57. Charles Chandler: Organizational Effectiveness

0:00:01 Dr. Chandler: Efficiency is about going from inputs to outputs but effectiveness is about going from outputs to *outcomes*.

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0:00:10 Kendall Lott: Greetings and salutation PMs. For this year's final episode I've decided to shake things up a little. This episode has a little bit of theory and instead of hearing from a variety of experts on one topic, I've decided to drill down into the work of one Charles Chandler whose thinking on organizational effectiveness, OE, has influenced me greatly in the past couple of years. As President and CEO of M Powered Strategies, a consulting firm that focuses on OE, this topic is dear to my heart, identity and profession. But it is a field that has been characterized by founder of organizational theory, Robert Cohn, as a mix of concepts, operations, criticisms and objectives. It's a jumble. Dr. Chandler, takes us out of this morass by looking at systems and organizations in an unconventional values-driven way, an outcome-focused way, measuring the effectiveness through outcomes rather than dollars and emphasizing values rather than goals.

0:01:08 KL: Stimulated by the logic model developed in the international development arena, Dr. Chandler synthesized three management traditions to create what has been lacking in the academic field of organizational effectiveness: organizational scholarship, quality management, specifically TQM, and results-based management. By themselves they don't get us there. And don't worry, we won't be digging into them. But Dr Chandler leads us to a way of thinking that could stimulate how you could see project outcomes. And get this PMs, one implication is, that we need less of the CSuite driving objectives down to us from above, and more teams being trusted to self-organize around their understanding of their environment. Now, do I have your attention? I hope you find his approach as eye-opening as I have.

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0:01:53 Announcer: From the studios of Final Milestone Productions overlooking the White House in downtown Washington DC, this is PM Point of View, the podcast that looks at project management from all the angles. Here is your host, Kendall Lott.

0:02:07 KL: Dr. Chandler is a fascinating multi-disciplinary seminal thinker who, in his words, likes to work in the white spaces between the disciplines. He trained as an engineer at the University of Texas at Austin, and University of North Carolina at Chapel Hill. While working on his PhD, he branched out into other areas such as economics, geology and environmental sciences. He's a lateral thinker. He served as a Peace Corps volunteer in Nepal and went on to do a lot of work in international development. In fact, from Armenia to Tunisia, he has worked in 25 countries across Europe, Central Asia, Africa and Southeast Asia. His book Become Truly Great: Serve the Common Good through Management by Positive Organizational Effectiveness was published in 2017. His podcast series, “The Age of Organizational Effectiveness,” numbers, as of this recording, almost 100 episodes. Go listen to them.

0:03:02 KL: So here I am with Dr. Charles Chandler and it's a pleasure to meet you, and it's actually exciting to meet you. Dr. Chandler's work was one of the major things that I learned and got to ponder while I was hiking the Appalachian Trail last year for five months. So when you start thinking about organizational effectiveness for 2000 miles it takes over your life and you end up listening to all of his podcasts. So good morning and welcome here in Vienna, Virginia.

0:03:28 DC: Hey Kendall it's great to be with you, and I'm honored that you took the time on the Appalachian Trail to take a look at what I was doing.

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0:03:40 KL: What caused you to care to even approach the question of organizational effectiveness?

0:03:45 DC: Well, I had a long-term career in international development and working with some very large international organizations and there it's the project space. And so I worked with hundreds of projects both on the design side, the implementation side and finally the evaluation side, and there's always debates in development about what is effective development, and particularly what are effective projects. And the problem that bothered me was that people set objectives, and then they're rated against those objectives, and objective setting is not an over-the-counter sort of remedy, it's prescription-strength medicine, and it has to be done according to a certain protocol, and most organizations don't really take the time and the care needed to set the objectives correctly. Because you can game the system, you can set an easy objective, and then you can achieve it, but it may be totally meaningless in one way and is not really addressing the needs of the environment.

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0:04:56 KL: Even when people set objectives, they often would measure inputs versus outputs, which I think you're also going to challenge the outputs on this as well. But I remember struggling so hard. And even now as a corporate owner, and working with clients that we often find it easier to measure inputs, than even outputs.

0:05:13 DC: Converting inputs to outputs is all about efficiency.

0:05:16 KL: We love efficiency, don't we?

0:05:17 DC: And it's easy to measure.

[laughter]

0:05:20 KL: Well, that's helpful then, right? No.

0:05:22 DC: Well, maybe not.

0:05:23 KL: Okay, so lay it out for us.

0:05:25 DC: Converting inputs to activities to outputs is all within the control of the organization.

So it's all self-referencing, but the environment, the organization lives in an environment.

0:05:36 KL: There we go.

0:05:37 DC: And to survive and thrive, the organization must exchange benefits with its environment. That means it has to have outcomes in the environment, and if nobody wants what the organization is delivering in terms of outputs then you're dead in the water. You don't have effectiveness if you're not delivering outcomes.

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0:06:00 KL: How is this not measured then in a traditional profit model? So I produce a good or service and we can measure if I'm doing well or not by how much revenue, how much of that capital I pull back. And then that's why efficiency plays in because the only thing now I can control is the cost against that. Why is that not a good indicator of my interaction with my external environment?

0:06:20 DC: Well, in many organizations, it is a measurement system but it leads to what I call efficiency-ism.

0:06:25 KL: Okay.

0:06:26 DC: And the reason is because it's a very narrow objective, and if you try to maximize against it, it causes you to do things like financial engineering to get the stock price to go up, or... Profit's a manufactured number in any case.

