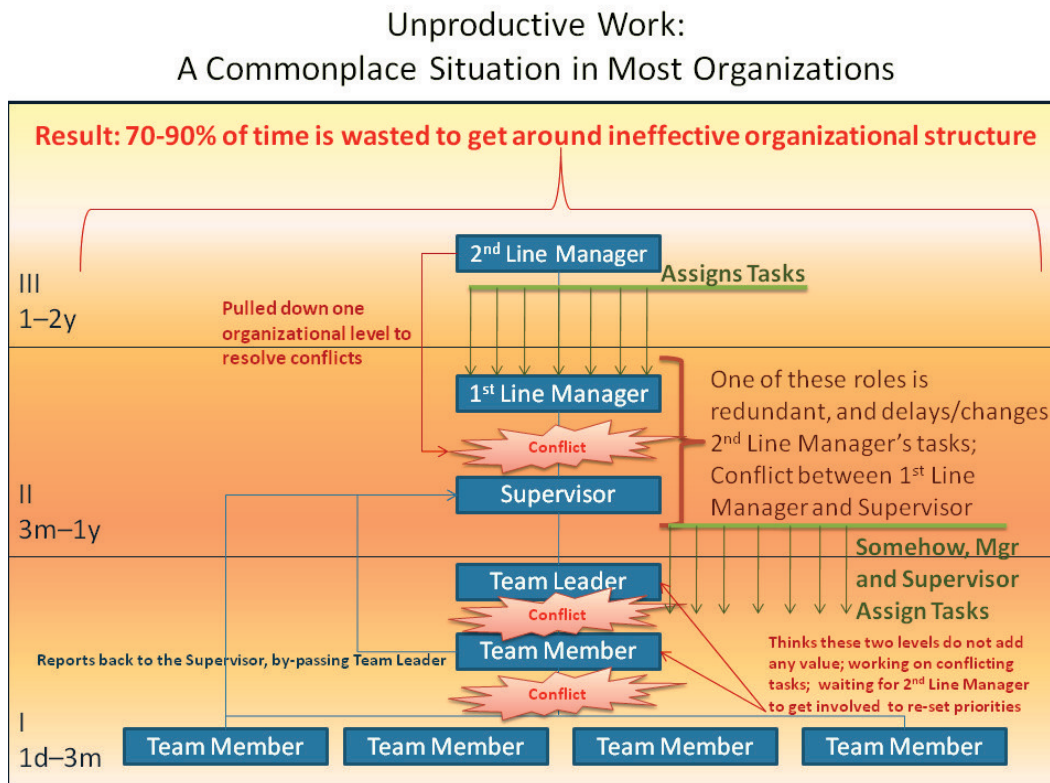


Figure 6. Compression Conflicts.

Compression does not allow people to work, and stagnates the organization. It collapses the work structure and extinguishes productive energy to deal with unnecessary and avoidable conflicts, non-value-added tasks (for example, unnecessary meetings, daily progress reports), and crises. Managers and subordinates do not work effectively because the manager does not add value to the work of the subordinate.

In a compressed organization, the manager and subordinate are often required by the organization to work within the same stratum. For people to work effectively in a hierarchical organization, the manager and subordinate must be one stratum apart because this structure creates a value-added relationship. If there are too many levels, the organization begins to stagnate.

The best way to solve this type of a major design flaw is to take a time-span-based snapshot of the current organizational structure to discover extra and missing layers. On this basis it is possible to rethink whether the roles are in their proper levels, and increase the level of work in all organizational roles as needed. Research in the U.S. Department of Defense and private corporations shows that this type of a diagnostic is easily achievable (Ivanov, 2008), (Clement, 2008). In a properly designed organization, each work stratum adds value, and eliminates conflicts.

**Optimized Organization:
Rare, Not Talked About for Competitive Advantage**

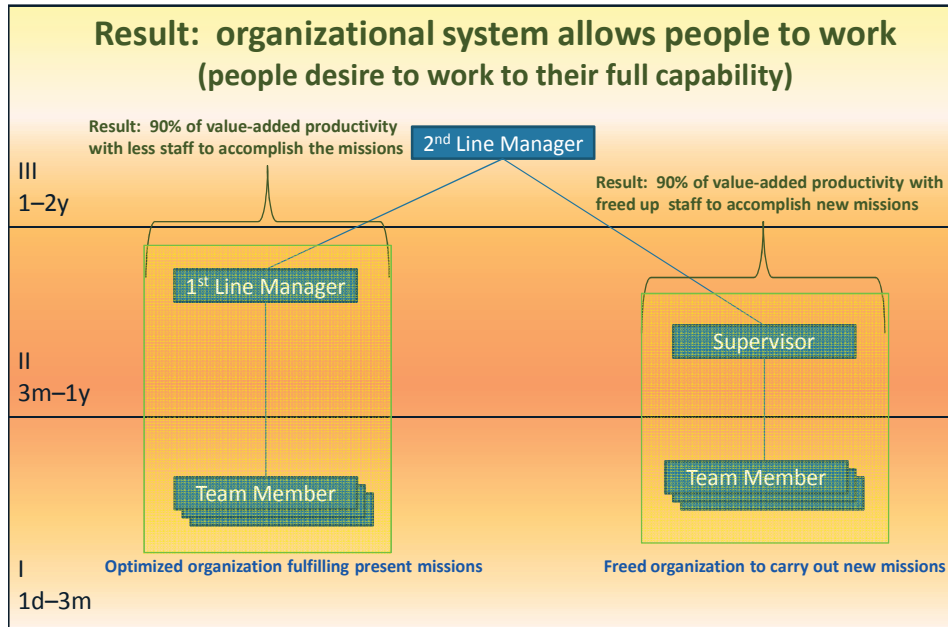


Figure 7. A Properly Designed Organization.

This organization is structured for optimal performance. Theoretically, this design could boost organizational productivity from 5-30% to 80-90% systemically because it eliminates bull and frees people to work productively. This organizational system is based on the scientific stratification of work of value-adding manager-subordinate relationships. The organizational design embeds trust between people because the manager and subordinate are working together to achieve common goals free of organizational absurdity and discord.

Instead, most organizations and government departments “resolve” conflicts by creating additional, duplicative, management structures, which compress the organizational work levels further. Draining organizational resources and people, these false solutions increase conflict and lower productivity.

In war, the improper organization leads to casualties and defeat (Dixon, 1976). In peacetime organizations, the casualties, the long-term health impacts on employees and their

families (Lynch, 2000), (Wilkinson, 1996), and organizational meltdowns are time-delayed, invisibly threatening and undermining the democratic societies.

In order to begin to address the healthcare costs, economic and political crises, and trust in the society and organizations, it is not enough to channel new money into the economy by funding organizations structurally designed to fail. It is imperative to restructure the organizations and government departments for effective work relationships, resulting in healthier and more productive systems and individuals. Proper organizational design could increase American competitiveness to get the country out of the current crisis, increase trust in the workplace, and help preserve the democratic societies to withstand and prevail through well-designed, healthy, and reliable organizations.

End Note

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