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What kind of company do you want to be?

It's your choice!

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There is a lot of literature in business administration that aims to characterize the different forms of conducting a business and expresses different principles, techniques and tools of management. They describe what you have to do to come to a well-organized company, with a good structure and management.

But maybe, one element that is hardly mentioned in literature, is related to the question:

What makes a company choose its way of administration and what sustains this over time?

In this article I want to weave some reflections on this.

I have been observing during many years the way organizations act as an administration and on what steering convictions this is based upon. I see two different types of administration that are based on two fundamental different steering convictions. They are convictions that determine the way of being of the organisation and the manner it is conducted. Their origin can be found in the way the company was conceived and run by its founders, successors and managers that left their imprint out of their own way of thinking, beliefs, principles and values they carried. These installed themselves in the organisation, becoming part of the 'personality' and they perpetuate to the extent that they are not brought into consciousness, that they are not questioned and therefore not changed.

Observing the organisations, we can identify and recognize at least two types that have fundamentally different steering convictions. I will try to characterize these two types of administration that might even be dominant archetypes throughout the world.

The **first type of administration** (I will call this type A) is the company that seems to be governed by the following convictions:

- The company is a means to generate profit and increase capital (share value);

- Its aim and reason to exist is maximize results and create shareholder value;
- The client has to be brought to be loyal or even to become dependent;
- Labour is a cost and has to be treated by the principle of ‘cost-benefit’;
- Who and whatever is not generating results, has to be exchanged or eliminated;
- Training has to be effective and show results in short and mid-term;
- To increase results people should be charged on targets and ‘delivery’;
- Pressure and reward are necessary means to guarantee results;
- The leader has to know how to do this.

We can find this type of administration in many companies with open capital. The reason is simple. The investors on the stock market are shareholders in one or generally more companies, with whom they do not have a personal relation. What is decisive for continuing to be shareholder is the valuation of perspective of capital gains: dividend and increase of value of shares on the stock market. They take their decisions based on these criteria and shares are sold and bought out of this way of thinking. The supervisory board of these companies find themselves obliged to meet these expectations of the shareholders, and, as a consequence, they determine for the CEO strategies that best attend to the wishes of the shareholders. The CEO then exercises his leadership in the organization with the sole orientation to shareholder value and profit. In order to make this even more effective, the CEO receives a substantial bonus, directly related to results and increase in share value. The CEO then repeats this bonus system further in the company for the managers. This leads to the tendency that all professionals are driven to dedicate themselves more because of the benefits they can receive, than for instance to what is best for the client.

There are many examples of this type of dynamics. Many companies are extremely successful and grow very fast into an international giant. Because of their success they are seen as examples of efficient management to be followed. This is also why many companies with closed capital in the end adopt similar practices.¹

The **second type of administration** (which I will call type B) is a company that seems to be governed by the following convictions:

- Profit is the necessary condition for longevity and development;
- A company exists in order to realize its impulse;
- Its goal is continuity and sustainability;
- It contributes to attend to needs of clients and society;
- Establishes a ‘win-win’ relation with the client;
- Co-workers are indispensable partners to achieve goals;
- People form a community of work and cooperation;
- People like to take responsibility and to be challenged in their work;
- They motivate themselves when identifying with the impulse, client and community;
- External motivation (award and punishment) does not sustain on the long run;
- Good leaders foster responsibility, autonomy and self-control.

1. This characterization of a type A company is an extreme polarity. May be a good example of it we can see in Ambev. However, a search for a different form of management can also be noticed in many companies with open capital. Examples: Shell in the times when it was directed by Arie de Geus, the Banco Real in Brazil (later ABN- Amro) some ten years ago under the leadership of Fábio Barbosa, Unilever under its CEO Paul Polman, Natura of Guilherme Leal, which became an open capital company recently. The movement of “B – Companies” is another example of trying to come to a positive impact to all stakeholders of a company.

The main challenge for this type of company is to reconcile “excellent results” with “humane management”. This calls for a high degree of coherence: what is being said has to be constantly present in the action. The danger is that the company turns itself permissive, with low efficiency, postponing decisions and interventions. The need for results is equally necessary as in the companies type A. However, this is reached through the effective participation of people, so that these turn themselves into the protagonist of efficiency and efficacy. This needs a different type of leadership, which we call horizontal leadership.

Horizontal Leadership can be known by ‘its fruits’. One of the fruits is that people connect themselves with the mission and vision of the company, align themselves with goals and targets, take on responsibility for their part in the process, take initiatives of continuous improvements, act with autonomy. The model with the UGBs (autonomous teams) forms an ideal complementarity with Horizontal Leadership. This model creates forms and procedures for teams in the frontline, in which the co-workers, in an autonomous way, take care of the production process and its improvements with focus on the client.

The administration characterized as type B is not less efficient than one of type A. On the contrary: it has the potential to be more efficient, because it creates and maintains a community of co-workers who experience the sense of the work, have a relation or direct consciousness of the client and take on personal responsibility because they identify themselves with what the company strives after. This effectiveness can be illustrated when you compare the performance of the “caring companies” (type B) with the companies that integrate the index of S&P 500 and the companies “good to great” (type A), between 1996 and 2011. Whilst the companies type B showed a total ROI of 646,1%, the companies (type A) a total ROI of respectively 157% (SPS500) and 177,5% (Companies Good to Great).

² 500 biggest companies in the United States of America.

The image of the orchestra



An administration of an organization can be compared with the way an orchestra functions: there is a maestro, each musician has an instrument and a score, all begin and finish together, each one acts as an individual, but in perfect harmony and tune with the others. The result is a common result. All are conscious of the audience that is critical and is there to hear a beautiful performance.

The orchestra has two spaces: one vertical – the other horizontal.

The vertical consists in having a score in which each one executes his/her part; it consists in having a conductor who takes care of the process, of the whole and the flow of the music; it is the space in which each does the correct thing to do.

The horizontal consists in the dialogue that the conductor has with the musicians during the rehearsals; in the spaces where each one puts his soul in what he plays; in the open listening to the others that leads to a

perfect fit of the music; in the interaction with the audience that applauds and wants an ‘encore’; it is the space in which each one does the good thing to do.

The administration of an organization, a company also has these two spaces.

The vertical in order to make sure that each one does the correct thing that has to be done. These are the work processes agreed upon, the function and responsibility, the policies and internal procedures, the systems that support the processes and the routines, the corrections in the course to be followed, the interventions.

The horizontal space exists in order to make sure that each one does the good thing to be done. This appears in the dialogue with the client, in the connection with the impulse, in involving the co-workers who connect themselves with the biography of the organization, in the sense giving of their work, in the way in which responsibility is taken up in the greater context, in the contribution to the definition of processes and policies, in the constant learning.

In short, this can be represented in the following two columns:

Vertical Space	Horizontal Space
<ul style="list-style-type: none"> ● Authority, governance ● Structure of responsibility ● Rules to be followed ● Planning, budget ● Defined processes ● Clear targets and control ● Indicators ● Responsibility and accountability ● Discipline of routines 	<ul style="list-style-type: none"> ● Connection with impulse and client ● Dialogue and involvement ● Self-Responsibility ● Space to contribute to set <ul style="list-style-type: none"> ○ Rules, planning, ○ Processes, goals, etc. ● Be in the game and take initiatives

<ul style="list-style-type: none">• Systems• Intervention, Consequences	<ul style="list-style-type: none">• Self – control• Cooperation• Team work to results• Continuous learning
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Horizontal leadership does not dispense the vertical space, but makes it more integrated and humane as it aims at development and empowerment of the people in the organizations.

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