

## The 4th Edition - Less Hierarchical Organizations

October 2020

### SUMMARY REPORT

*The notion of 'less hierarchical' organisation as well as the idea of self-management (flat management) is not a new concept. The Covid crisis is accelerating all these trends and forced companies to opt for shorter decision-making lines. The interest in this type of decentralised authority and more empowered employees seems indeed to gain importance with the Covid crisis. These current trends also echoes the demand for autonomy and personal fulfilment from the new generations. ecoDa therefore decided to devote its 4th edition of the Corporate Governance Dialogue to this subject from a Corporate Governance perspective. The Dialogue engaged different experts, members of ecoDa, corporate associates or affiliated members and was based on two case studies from Mercuri Urval and Decathlon.*

#### Less Hierarchical Organizations: General Considerations

Several notions are referring to this specific management style, such as 'flat organizations', or 'liberated companies', but all these terms do not benefit from a unique definition and interpretation. Pioneers practitioners like Jean-François Zobrist (former CEO of FAVI) or influential living management thinkers (Isaac Getz, Frédéric Laloux) favored the emergence of these concepts in continental Europe<sup>1</sup>. Most of the time, the desire to change a company's managerial style is driven by an ideology or a personal conviction of an individual, while the initiatives found in the UK were rooted in quite different circumstances. Indeed, as early as 1950, the implementation of autonomous and self-steering teams has been witnessed, abandoning the classical control-command structure for less management layers.

Since many years, companies have adopted different models of self-management without this system having so far convinced a very large entrepreneurial community. In practice, many companies are struggling in implementing this idea of autonomous, empowered and self-steering teams. It is for example the case for Zappos and Morning Star, two often-cited and well- studied companies. While

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<sup>1</sup> Interesting readings in this respect are Getz Isaac – *Entreprise libérée* –2017 ; LALOUX Frédéric – *Reinventing Organisations* – Nelson Parker, 2014 and more recently, GUINET Eymeric – *Entreprise libérée : la « libération » à l'épreuve du profit et de la performance*, ESCP Business School, 2020

both companies tried to organize a less hierarchical and a more decentralised authority structure, the two faced many struggles in their transformation.

According to many practitioners, several reasons can explain the failure of some companies to settle a well-functioning model. First and foremost, the management often lacks a clear vision and understanding of 'self-steering'. The decision to start with self-steering teams is therefore not understood by the staff, and comes as an unpleasant surprise leading to a lack of support. Secondly, there may be some cases where the management does not guide its teams enough. The analysis of the cases and the literature on this subject shows that success requires (among others) a strong leadership at the board level and throughout the whole organization. Lastly, teams need to have a certain level of maturity to lead themselves. It should be understood that decentralized management and greater autonomy do not satisfy all employees. They must have the possibility of turning to a central organ to be guided and supported in their action. Strong leadership is needed to set the direction and to define how to work and high levels of trust and mutual accountability are crucial to the success of being a less hierarchical company.

## Lessons from the Mercuri Urval and Decathlon cases

The motivations for implementing a less hierarchical structure are varied. It may be a desire to rethink the entire business model of the organization in order to adapt to a changing profession (Mercuri Urval). It can also be a one-man ambition to strengthen some specific aspects of the existing corporate culture that could enable real change (Decathlon). The ambition may also be to regain control of the back office (CFOs, controllers) (Decathlon) or to create a real European entity (Mercuri Urval). In both cases, the objective was to cut the hierarchical levels, avoid silos, replace leaders with coaches and manage costs better. The whole process was based on a culture of empowerment in order to create more value for the customer or the consumer. Less hierarchical organizations require more autonomy but do not mean loss of control. On the contrary, they are based on performance criteria and highly predefined reward systems (Mercuri Urval). The transformation process takes time (5 years at Mercuri Urval, 2 years at Decathlon), even if it is important to give it a certain sense of urgency. Things might be changed and adapted under way, but the leitmotif must be *to honor the past and invent the future* (Decathlon). Throughout the journey, the role of the board is to ensure the speed is correct and that they have the right executive team.

