

Chapter 2

HIDDEN ASSETS

Have you ever wondered how things actually get accomplished in most organizations *despite* all the obstacles continuously encountered by the people who perform the day-to-day activities? I'm sure you have unless, of course, you are one of those rare individuals who is independently wealthy and who has never worked for someone else their entire life. Unsurprisingly, all of us also have our own individual theories why businesses survive in spite of the seemingly unworkable systems and processes they frequently employ.

Just in case you may have, for a moment, forgotten what those obstacles are let me list just a few of the most common ones in order to make sure we're all on the same page. I seriously doubt that anyone has failed to encounter at least some of the following problems:

- Unclear goals and objectives
- Ambiguous or unexplained policies and procedures
- Unrealistic deadlines and budgets
- Pressure to do more with less
- Lack of cooperation and teamwork
- Poor and uninspiring leadership
- Lack of open communications and trust

Can you imagine what the net gains would be in wealth, creativity and social responsibility that could be realized by enterprises that discovered how to leverage the hidden but powerful attributes that allow firms to make a profit in spite of the barriers mentioned above? I suggest that the possibilities are boundless. Also, mergers and change initiatives in general would be much more successful than studies show today.

At present we are firmly immersed in a knowledge economy. Hence, harnessing the talents, skills and commitment of knowledge workers (now

more than a third of the US workforce¹) is the most fundamental challenge for business of our time. Just imagine the additional wealth that could be generated if the creative abilities of the rest of the workforce were also unleashed. Regrettably, however, most corporations (consciously or unknowingly) still insist on using the industrial model developed and refined during the past three centuries.

Certainly, businesses have become less bureaucratic in the last few decades. However, the efforts made to “empower” individuals and teams at all levels of organizations, to say the least, has been dismal. By and large, most members of firms remain disenfranchised. Thus, unsurprisingly, workers (especially knowledge workers) feel alienated from their organizations thereby causing their efforts to be limited by distrust and cynicism.

Central to the problem is the lack of models other than the standard prototypes for command-and-control systems. Unfortunately, the generation of knowledge is particularly dependent on voluntary collaboration and self-determination, foreign to the Industrial Age management mind-set. Consequently, companies still have no *comprehensive* working models to follow for implementing “truly democratic” or self-organizing systems (not to be confused with the assortment of “flat” hierarchies currently being promoted) needed to increase the productivity and commitment of knowledge professionals or, for that matter, workers in general.

I believe I have developed precisely such a fundamental template. As a result, in *Hidden Assets* my focus is on informal or emergent social networks where, ironically, most of the work in organizations is accomplished in the first place. These invisible self-organizing systems are present in all social entities. For that reason, I’ve designed an all-inclusive framework that includes an array of integrated models showing how to “support” (as opposed to manage) these informal networks so that they will voluntarily unleash their tremendous energy and creativity in support of the formal goals and objectives of an enterprise.

Further, information technology and its by-product, the virtual organization, are indispensable tools for success in today’s information rich and rapidly changing environment. They provide the means for instant exchange of explicit knowledge around the world. However, these tools alone are of limited value for supporting the development of social capital and “quarrying” the tacit or undiscovered knowledge residing within every individual and informal group of an enterprise.

Accordingly, organizations and individuals that want to prosper in the Knowledge Age must soon realize that commitment (as opposed to compliance) and the sharing of ideas are dependent on the extraordinarily delicate *balanced interface* between the invisible dynamics of human nature

enhanced by the appropriate use of information technology. Understanding how living systems function in response to their immediate environments will allow organizations to “mine” and leverage the hidden wealth that has been ignored for so long.

1. MISSING THE MOTHER LODGE

My principal center of attention is on demonstrating the remarkably close mutually supporting relationships between what I consider to be the three most decisive organizational success factors—*informal self-organizing networks, social capital, and tacit knowledge*. These emergent processes, instead of people strictly complying with official policies and directives, are the foundation for most work performed in our institutions. I estimate that the triad of unseen success factors is responsible for roughly two thirds of the effectiveness of any venture. Regrettably, these powerful invisible forces are not even partially tapped by most of our organizations.² Thus, they consistently keep missing “the mother lode.”