0:06:42 KL: When I was learning accounting in graduate school, they call that accounting magic. They said it's math, it's not really a science and it's actually an art which makes it magic. [chuckle]

0:06:49 DC: That's right, but you can't look at profit in the field. In other words, if you want to decide whether you're effective or not, you can't go out and look at profit as a referent for effectiveness. It just doesn't work that way because it's like looking in the rearview mirror trying to drive forward. It has already happened. It may have happened several months ago, or a couple of quarters ago, as far as what you were doing to produce that profit. So profit is necessary, but it's not the goal.

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0:07:24 DC: Back in the 60s, or before the... Everything before the 60s, it was basically, the goal model. And so, organizations were effective to the extent that they achieved their goals. But it became obvious fairly quickly that just achieving the goals wasn't necessarily effectiveness and in fact all goals are not created equal. To give you an example, I was involved in the Water Decade back in the 80s actually. It was the UN Water Decade. And so the goal of the decade was actually coverage. To improve the coverage of water and sanitation in all the countries around the world that were participating and I was actually based in New Delhi, working for the World Health Organization at the time, and my job was to go out to some of the surrounding countries and see what was working and what wasn't working. And because it was coverage as the target, it meant that basically it was all about the numbers. It was about how many latrines you built and how many hand pumps you built and that sort of thing. And once a hand pump is built the coverage target is met for that particular area. But the problem is that, if you go out and evaluate the project afterwards that hand-pump may not still be working. And even in some areas even if it is working, the people may not be using it because they don't like the taste of the water.

0:08:50 KL: There we were measuring outputs.

0:08:52 DC: Absolutely. Well, we were measuring actually activities.

0:08:56 KL: Oh even worse, yeah.

0:08:56 DC: Even worse. [chuckle] And of course activities.

0:08:58 KL: Now, you were counting the number of pumps and you were counting...

0:09:01 DC: We were counting latrines, but when latrines are storing hay and people are not using them, that's a problem. So, WHO came to believe that there was actually a three-phase process. You needed coverage, you needed functioning, it had to keep working, and you needed utilization, which is the demand side response, basically. So this got me thinking about, well what is effectiveness in these kinds of projects? And we came out with a report at the end that built all this in.

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0:09:38 KL: Let's talk about the concept of making organizations meaningful, then. You talk about what constitutes value. Organizations have to produce something with their external environment that produces value, and it's broader than looking at profit or surplus.

0:09:54 DC: Well I talk about values, not so much value. Values, in other words, are attractants, for one thing. There's three things that you want to... You can do around values that are attractive. In other words, they attract people to your organization if you have virtuous values. They also create a culture within your organization by training and implementing certain value propositions. In other words, attributes to your products. I walked into a McDonald's one day and I was handed a brochure about the way that they were recasting their menu, and the way that they were sort of selling the attributes. So to their coffee they said, "Well, it's sourced from the Rainforest Alliance producers." With their chicken they're not using antibiotics that are critical to human health in their chicken. And their fish is wild-caught halibut, or whatever, from Alaska.

0:11:05 DC: So they were trying to put certain positive attributes onto their offerings, their products, that would then attract and align with who they thought their customers were, like the millennials, for one thing, that have some new values that they want to express and play out by the things that they're eating and using. So whether or not you pull into the parking lot of McDonald's may well be influenced by what sort of narrative goes through your head. It's all about attracting, it's about the culture in your organization, but it's also about avoiding potholes along the road to greatness. So if we're trying to become truly great, it's hard to argue that we shouldn't clothe ourselves with some values and some virtues before we get on that road.

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0:12:08 KL: That's helpful in both the hiring, or the acquisition of resources having people come to work for you and their work, but also in the product line itself, in the services itself.

0:12:18 DC: Right. Because if you're trying to become truly great, and that's really the only sustainable position that's available, then you want to move in the blue ocean direction. In other words, you want to have things that are unique and that offer value to your customer. You're looking out at the environment. Not just to your customers, but your non-customers and other people that can be served. And so you want to attract them through certain attributes to your products and services.

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0:12:52 KL: You just said something that's an interesting assumption in there, which is, "We want to be truly great," is your comment, "because that's the only way to be sustainable." So for organizations that wish to be sustainable over time, they need to follow this path, is what your argument is. Why do you say that? Why are we needing values and virtues to be sustainable?

0:13:17 DC: It's the only sustainable position for the long-term. You can be easily pushed out of your niche if you're not truly great.

0:13:25 KL: Because, why?

0:13:26 DC: A newcomer can come in and outdo you. They can be better than you and you can be pushed out. But if you're truly great, if the environment recognizes your greatness and you are the go-to guy for whatever that niche is, whatever that product or service is, it's very hard to push you out.

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0:13:53 KL: Cost reduction, delivering the same product at a lower price is often one way to shove somebody out of market.

0:14:00 DC: Well, cost is a strategy to some extent. But it all depends on what the customer wants. Millennials, when they're talking about Rainforest Alliance Coffee, that's not the cheapest coffee.

0:14:10 KL: Yeah.

0:14:11 DC: Right.

0:14:12 KL: So it's not enough to produce products that people are able to buy, it's a way of seeing a longer term sustainability, because you're tapping into broader utility, it sounds like stakeholder utility or in this case, customer utility. People are buying for a number of reasons and attributes. And it sounds like you're calling to have people have organizations be more sustainable, more effective by being able to respond to a broader list of attributes.

0:14:40 DC: Yeah, I think what's happened, especially with the internet over the last couple of decades, is that the market has become atomized, in a sense. It's been highly segmented, and so a lot of different new companies can come up and offer things in new ways and still find throughout the global market enough revenue to keep them going.

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0:15:15 KL: One of your podcasts is about the outcome economy, is that the link we're seeing here?