The path is doubtlessly scattered with pitfalls. In order to save time, it is advisable to opt for an inclusive approach to convince more quickly the teams about the need for change. Setting up a less hierarchical structure also presupposes having the support of shareholders. This is all the more complex in family organizations where clarification between the roles of founder and current president is sometimes lacking. Transforming an organization is only possible if the company is ready to reinvent itself, if the founder has discharged his moral power and if the contributing family is united and put trust in the leadership.

## What type of leadership at board level?

Generally speaking, the role of boards of directors is becoming increasingly complex. They must align their strategy with an increasingly important role of control and compliance. In companies that are increasingly agile and that oscillate between more centralization and decentralization, the boards themselves are forced to reinvent their roles. The whole chain of command is called into question,

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and not just at the operational level. The paradigm of the agent conflict, which aimed to resolve the potential conflict between the manager and the dispersed shareholders, is changing. It is now more a question of resolving the conflict between majority shareholders and minority shareholders, especially in the new economy. While in Western world economies, boards still make decisions on behalf of the owners, there is a growing demand for taking into consideration a wider range of interests from relevant stakeholders.

Boards' duty of control is changing. Board members have a major role in defining corporate culture and internal behaviors. This mission is all the stronger in less hierarchical companies for which the corporate culture serves as a backbone. This corporate culture must be in line with the values displayed and the concrete actions taken in the field. It is important for board members to understand cultural metrics and to be alerted to what potentially can be dysfunctional and undermine the entire process of strategic implementation both internally and externally. In other words, board members have therefore to embrace strategy in a broader way and be closer to the management team.

Non-executive board members should find ways to bring operations closer to them.

In less hierarchical companies, the directors' duty of control has to be reinforced to prevent fraud cases. This is already true for groups with autonomously operating subsidiaries, especially in remote places.. In general, board members have to exercise proper oversight, to go for frequent external and internal audit, as well as implement continuous training for the whole organisation to raise awareness on the potential risks.

## Human resources: A strategic issue

The subject of human resources should no longer be the exclusive preserve of the CEO. Instead, the board should also deal with HR and Human Capital strategy. All types of companies have to hire the right people to face new risks and challenges. In companies that choose flat management or that see themselves more or less forced to operate by making their employees more independent, room should be left for failure. Confidence in employees, which does not completely remove all forms of control, must go hand in hand with the possibility of making mistakes and learning from mistakes. This is most certainly a learning point that directors must take from the start-ups' world.

This sensitivity to HR issues and potential dysfunctions that may contravene the corporate culture presupposes that board members have the right soft skills.

## Towards more agile boards

The agility of executive teams that can be found in less hierarchical organizations or in most companies in these times of Covid is also becoming a new way of working at board level. The agility of the board should be enhanced through an endorsement of the role of committees.

Without having any delegation of decision-making power, the committees become more professional and operate in more efficient and better-informed manner. They come closer to the operational to guide the strategic choices of the board without compromising the principle of collegiality. This phenomenon has undoubtedly accelerated with the Covid crisis where the committees have gained momentum and enriched boards' discussion with more detailed information.

## Preliminary Conclusions

To conclude, the slow but steady replacement of traditional top-down hierarchies with more decentralized structures impacts not only the way companies are operating but also corporate governance as a whole. The experience of less hierarchical companies only reinforces and highlights the trends that we are already seeing in all companies, namely the predominant role of boards of directors and the need for them to adopt a holistic approach. Boards should focus on the continuity of the business, be aware of extra financial risks, but they also should have a long-term vision beyond the business model of their company. Leading an organization (embedding a flat management or not) means for board members more interactions with a growing number of stakeholders and in the first place the employees. It also means having to deal with much more information. There is much more need for stronger boards than before, who have a more refined understanding of what is happening on the ground. The whole notion of the supervisory power of directors is evolving. Because, as we have observed in non-hierarchical companies, the need for central operators to define policies that underline risk oversight is huge.

The Dialogue let open the question on how to conciliate two paradigms from the regulatory perspective that is still much focus on hierarchical structure while new business models emerged.

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Interested to listen to our recording edition ?

<https://www.youtube.com/watch?v=a15arL7LcuY&t=1564s>

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