For example, researchers have studied the concept of organizational “absorptive capability” (ACAP) for over a decade now.³ ACAP is defined “as a set of organizational routines and processes by which firms acquire, assimilate, transform, and exploit knowledge to produce a dynamic organizational capability.”⁴ *Social integration methods* are a key component of ACAP yet, to my knowledge, no serious effort has been made to demonstrate to what extent self-organization, social capital, and tacit knowledge impact the process.

Figure 2-1 depicts “the gap” between the visible organizational components and recognized motivational schemes. In effect, ignoring or not knowing how to *leverage* (as opposed to control or manage) the three interdependent emergent forces creates a “choke point” hindering the possibility of attaining full benefits from the modifications made in the other two elements. That is precisely why most mergers and organizational change efforts fail to produce the desired outcomes in the long run. This will become progressively clearer with each succeeding chapter.

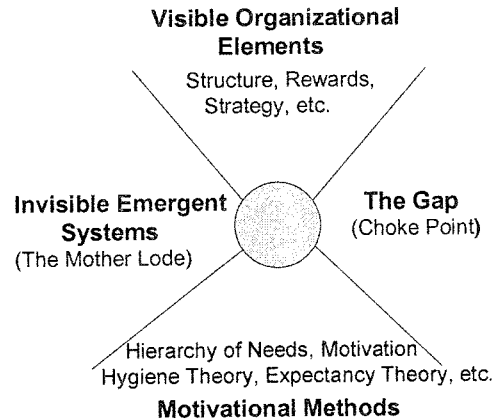


Figure 2-1. Filling the Gap

What we continue to overlook is that humans (and all other living entities) have evolved to function quite well independently without superimposed structures and motivational systems. If that was not true our kind could not have survived as a species as long as we have. Thus, it is high time that we also begin to grasp and leverage the innate powers of human nature in our organizations instead of continuing to almost exclusively rely on top down control processes which at best generate compliance rather than commitment. It's a costly neglect.

What is also not commonly known is that the dynamics of invisible emergent systems represents most of the human potential of any social entity. As a result, because the triad of organizational success factors is an imperceptible resource that can't be tracked in the traditional sense (it isn't included in any official financial statements) it remains largely untapped. Hence, it's not surprising that studies continue to validate that about 80 percent of all mergers fail to create the expected benefits anticipated⁵, that most change efforts fall short of their targets; that some individuals can

perform at 20 to 30 percent of their ability without losing their jobs; and that the average employee works only at two-thirds of his or her capacity.⁶

That is a tremendous waste of human energy and novel ideas. Therefore, in the chapters that follow, I provide the most comprehensive and practical framework to date for the development of “smart” organizations that can benefit from the invisible power and knowledge embedded within every enterprise. More than 70 years ago we “formally” identified the existence of emergent systems in our social institutions. It’s now high time that we put that knowledge to practical use.

The most productive applications of my theoretical framework apply to organizations primarily dependent on new innovative products and services. The general principles, however, are applicable to any social system. Nevertheless, new possibilities require new ways of thinking. Unfortunately, old mind sets and philosophies persist long after they are productive. New ways of thinking don’t just happen; they require new models which have to be learned and applied by visionary first adopters who, of course, also reap the highest returns in the long run.

My aim is to help people grasp the importance of understanding and applying the fundamental survival principles of living entities that can’t be circumvented no matter how we try. Rather than attempting to dodge these unmanageable dynamics that are part of every social entity or push them underground, we need to learn how to cultivate them openly. That’s the only way we can realistically quarry the invisible wealth of organizations. *More notably, self-organization, social capital, and tacit knowledge is not just about running private and public organizations but it is also about the very foundation of life itself.*

2. THE TRIAD

Fundamentally, what I have done is to pinpoint and show the *dynamic relationships* of three primary factors that are the foundation of informal systems present in all social groups including businesses. As suggested before, these *interdependent* factors are:

- Self-organization
- Social capital
- Tacit knowledge

Each of these factors has been separately written about previously, but no one has shown the synergistic power that can emanate from the balanced interplay of the forces within this triad.