0:15:20 DC: The outcome economy is something that I discovered when I was looking into some of the IT service firms like IBM and some of these other large firms, and what they've done recently is they moved away from selling boxes of software, which is kind of a product view of the world, to selling service and essentially outcomes in a way. And GE who has jet engines, sells their jet engines on the basis of the hours of service. So it's so much per hour of service rather than having the capital cost up front. So they're guaranteeing, basically, the life of the engine, and the maintenance and all of that, and you're just paying... The airlines are just paying for the hour of usage. So that becomes an outcome-driven proposition. It worked for the airlines and it works in so many other areas as well. Because what you're doing is you're taking a lot of the risk out, a lot of the extra cost, and your guaranteeing that the quality is going to be there and they're going to get the result that they want, the outcome that they want.

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0:16:40 DC: Let me get into another thing which is driving this in terms of the model. We talk about causal chains, and how do you talk about your products and services, your offerings? How do you determine whether they're effective, whether they're working or not? So it's all about converting inputs to activities to outputs on the supply side and then outcomes and impacts on the demand side. So, efficiency is about going from inputs to outputs as we talked about.

0:17:12 KL: Right.

0:17:13 DC: But effectiveness is about going from outputs to outcomes. So it's the supply side push of your offering and it has to be met by demand side pull.

0:17:24 KL: And we focus a lot on the push side because we can control that or we think we can see it.

0:17:28 DC: We can certainly produce the supply side without any problem, there's always the question of whether the demand side agrees that it's worthwhile and they're convinced enough to buy it among all the other options out there, and you really have to understand your environment. In order to co-evolve you really need to be working with customers in your environment as the environment is changing.

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0:17:57 KL: At a very tactical level, that's going to ring very strongly with project managers who are faced with lean and agile techniques that are very specifically about, when trying to figure out what someone wants in the development of software, or now expanded to other development, get the customer in the room with you immediately, get minimally viable products because you have to understand their needs. Don't do a big marketing campaign, a big survey, wait a year, have this long development, put a product out and see how it goes from there. You're actually arguing even a step further, once produced, look for usage, look for uptake.

0:18:30 DC: Look for whether they're getting the value they expected through the use. You want to observe their behavior as they're using it, not just do a survey and ask them how they liked it, because whatever they say in that survey may not be what they really think. Like in a restaurant, restaurants should really be looking at the plates that come back to the kitchen and what wasn't eaten, [chuckle] because that tells you what they didn't like.

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0:19:02 KL: Tell us about this model then. In your book you laid out these three big kind of phases that you're saying to become truly great, which you've named as the way to be sustainable, basically, to be able to really be effective in the world, to continue your organization.

0:19:16 DC: Okay, phase one is be virtuous, which is all about building in the virtues and the values that we just talked about earlier, the attributes through your products, but also to be sure that whatever you're talking about in your narrative is actually lived in your organization.

0:19:36 KL: Who owns this problem? Is this a leadership, and you're talking about the design of the organization?

0:19:40 DC: This is definitely a leadership issue, the C-Suite would own this, I would think, but it has to go throughout the organization.

0:19:48 KL: So when you open with your book, I thought one of the things you talked about that was interesting, and it's one of those dissonance that you kind of grab is, a very good drug cartel could be a highly effective organization. So we don't want to confuse effective with efficiency, we also don't want to confuse it with moral goodness, necessarily. So effective has something about being able to accommodate its market, is where you're headed here with this, I think.

0:20:12 DC: Yeah, originally when I started writing the book, the title changed a lot, and mostly it was about effectiveness. But I found out along the way that even drug cartels, of course, could be effective. And if you think of a circle and a line across horizontally, think of the top part as being positive virtue and the lower part being negative. So you would see people like drug cartels and ISIS and terrorist groups and whatever down at the bottom, there's no greatness coming from the negative side.

0:20:43 KL: And that's why you shifted from just a discussion of effectiveness to being great, which is positive effectiveness.

0:20:48 DC: It's what you can do with effectiveness. Effectiveness is the engine of greatness but you have to build in the values to begin with to keep you from falling in a pothole like Enron, like Volkswagen, like Wells Fargo, these are people that let the negative values, which is doing things not best for the customer, deceiving, so many values you could put in the negative side. When those happen, the environment is going to recognize those and they will make you pay for it basically.

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0:21:27 DC: It's a complex adaptive system, the organization.

0:21:30 KL: Now, when you say complex adaptive system, I'm thinking about project managers, as they handle their projects and their production, they're working within an environment inside the organization, we're not even at the customer interface just yet, and so, I'm thinking they exist in this complex adaptive system, so I think you need to explain that a little bit.

0:21:47 DC: Examples in nature are like flocks of birds, schools of fish, ant colonies, systems in which we have multiple agents and they're interacting together and the patterns that we see emerge from below, basically, they are emergent in a complex adaptive system. And even in an ant colony the queen is not in control, it's just that the ants self-differentiate through their interaction.

0:22:13 KL: So your argument is within an organization, actually, there's only so much management top-down goal setting, in this context even, that can really happen. This idea that, "We are going to go here," and it's like, "Well, maybe not," because it's a complex adaptive system. The teams, the employees are all shifting all the time in terms of how they're doing their own production, how they're doing their interactions.

0:22:34 DC: Yeah, in fact, I've come to realize very recently that the goal setting process is one of the most destabilizing themes in an organization.

0:22:44 KL: Why so?

0:22:45 DC: Well, because it's a complex adaptive system. And just think of it, you bring in a new C-Suite with a new objective set and basically you're betting the farm. In my model, which is the outcome-focus model, the goal of every organization is the same, that is to be effective within its environment.

0:23:05 KL: That's an important key right there, say that again, that was a really important statement.

0:23:10 DC: Because...

0:23:10 KL: The goal every organization is the same, because I don't think people think of themselves that way.

