Understanding the world of a company

Just as the Eiffel Tower represents the world of Paris rather than just a steel structure, so companies have their own worlds, writes Dominik Heil

WHAT is a company? Most people will be surprised at the question of what a company is and will wonder why this question needs to be asked. After all, many of us are working for a company and we are dealing with companies on a daily basis. While this should make the phenomenon "company" familiar to us, the evidence suggests that our capability of running companies is rather dismal.

Some researchers have suggested that up to 90% of all formulated strategies never come to fruition and record that more than two thirds of all mergers and acquisitions of companies destroy rather than create value. There is a vibrant discussion of whether business education actually develops people in being good business leaders and the jury on this question is still out.

Successful business leaders are often shrouded in mystique and attributed with seemingly supernatural abilities. All this suggests that we are not only missing some knowledge about aspects of how companies work and what it takes to run them. It suggests that we fundamentally do not understand what a company is in the first instance.

A failure rate of up to 90% is about the same as one should expect when taking a sick dog to a car mechanic instead of to a veterinarian. Even though the car mechanic might have a success rate of 10% because in some instances the dog may just get better by itself, or the car mechanic has some intuitive knowledge that allows him to operate outside of the principles he has learned to apply as a car mechanic.

The question, "what is a company?" is a philosophical one or, more precisely, an ontological question. Ontology investigates the way entities are. In this case it asks: "What kind of an entity is a company?" The question about the very nature of a company should be at the foundation of strategic thinking and management education. Before we know the answer to the question "what is a company in its very nature?" we can neither properly understand how to handle such an entity, strategise or plan for it, nor do we know how to prepare and educate people for such a task.

There is a critical need for philosophical and ontological questioning in the field of business.

To get closer to answering the question of what a company actually is, it is useful to look at what we commonly consider a company to be. A scan through the management literature reveals that for most of the 20th century companies were taken as something that could be fully accounted for in quantitative terms. Companies were the kind of things that could be measured, structured, engineered and re-engineered.

This vocabulary shows that companies were regarded as a machine or inanimate physical object. Regarding companies as machines has also led to thinking of various entities that form part of a company, particularly humans (called employees), as just being a part of a machine. This led to disastrous consequences in the form of alienation and exploitation.

To overcome the notion of the company as a machine a wave of literature, particularly in the 1980s, looked at companies as organisms. There was talk of the "living company", the option of growing companies organically and numerous scholars explored organisational principles in nature to better understand companies.

Intuitively the latter seem to be closer to describing companies appropriately than mechanistic statements. However companies do not have a body in the biological sense and therefore to talk about a company as an organism is metaphorical rather than literal.

IN LAW a company is considered to be a "legal person", meaning something similar to a human being. Particularly in the 90s, companies were increasingly thought of in human terms. Books were published about the "learning organisation", "organisational knowledge and memory" and the "soul of the company".

Again these attempts seem to be closer to describing companies than the descriptions in mechanistic or biological terms; however a company is not the same as a human being.

Commonly we think that the three types of entities, physical objects, organisms and humans, cover all the entities that there are. It should therefore not come as a surprise that we think of companies in terms of those three entities. However, if a company is not one of them, these ways of understanding companies are merely metaphorical. They describe companies not as what they literally are, but only in terms of some of the qualities that companies possess. But what then are companies actually and literally?

To answer this question it is helpful to consult the philosophers. In the philosophical field of ontology, Martin Heidegger is arguably the most influential contributor in the 20th century. Besides physical objects, organisms and humans he highlights a fourth category of entities which he calls "works". The word "work" here is used in the same sense as when there is talk of "a work of art" or in the sense of the Latin word "opus". Examples of works are architecture, states, monuments, paintings, music and poetry.

Works also have a physical manifestation, but they are far more than just physical objects. Let us take the example of the Eiffel Tower in Paris as an example of a work.