For example, multidisciplinary research has confirmed that all biological organisms, including humans, function in a self-organizing mode internally and externally. That is, our bodies, down to individual cells and DNA molecules, work together in order to sustain us, but there is no central “boss” to control this dynamic activity. Our relationships with other individuals also progress through the same circular free flowing process as we search for outcomes that are best for our well-being. Under the right conditions these social exchanges can be extraordinarily altruistic. Conversely, they can also be quite self-centered and even violent. It all depends on the immediate environment and the people involved.

Further, within a company the self-organizing process leads to the development of social capital or the goodwill available to individuals and groups. Social capital is generated and maintained by the voluntary structures and the contents of peoples’ relationships. Its effects flow from the information, influence, and solidarity it makes available to the informal network participants. High levels of social capital make it possible for an organization to accomplish extraordinary feats without the need to acquire added resources.

Finally, tacit knowledge, the wellspring of all new knowledge, is something we all possess (otherwise we couldn’t survive for a day), but we really can’t delineate explicitly until we are faced with a specific problem or opportunity. Hence, when a person or group is confronted with an unusual event, tacit knowledge begins to emerge serendipitously resulting in the development of a fitting response (explicit knowledge) to the episode. Clearly, tacit knowledge can’t be managed or forced out of people since it’s a constantly evolving ephemeral domain. Thus, its emergence can be best supported by voluntary cooperation.

3. THE CATALYSTS

The catalysts for the interactive events among the triad of organizational success factors in my proposed system are the genetic- and experience-based elements encompassing human nature. Few people to date have “dared” to factor in genetics when developing models for organizational change and renewal. The reasons for that reluctance are clear-cut. The deep-seated characteristics of genes affecting human behavior were not well understood at the turn of the last century. As a result, false deterministic evolutionary concepts like Social Darwinism and Eugenics were espoused and eventually taken to the extreme by the Nazis.

Fortunately recent research in molecular biology, neurology, and the Human Genome Project are helping to eradicate past and present

evolutionary fabrications. Thus, at least in the scientific community, it's now widely accepted that our genes do *influence* behavior but that these influences hardly equate to genetic determinism. In essence, I've taken the fundamentals of human nature to the next level by suggesting how to make practical use of its building blocks in our social systems.

For instance, the knowledge of certain basic features of our genetic tendencies can help us develop organizational contexts that *openly* support emergent systems instead of pushing the continuously evolving informal networks underground. Such an accommodating framework will allow the power and synergy of the triad to be fully accessed. Accordingly, with the aid of an array of original interrelated models, I demonstrate how such an organizational context, I call a *shared-access system*, can be developed. As expected, the core of a shared-access system is comprised of the voluntarily unleashed energy of the triad or "hidden assets."

What I developed is not a prescriptive system where one size fits all because that's an impossible task when dealing with diverse groups of people. Every organization is unique in its make-up and operation. Rather, what I have created is a broad integrated framework founded on the latest research from multiple scientific fields. The principles I have delineated and integrated are grounded in common sense (which, unfortunately, is seldom very common) and practicality. Although I don't ignore information technology (IT) and its importance, my focus is primarily on self-organizing processes governed by *unmanagement* that must be well cultivated and appropriately supported before IT can be put to effective use.

4. FUNDAMENTAL CONSIDERATIONS

Four fundamental issues need to be kept in mind in our quest for increased commitment, creativity, innovation, and productivity in our organizations based on the principles of unmanagement. I'll explain these factors in more detail in the chapters that follow. First, we must realize that knowledge is classified into two categories: explicit and tacit.⁷ You may want to refer to Figure 7-2 for a graphic representation of the dynamic interrelationships between the two types of knowledge.