0:23:14 DC: Yes, the goal of every organization is the same, because what we've been doing to this point is we've been using workarounds. We didn't have a concept of organizational effectiveness, so we had to use the goal model, we had to set goals. But now if we do have a concept of organizational effectiveness, that means the goal of every organization is the same.

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0:23:39 KL: That's phase two of this model now, we're going to discover our effectiveness. It turns out effectiveness is the big shocking radical statement, but we also have to achieve greatness, is really what you're saying. So we start with effectiveness in the context of good virtue. Okay, have virtues, instill them in your culture, instill them in the products and be focused on customers. Now we move to what does it actually mean to be effective? And your prescription for people is to discover effectiveness, so we better learn about what that is. So tell us the model now.

0:24:07 DC: Okay. So discovering effectiveness is all about testing your offerings in the environment. So if I'm going to be a great organization, I've got to offer the environment something. And we survive and thrive by interchanging benefits with the environment. If we're going to become effective, we've got to take those offerings, put them out there and see what the environment says about them, and that's where effectiveness is expressed, it's about the uptake adoption and use of our offerings by the actors in the environment. The goal of every organization is the same, but now we come down to the offering level, and we're going to have a portfolio of offerings, we're going to have one through 10 or whatever, of our offerings, and we want a causal chain or our results chain for each of those offerings, so that we can look at the inputs to activities to outputs relationship, and then test them, test that offering in the environment.

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0:25:17 KL: You called it EEOs, expected external outcomes, is that the measure that I'm like...

0:25:23 DC: Right, the...

0:25:23 KL: Monitoring?

0:25:24 DC: The expected external outcomes are the behaviors of uptake, adoption and use, and they become the referent for effectiveness. So, if I'm looking to see that there's an elephant in the room, I know what an elephant looks like, and that's the referent, so its appearance is what I use to judge whether an elephant is present. So, if I'm looking to see if effectiveness is present, I have to look at something in the environment. And what I'm looking for is uptake, adoption and use of my offerings.

0:25:57 KL: Give me an example. So I'll give us an example. So I buy... Because when I read the book, and I've tried to explain it to people, not understanding it perhaps fully, I'm thinking... I went down this model. Apple sells an iPhone. They make... They exchange money for the product at the point of sale, and that's usually where we stop measuring. And what I felt you were calling to as is, the way to make this a sustainable organization is beyond that transaction, is that when I recognize that people use that for some other purpose, which sets me up to do two things, two major things, more scope or more scale. I can sell them the new iPhones in the future or I can find out, "Well, they want to have all these software products associated with their iPhones, look at this ecosystem I can build." Because they're using it in this new way, and that builds my customer base and allows me to continue to go into the future.

0:26:47 DC: Yeah. Well, the transaction starts the process.

0:26:50 KL: Starts it, yeah.

0:26:51 DC: But the reason they bought it, is really for the apps, what they can do with the phone. And it replaces other gadgets that they already had. If they had an iPod, they don't need that anymore, because they now have an iPhone that also does that. If they get podcasts on their laptop, they don't have to do that because they can get it on their iPhone now.

0:27:13 KL: Which we highly recommend to everyone who listens to podcasts and everyone who doesn't should be.

0:27:17 DC: Okay, let me give you another example, I worked on bird flu in Asia, back when I was working at the World Bank. And the idea of bird flu is that the flocks of birds were coming down from the Arctic, down the Chinese coast, and the reservoir for bird flu is in the wild flocks. And the wild flocks will drop down and mix with the domestic poultry from time to time, and use their water, and their feed and everything, and that's how bird flu is transmitted. But now, if you're going to intervene in that, what you need to do is separate the wild flocks from the domestics, and the way you do that is you cage the domestics, basically, so that the wild flocks can't actually...

0:28:01 KL: Interact.

0:28:01 DC: Interact with them. And if we see... If we, let's say, design a project that does that and we see that the poultry producers are now caging their domestic flocks, and there's money in the project to help them do that, if there's uptake adoption and use of that, in other words, if we go out in the field and we see now they are caged, we have the outcome we were looking for.

0:28:27 KL: And that's what you should plan for in advance, the expected external outcome.

0:28:32 DC: Yes, because that's what the economic and financial analysis assume to begin with. And so what we're doing, we're calling outcomes not the end result, but it's the flow across the boundary there, between supply and demand.

0:28:46 KL: You just said something important, "we assume that in the model," this is a method of actually uncovering... It's a thought process for uncovering those assumptions because your point is well taken that we made the hand pumps, we made the latrines, we made the cages, we got them out in the field. The assumption was, "And therefore, people are using them." And you're saying it's actually validating that assumption and check that assumption, check that outcome, that's expected.

0:29:10 DC: Right. We're doing financial analysis and economic analysis with certain assumptions, but we don't really know whether that's going to happen unless we follow up.

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0:29:25 DC: If you're serving your environment, your employees need to be empowered to ask every day, "How can I better serve my environment?" So, really, you don't need the C-Suite to cascade down all these goals, because the goal of every organization is the same, it's to be effective. And that means you don't need a C-Suite to set all of these goals. If you're going to innovate, and innovation is probably the most... Thing that's in short supply these days, in organizations, and I think the reason is, they're overburdened by all of these indicators that are cascaded down from the top. Get rid of all of that, that just incentivizes employees to game the system, and you don't need it either.

0:30:09 DC: What happens as you cascade down the power to set the goals to the teams that are working on individual offerings to the environment, and then they are asking themselves and their colleagues, "How can we better serve the environment today?" And they're empowered to actually take some actions to do that. There's lots of desire internally, in employees to do a good job if you give them the freedom to do it. There's a lot of organizations that are actually doing some of these things now. They have almost no management from the top, they have self-organizing teams that they get the job done.

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0:30:54 KL: So tell me a little bit more in that second section about discovering effectiveness. You've described that we're really looking at that just beyond our boundaries, our own organizational boundaries, what the expected outcomes are, and I assume we have to measure that. We have to say, "That didn't work. That did work." So in a certain sense, we're goal-setting around the EEOs, around the external effective outcomes.

0:31:15 DC: We're setting outcome level goals for our offerings...

0:31:20 KL: And we have to be able to measure that though. That's where I think the rub sometimes comes in.

0:31:26 DC: Not necessarily.

0:31:27 KL: Okay. Tell me more.

0:31:28 DC: Because you can select which behaviors you want to measure. And this is part of the... It's not a science, perhaps, but it's... I've never seen a case where you couldn't find a behavior that was representative of the uptake adoption and use that you were looking for.

0:31:46 KL: Strikes me that the people that might know that best are in fact, many of the people who have the customer engagement and not top-down. I mean that's part of your model, I think.

0:31:54 DC: Absolutely, yeah. And let them set their own indicators, but they have to be meaningful, certainly, and have to be verifiable by an independent source.

0:32:05 KL: What about meaningful? What do you mean by that?

0:32:08 DC: Well, meaningful in that it has to be logical in the causal chain or in the results chain. If you think of a video game, and you're doing, let's say, one of these race car games where you see the road turning to the right, and you turn the wheel to the right and the screen tells you immediately, that you're turning to the right. Now, the advantage of the outcome-focus model and the effectiveness part here that we're talking about is that it gives you immediate feedback. We haven't had that before in management. If you're managing against profit, that's not immediate feedback that's looking in the rearview mirror. If you're managing against shareholder value, that's like looking in the rearview mirror, going up and down the roller coaster, really. But this way of doing it, where you've defined your causal chains for each of your offerings and you're looking at the demand side response, you can do that daily, you can do it weekly, you can do it monthly, whatever is meaningful. And many organizations, many IT-based companies are now doing split tests on the web to see how their customers on the web buy things based on the particular attributes or web pages that they're being shown.

0:33:31 KL: Oh, the AB testing.

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0:33:37 KL: So moving us past discovering efficiency in your organization, when you talk about the phases to becoming truly great. You talk about the last part about actually becoming great then. So what are those next steps that people... What do we need to focus on in that?

0:33:51 DC: Yeah, basically what we're saying is that positive organizational effectiveness is the engine of greatness.

0:33:58 KL: Virtuous effectiveness.

0:34:00 DC: Yeah, so this is...

0:34:01 KL: Above that… [chuckle]..

0:34:03 DC: This is a method of management compared to management by objectives.

0:34:07 KL: Okay.

0:34:08 DC: We've talked about virtuousness, we've talked about effectiveness. Becoming great is basically moving from outcomes to impacts. So if outcome is a flow, an impact is filling the reservoir. So as long as those behaviors, those uptake, adoption and use behaviors keep going for five years, we're going to become great. As long as we're getting that uptake, we're looking at the environment, we're serving it and we're innovating along the way, within five years we're expecting to become the main guy in that niche basically.

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0:34:53 KL: There was a difference between outcomes and impact which I really, really like. The outcome is almost the use and the adoption, they're doing something with this. For which the stakeholder brings in various utility. They want GMOs or something, or not. And they have some utility beyond the particular product or service perhaps.

0:35:14 DC: Okay, let's stop right there and let's talk about the types of benefits.

0:35:18 KL: Yeah, let's talk about that.

0:35:18 DC: Okay.

0:35:19 KL: Because they have to respond to those.

0:35:21 DC: Yeah. So what is it that motivates the sale or the uptake, adoption and use? So I have a hierarchy of benefits, a model in the book. And at the lowest level is the financial and economic.

0:35:36 KL: Yeah.

0:35:37 DC: That's where, let's say, I go in and I want to buy a riding lawn mower at the big-box store, and I give them my credit card. So that's a financial flow and part of that makes its way back to the manufacturer of the lawn mower. But now I get the economic benefits in exchange, and that means that I can use the lawn mower over several years to mow my lawn, which replaces the thing that I would have to do, to hire somebody. But now we also have social and psychological benefits from this activity. Because as I'm mowing my lawn, I'm seen as a productive member of the community and I can say hi to my neighbors, and there's some social benefits there, and I also may feel better about myself, because I'm out there doing this activity.

0:36:25 KL: So you call that the second layer, the social?

0:36:27 DC: That's a second layer, social and psychological, and then above that, spiritual and environmental, which means I'm improving my community, I'm serving the greater good, and in some other activities, there may be some spiritual benefits as well. So there's a variety of benefits, some of them are non-tangible. And those need to go into your calculation about how you want to position your offerings.

0:36:56 KL: That's part of your value chain.

0:36:57 DC: Absolutely.

[music]

0:37:03 KL: So continuing on, then. So my customers have multiple benefits, I need to be thinking ahead, I'm covering assumptions to connect to them with my products and services, I need to enable all teams to do that, all members that are interfacing need to be thinking that way, "How can I serve this broader environment question?"

0:37:20 DC: Yeah, and so you want to have basically watch towers on the environment.

0:37:23 KL: Ah ha. What's that?

0:37:24 DC: We want to be looking out at the environment for incipient behaviors that either represent a new opportunity to serve. Like let's say, some guy buys a truck off the dealer's lot, but then he customizes it in certain ways that then the car club also starts doing as well. So the manufacturer, if they were aware of this trend, could build a new option into their product line that would do that for them.

0:38:04 KL: The key would be to get out and see that behavior which happens beyond the sales person's interaction on the lot.

0:38:09 DC: Absolutely.

0:38:10 KL: So you have to invest in that side.