Explicit knowledge is any information that has been formally defined and codified. Thus, it is usually gained through sources such as formal education, training, books, and the Internet. *Explicit knowledge is a static resource.* That is to say, it does not contain the capacity to renew itself. An outside entity needs to keep it current.

Tacit knowledge, on the other hand, encompasses ideas and abstractions at the individual level. It's acquired by life experiences and by interacting or

working with more experienced people. There is also a physiological reason why tacit knowledge differs from explicit knowledge. Very simply, "...different brain systems are involved in implicit forms of memory, on the one hand, and conscious/explicit/declarative memory, on the other."⁸ I'll discuss this more in Chapter Six.

Unrelated or unexpressed knowledge comes to the fore serendipitously as individuals or small groups confront new or unanticipated situations. Consequently, *tacit knowledge is a dynamic resource*. Hence, although relatively stable, implicit knowledge continues to be shaped by our continuous interactions with our immediate surroundings and other people. Most importantly, unconnected know-how is the wellspring for all new knowledge.

Clearly, there is a circular cause-and-effect relationship between the two categories of knowledge. Explicit knowledge (a specific event or a newly published theory) triggers fresh ideas (tacit knowledge), which then leads to the development of more codified information that can be applied productively. Thus, implicit knowledge must first be made explicit before it can be put to practical use.

It's important to remember that tacit knowledge must be allowed to *emerge* through voluntary collaboration or self-organization. It can't be forced or managed out of individuals since people seldom are aware of exactly what unrelated knowledge they possess until confronted with a problem or an opportunity where they perceive themselves to be a key participant.

Therefore, in order for tacit knowledge to be able to properly emerge, people must first be surrounded by a supportive environment. Threats, for example, create negative emotions that, by necessity, narrow thought patterns.⁹ People threatened by the loss of their jobs, a bullying boss, not knowing what their status is from day-to-day and so on innately narrows their thought patterns to avoid or eliminate these negative emotions first. As a result, such individuals unconsciously devote little or no time to engage their minds more expansively and resourcefully in search of new ideas.

This leads us to the second essential issue for enhancing productivity and knowledge generation—human nature. Without thoroughly understanding who we are as biological systems there is little hope of developing a well functioning learning organization. Unfortunately, for roughly the past century, our focus has been almost exclusively on the purely psychological aspects of human nature. That is, we have been primarily concerned with how the environment molds our neurological framework as if our brains are a blank slate when we are born. Hence, we have almost completely ignored, until very recently, the biological or genetically transmitted side of our mental response systems.

The latest scientific evidence shows quite convincingly that it is a fifty-fifty proposition between our genes and the environment in forming our personalities and modes of behavior. Therefore, we are not born with a blank slate for a mind to be completely shaped by our surroundings, but rather we come equipped with certain predisposed tendencies, which are expressed or not expressed (also strengthened or atrophied by constant employment or non-use) depending on our immediate environmental context. Clearly, our experiences have an affect on our behavioral tendencies but so do our genes. What must be thoroughly understood is that the most recent research does not support the notion of genetic determinism. Rather, it suggests that our behavior is *genetically influenced* and that we do have free will.¹⁰

If we use a multi-story building as an example of our neurological system, then we have until very recently concentrated almost our entire focus on the middle floors to the penthouse. It is now time that we pay attention to the entire building from the basement up in designing and running our organized efforts. James Watson, President of Cold Spring Harbor Laboratory, has made it quite clear where we are headed genetically as far as psychology is concerned. According Watson:

The next century will bring together biology and psychology. In the past, I never wanted to learn psychology because I didn't think its proponents had a solid basis for what they claimed. Now we're going to begin to understand behavior from a genetic perspective.¹¹

In essence, we should begin to appreciate the significance of the invisible guiding hand (self-organization) in our day-to-day activities and interactions.