0:38:11 DC: Yup.

[music]

0:38:17 KL: When you talk about the avian flu, my production model is I'm an organization, perhaps a non-governmental organization and I produce the cages because I see how the flu actually happens. There's a mechanism for this problem. We see where the intervention... We believe there's an intervention, it's about keeping the flocks separate, cages solve that. Let's just say, I produce cages, so I can tell all the people that donated money to me last year, we produced 130,000 cages and provided them to the many people of South East Asia. And so that might be a good check mark. And you're like, "Well, okay, so that's output. We're measuring for efficiency, so now we want to go out and measure, did anyone actually use the cages? And are they being used for the purposes of the intervention?"

0:38:56 DC: Purpose as intended. Yeah.

0:38:56 KL: And what were they used and purpose as intended. Did we get what we expected? Or is there something new, what should we sense? But you went to impact. So to me, if I'm guessing right, if I'm understanding you, that's the next thing which is, "And the next year, we saw a drop in flu. In cases of flu."

0:39:11 DC: Yeah, or we have not seen a recurrence of the flu.

0:39:14 KL: Or we haven't seen a recurrence, or whatever.

0:39:16 DC: Yeah. This is another problem, is that if you set the objective too high, if you set the objective at the impact level to begin with for your program, then it's so diffuse and so difficult to measure. You've got to bring it down to the outcome level and start talking about the offerings that are actually going to bring this about in the longer term.

0:39:38 KL: So I need to set my measures at the outcome level, but to be truly great we have to go to the impact level. So how do we see that leap? You say it takes five years but how do we see that and how can we... Or do we plan for that?

0:39:51 DC: Sure, you can plan for it. It's just that the immediate feedback comes at the outcome level, where we can see that uptake, adoption and use. But if that continues for the future and it's a flow, and it's creating this reservoir of the impact more widely in the economy, countrywide let's say, then we can document and show that.

[music]

0:40:23 KL: So this is interesting because I think so many of us measure at the output level. And then this is really pushing beyond that to the outcome and then ultimately to the impact, and that becomes part of what people talk about the why, "Why am I in this company? Why I'm in this organization? Why do I work in this government organization? Why do I work in this association? Why do I work in this nonprofit?" That mission-oriented why, because presumably, the mission must be about those impacts. I would guess that's what it has to be about.

0:40:50 DC: Yeah, purpose is just another word for goal, but I would still argue that you're goal setting, again you're still using the goal model, and it's hard to know whether you've set the right goal. I still argue that the goal of every organization is the same, that is to be effective in your environment.

0:41:08 KL: So should we measure the impact at all then?

0:41:11 DC: Yes.

0:41:11 KL: Or has that pushed us too far to try that?

0:41:13 DC: Well...

0:41:13 KL: Once I get past the outcome level...

0:41:14 DC: Measuring impact is expensive. Okay, I would argue we really don't need that expense in most cases, as long as we're measuring outcomes.

[music]

0:41:29 KL: Can you discuss quality and the role of quality? How do we think about quality, because this is a big deal in project management. And how do you see quality and its role in an organization as it adapts, as it self-organizes around serving its environment?

0:41:44 DC: Well, quality has been a proxy for effectiveness. Just as efficiency was for a long time, a proxy for effectiveness, let's say, early on in organizational theory. After 1985, when most scholars gave up looking for quality, a quality concept. Because there were no models that anybody could agree on and they couldn't really decide what effectiveness meant. It was the quality group, the quality... the TQM folks (total quality management) that scholars focused a lot on. Because quality was a culture, it was a... It included ends and means. So in some respects, it was more encompassing than some of the older ideas about effectiveness. And some people still, of course in the project space especially, think quality is the main thing, especially in the TQM sense. And you've built in the voice of the customer and all of that. What I'm offering here is a new alternative, I guess, both to management by objectives, and to quality. It's a philosophy, a way of managing that is encompassing, I think, both of those views.

0:43:11 KL: How do you get quality in yours then? How are you seeing quality play out? Is it a discussion worth having with people to adapt to their systems?

0:43:17 DC: Yeah, well, I said in the book, quality is one of the aspects that we have built into the system.

[music]

0:43:29 DC: And we want to see that our offerings are consistent with our mission and vision, and grow out of our core competencies. And that offer real economic, social and other benefits to actors in the environment that have been tested, as appropriate, on their ability to bring about specific worthwhile EEOs, those outcome level behaviors among customers, and they can be expected to document and achieve useful results such as outputs and expected outcomes and impacts within the time frame and resources allocated. That gives you a quality aspect to what we're talking about in becoming truly great.

[music]

0:44:17 KL: I actually wrote those down, because I was going to ask you about them, because that was one of my key takeaways, your six steps there. You said the organizational effectiveness undertakes initiatives that do this.

0:44:26 DC: Right. So, we are self-controlling, we're not only adopting virtues and values and self-organizing ourselves around those, but we're also subjecting ourselves to quality values that we want to build into our processes. So it's a internal control in a sense. We're not willing to go outside these bounds. And so to become truly great, we're subjecting ourselves to certain restrictions, basically.

[music]

0:45:03 KL: We talked about having everyone enabled to do it, talking about everyone being empowered within the organization. I think from what you've described it’s true for all organizations. So, this is not about large company, small company, nonprofit, government, it doesn't matter.

0:45:17 DC: Absolutely.

0:45:17 KL: The podcast, actually, I'd highlight people to take is number 59. Your critical take on the HR contribution to this, and I think it ties to this concept of the complex and adaptive systems, and it actually leads me to one label that you put around this, the whole-ocracy.

0:45:32 DC: Yes.

0:45:33 KL: You might want to describe that a little bit because I think that's where we're getting that ability to get to great... Get to this truly greatness.

0:45:40 DC: Well, whole-ocracy is another way to do Lean and some of these other rapid techniques.

0:45:49 KL: Oh really, you take it that type?

0:45:51 DC: Yeah, it does, however, separate things into roles.

0:45:56 KL: Yeah.

0:45:56 DC: I'm not an expert on whole-ocracy. I do have a podcast episode where I interviewed a guy about whole-ocracy. So, I might refer you to that.

0:46:04 KL: Does it enable you? That's number 63 on whole-ocracy. Does that enable... Do you see that as an enabler for an organization to be able to build into this?

0:46:13 DC: It's another one of those models out there that, Zappos, for instance, adopted whole-ocracy and a few other organizations. It's a way to take the Lean and sort of Scrum teams and stuff out of the IT sector and take it more widely.

0:46:35 KL: And well, it's voice of customer, it's interaction with customers which is, again, I think if we're trying to measure the outcomes, that's where that might be helpful. It's about enabling those teams to be more effective in their interactions. Your suggestion is around measuring outcomes, beginning to understand the outcomes that are related to the products that you produced or the services you provide.

0:46:53 DC: Yeah, I'm not promoting whole-ocracy in a way. I'm sort of neutral on it. I think it is a potential mechanism that would help facilitate some of the organization internally, but mostly, I'm focused on objectives and how the environment is going to respond.

0:47:10 KL: That demand side.

[music]

0:47:16 KL: How much of this do you see as an organizational design issue, a training issue, an ethics issue? How is this transmitted to an organization? How is this understood? Do we need to design our organizations to do this or is it a matter of training leaders and then leaders train people, a matter of inciting the revolution, all employees need to understand they need to work in the environment and throw off the chains of management? How does this happen?

[chuckle]

0:47:43 DC: Well, there's a couple of different directions. I could see...

0:47:46 KL: Give us some, give us some.

0:47:47 DC: I could see a new type of venture capitalism, where you take a public company private, take out the C-Suite, put in servant leaders, and then run it for five years using this approach, management by positive organizational effectiveness, and then take it back to the market.

0:48:08 KL: See what it's done.

0:48:10 DC: But if somebody is going to adopt this willingly...

0:48:14 KL: That means your shareholders just became your manager... Or your venture capitalists became the manager itself.

0:48:19 DC: Perhaps, they're the drivers, I would say.

0:48:22 KL: Well, positively affecting. [chuckle]

0:48:23 DC: Yeah. But let's say, if we're talking about...

0:48:26 KL: That would be a good test of your model, wouldn't it?

0:48:27 DC: It would, yeah.

0:48:29 KL: See if a company actually was worth more when it went back to market.

0:48:32 DC: Yeah. In fact, new paradigms like this are not easy to rapidly introduce across the spectrum. It's going to be individual companies that decide they have a need and they want to try something new, and maybe they're in trouble anyway, let's see if we can fix things with this new model. Any company can adopt it individually and try it out. It's ready for prime time, I think, and there's nothing that has to be proven. It's not a theory that has to be proven. It's just something that needs to be taken up and adopted.

[music]

0:49:18 DC: So my effectiveness is judged by how many people adopt and use.

0:49:22 KL: Yeah, there you go.

0:49:23 DC: This model, yeah.

0:49:24 KL: Yeah. And do you have any indication people have?

0:49:26 DC: I've listed some folks in the book, some three companies, that are close to the model. We've got Salesforce.com.

0:49:39 KL: They've done very well [chuckle]

0:49:39 DC: Google, which is part of Alphabet now.

0:49:43 KL: Right.

0:49:43 DC: And then Patagonia was the third one. Now, I have also left out some companies that I thought didn't fit the model and maybe I should just mention some of those and why they weren't included.

0:49:57 KL: For example?

0:49:58 DC: For instance, IBM was not included because their C-Suite is highly incentivized under agency theory and that leads to efficiency as a...

0:50:08 KL: Agency theory, in brief?

0:50:10 DC: It's the idea that the C-Suite has to be highly incentivized through stock options and other ways of doing it so that their interests are aligned with the owners.

0:50:20 KL: They're the agent of the owners.

0:50:21 DC: But the assumptions in agency theory are very narrow and in fact the model of effectiveness is one of efficiency. It works mathematically, but I don't think it really works in practice.

0:50:32 KL: So organizations that have highly incentivized large C-Suites, top-down, may be very profitable organizations, and they may be continuing and they may be large, but they would not be effective and they certainly wouldn't be truly great in your model?

0:50:46 DC: What happens is you get financial engineering tricks going on to facilitate shareholder value kind of model that where the stock price keeps going up. IBM was an example of that, because they had the road map 2010, and then the roadmap 2015 and they were selling off a lot of their productive assets in order to keep on this road. What happens is it essentially robs from the future productivity of the organization, by meeting current financial numbers. So organizations that have been moving in that direction are really being stripped out, hallowed out, over time.

[music]

0:51:39 KL: In one of your podcasts you talk about the definition of capitalism and you walk through how the definitions are no longer applicable. In fact, it's not a lot of the things people talk about. But you've also talked, in your book, about, there was a general dissatisfaction going around capitalism, and I think that link was around, "We cannot turn and convert everything into a pure capital conversation. There are benefits that are intrinsic and benefits that are outside of that and to get to uptake we have to hit those things, besides just measuring the proxy of dollars is moving." Is how I thought you were taking it. But you seemed to be referring there just seems to be a general sense of dissatisfaction with measuring things through the dollar process.

0:52:22 DC: Actually, I think my take in Chapter 2 was a little bit different than that and it was about capitalism essentially moving from the invisible hand of market forces to the visible hand of managerial capitalism.