Fundamentally, we are born with two basic categories of innate drives (genetic predispositions that are considerably less reactive than pure instincts), a set of *self-centered drives* (e.g., concern for control, rank, status, territory, possessions) and a set of *other-centered drives* (e.g., concern for attachments, affiliation, altruism, care-giving, care-receiving). Humans function best in an environment where they are able to express both categories of drives in a balanced manner.¹² That will be clarified in Chapters Three and Five.

Unsuspectingly, most of today's organizations, with their prevailing top-down management systems, are mainly impacting their people's self-centered drives as they seek out their best discernible *individual* survival alternatives. Simultaneously, their leaders are asking these individuals to be good team players and deeply committed to the goals of the enterprise. Obviously, this is not an effective way to run knowledge based institutions where the development of social capital and the exchange of tacit knowledge is the key to success and, therefore, the other-centered drives also need to have an opportunity to be expressed.

We are born with the capacity to anticipate and to respond to changes in our immediate environment in addition to learning from our experiences. So, whether we like to admit it or not all activities and interactions between people are governed by the principles of self-organization. Therefore, we need to learn what some of the essential principles of self-organization and human nature are in order to draw on this powerful but invisible resource present in all our social institutions.

At this juncture you may want to take a moment to reflect on your own experiences in relation to the invisible triad of organizational success factors alluded to above by beginning to search for answers to the following questions: “How often have you accomplished something noteworthy and creative that made a very positive impact in your place of work by strictly following official policies and procedures?” “Why did you ‘voluntarily’ seek the counsel or aid of certain individuals/groups and not of others while working on a memorable project?” “What were some of the creative and innovative ideas that ‘emerged’ in your collaborative efforts?”

The third critical factor in developing knowledge-intensive enterprises is size. There is now ample evidence that human beings are physiologically incapable of developing and maintaining mutually beneficial *voluntary* collaborative relationships within groups larger than 150 people.¹³ In larger collectives, relationships become fragmented, ties of common interest cannot be properly sustained, and hierarchical structures begin to creep in.

Consequently, from a human nature perspective, small size is absolutely essential for the development of positive environmental contexts where informal groups and networks can flourish *openly*. What this also implies is that *capitalism without a strong sense of community ultimately can lead to unrestrained greed* as exemplified by the Enrons and WorldComs. Humans are not fundamentally “noble savages” nor are they uncompromisingly self-indulgent. We are capable of both extremes given the appropriate surroundings. By no means, however, do I mean to imply that large institutions can’t benefit from the dynamics of small groups. I will expand on this point later in the book.

Finally, what we also need to set aside are the two persistent myths about pecking orders or organizational chains of command. Hierarchies are necessary in certain situations but they are not appropriate for all social endeavors. The problem with a hierarchy is that it is founded on two false assertions that also serve as the foundation for its advocacy. The first premise suggests that hierarchies are an unavoidable phenomenon among humans. This argument is true only if we prefer to rely primarily on the most primitive drives of the lowest level of our three-tiered brain—the reptilian complex that evolved almost 500 million years ago.¹⁴ If we believe that humans are more intelligent than reptiles, it would make more sense (at least

occasionally) to rely on our characteristically human social side, especially with respect to creativity and innovation.

The second contention supporting the hierarchical model is grounded in the belief that social organizations should be structured in accordance with a mechanistic or machine metaphor. That is, organizations should be developed and run like well-oiled machines. Engineers and economists initiated this philosophy during the Industrial Revolution. The problem with this premise is that it confuses control with order. People are not machines by any stretch of the imagination. Machines need to have external control mechanisms. People naturally self-organize around any situation or opportunity, thus establishing situation-specific order.

What are the implications of what we have covered so far? The four fundamental issues outlined above suggest that the Knowledge Age demands that we understand what drives us and learn not to waste time and money trying to circumvent human nature. By understanding our inherent genetic predispositions and how the environment affects them, we can begin to leverage the tremendous power that resides in the invisible parts of every organization. Without recognizing the vitality of the hidden social dynamics, organizations will continue to curb their capabilities in the years to come. *We need to recognize that life by and large is good when one pursues things that are good for life in general.*

Hidden Assets

Harnessing the Power of Informal Networks

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