0:52:39 KL: You want us to manage capitalism in one of your podcasts you said.

0:52:41 DC: Well, we have to manage capitalism because it's in our hands now. Because what happened was, even though back in Adam Smith's time we had free markets and there were no barriers to entry and firms were very small, production and distribution were in very, very, very small firms, owners, managers and managers owned in those days, and so free market capitalism was quite a good model for the 1700s and Adam Smith, but what happened in the 1800s, basically was that we got managerial capitalism. And the way that firms grow is that they take transactions from the market and do them internally. So as, let's say, the railroads and the telegraph companies grew, they... You no longer had to haggle in the market to carry goods on the train or anything, or to carry goods by wagon train. Railroads had internal pricing, they had internal bureaucratic processes. So if you wanted to ride on the railroad there's a fee for that to go from A to B, and so you don't have to go out in the market and haggle about getting from St. Louis to wherever, you just get on the railroad and you pay your money and that transaction is internal to the railroad itself.

0:54:20 DC: So, Ronald Coase wrote a paper in 1937 about... And he got a Nobel Prize...

0:54:27 KL: Nobel Prize winning economist.

0:54:28 DC: For this paper it's about the theory of the firm and it's how firms grow. And so, as firms grew we no longer had free market capitalism because most of the transactions now are done internally within firms except where commodities are traded.

0:54:46 KL: Right.

0:54:47 DC: So if you're out on the commodity's market that's fine.

0:54:50 KL: That's free will.

0:54:51 DC: But in firms prices are very slow and sticky and it's not that they're not tied to the market, they are tied to the market, but there's a lot of pricing freedom that firms gain by bringing transactions internally. So by the 1880s, really the economy had moved to one where we no longer had free market capitalism we had managerial capitalism, we had the visible hand of management doing the job rather than the invisible hand of the market. So that's why firms are basically in control of the economy. And so, my argument is that we need a better management model to manage capitalism for the common good because we're all managing capitalism, we're either part of the problem, or we're part of the solution.

[music]

0:55:47 KL: One of the themes that I have often heard is, people perform to measure and a way... A lens that I looked at your work, was so, that's true, that's going to happen, so why don't we measure the things that matter? Which is the outcomes, from an organizational perspective. So let's measure those things and let's perform to those measures. I don't have to try and change human nature in your model. I have to now align it to what we need to do as a group of people who work together to serve a group.

0:56:15 DC: Yeah, that's the whole idea.

0:56:17 KL: Measure the right thing.

0:56:18 DC: Measure the right things, but it's... I think it was Peter Drucker that said, efficiency is about doing things right, and effectiveness is about doing the right things. But actually in my model effectiveness is not about doing anything within the organization, it's about achieving something outside of it, which is the uptake, adoption and use of your offerings and getting the value and the benefits that they were expecting, and improving the whole. You're serving your environment, you're being rewarded in return and you're improving the whole.

0:56:56 KL: Think about it as this is what creates customer loyalty. In the end, they genuinely feel they got what they wanted, in the broadest sense. And that's going to be one of the best... This idea about persisting into the future. Sustainable. You mentioned sustainable earlier. They're going to like more than the product they got today, it's about that interaction and what all they get when you give them the service or product because you've met a broader range of need.

0:57:22 DC: It's about taking the supply side intention and converting it into demand-side response, that's what effectiveness is all about.

0:57:30 KL: Bingo.

[music]

0:57:32 KL: Be effective in your environment. Dr. Chandler's emphasis on positive values and sustainability brings to mind Gregory Balestrero who was featured in PM Point of View episode # 9, “Corporate Sustainability: Beyond Profitability, Moving To Prosperity.” We need to do more than just measure profit versus loss. More than simply looking at output, we need to measure the outcomes as indicated by uptake, adoption and use and beyond that, if possible, impact.

0:58:00 KL: And we've heard from Mike Hannan before, to trust your teams and allowing them to set goals that actually work. Dr. Chandler has pulled so much of this together. Now, as PMs we can't necessarily control all these parameters. We might try to influence the leadership to readjust the metrics and goals, and the process of goal setting to reflect a more meaningful relationship to the customer environment. But even still I challenge all of us to think through the causal chain to the external expected outcomes. So that we design outputs that reflect the necessary qualities that suit the customer that drives uptake, adoption or use. Special thanks to Dr. Charles Chandler for all his contributions to this topic.

0:58:40 KL: To learn more about becoming great go to ageofoe.com. A-G-E-O-F-O-E dot com. There you can find his podcast Age of Organizational Effectiveness. It's also available on iTunes or wherever you get your podcasts. And I highly recommend his book, <u>Become Truly Great: Serve the Common Good through Management by Positive Organizational Effectiveness</u>. You can find it on Amazon and it's now available as an audio book. The best way to get in touch with Dr. Chandler is on LinkedIn. Look for Charles G. Chandler, PhD.

0:59:13 Announcer: Our theme music was composed by Molly Flannery, used with permission. Additional, original music by Gary Feldman, Rich Green Black, Lionel Lyles and Hiroaki Honshuku. Post-production performed at M Powered Strategies.

0:59:27 KL: PMPs who've listened to this complete podcast may submit a PDU claim, one PDU, in the talent triangle, 'Strategic', with the Project Management Institute's CCR system. Use provider code 4634 and the title PMPOV0057 Organizational Effectiveness. Or you can use the PDU claim code 4634M2DQT8. Visit our Facebook page, PM Point of View, to comment and to listen to more episodes. There you will also find links to the transcripts of all of our one-hour productions. You can also leave a comment on the projectmanagement.com portal, evaluate us on iTunes, and of course, you may contact me directly on LinkedIn. I'm your host, Kendall Lott, and until next time, keep it in scope and get it done.

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