One might contend that the Eiffel Tower is just a cleverly designed steel structure and therefore nothing but a physical object. That does not seem to capture what the Eiffel Tower really is though. The Eiffel Tower is a symbol of Paris. It is an integral part of the "world of Paris". The Eiffel Tower, among other works, sets up the world of Paris and it keeps this world of Paris in place. If one were to remove or significantly change the Eiffel Tower it would be as if the world of Paris would change or even come to an end. Tourists buy miniature models of the Eiffel Tower not just to remind them of the Eiffel Tower itself, but to remind them of the world of Paris in its entirety: the typical architecture, the streets, restaurants and cafes, an approach to life and many other characteristics and aspects of the world of Paris. To understand the Eiffel Tower exclusively in terms of its physical structure and as an object of good engineering does not give us any idea about the ability of the Eiffel Tower to set up and be an integral part of the world of Paris. On the other hand its structural stability and sheer size is critical to its ability to set up a world. If the tower were to collapse this would mean far more to people that just some metal structure collapsing. They would probably say that with this collapse a world came to and end.

What all works have in common is that they set up a world. The word "world" here is not be understood as planet earth but in the same sense as one talks about "the world of science", "the world of literature" or "the corporate world".

As Heidegger teaches us, humans are always in a world. We are either in the world of work or in the world of family or any other world. In each world there are specific things that are important and others that are unimportant; certain things are desirable and others are not.

In each world we have a certain identity that is specific to that world. In the world of work I might be a colleague or a boss. In the world of family I might be a parent or a child, but I am not a colleague or a boss. The world that we are in makes it obvious for us what matters and who we are in each situation.

Companies, like architecture, states, and monuments, are equally in their very nature works that sets up a world. To give an example the world that is set up by Woolworths is different to the world set up by Shoprite Checkers or the world set up by Spar. The world of BMW is different to the world of Jaguar or Daimler Chrysler.

We aspire to certain types of products because they put us into a world that we want to be in. In certain worlds we feel we can be who we are or who we want to be and in others we do not. We prefer to work in certain companies because the world of particular companies promises us a certain identity and understanding of ourselves that resonates with who we want to be. Many of us have experienced that in some superior companies even average performers become stars and in inferior companies star performers move towards mediocrity. This is so because the world that we are in makes us in many ways who we are and who we can be.

Because companies are works they always set up a world. There is no such thing as a company that does not set up a world. A company's world may be more or less attractive to us. Or it may contain more or less consistency and integrity. It may be more or less progressive. But each company always sets up a world.

Ultimately everything in a company contributes to setting up a world. The architecture, the way performance is assessed and rewarded, the structure of the organisation and the way people communicate are just a few of the many aspects that contribute to setting up a world. In a company with high levels of integrity all the aspects of the company would speak the same "language" and set up the same kind of world. For example the way performance is appraised and rewarded speaks the same language as the official vision statements and the way people communicate with each other.

To understand a company as anything other than a work sometimes leads to bizarre outcomes. We usually fail to see companies for what they are and regard companies as being sufficiently understood in terms of notions such as a microeconomic entity, a flow chart, a value chain or a set of financial indicators. A merger of two companies is significantly better understood by the notion of "two worlds coming together" or "two worlds are colliding" than by merely thinking of it as the fusion and re-engineering of two value chains. Research shows that mergers usually fail not because there is no potential in combining two value chains, but because two worlds are colliding, which is often referred to as a culture clash.

There are numerous examples of unsustainable marketing campaigns that attempt to superimpose an internal and external marketing campaign to make a seemingly meaningless company meaningful and attractive so that people are willing to contribute to it as employees and customers. This negates the fact that companies are already the kind of entity that sets up a world and that this world is ultimately more powerful than any superimposed image.

To understand a company as an object and to superimpose an image on the company and its products is rather like mistaking a bird for a fish and then doing strange exercises to teach the "fish" to fly. Life becomes a lot easier when we notice that we are dealing with a bird in the first instance and that teaching a bird to fly is really not that difficult.

For any marketing campaign to be successful it needs to be in harmony with the world of the company. Honest marketing is the communication of the world of the company and its products. It is significantly more effective and sustainable to view the creation of companies - the effort to set up an attractive world in the first instance - and the honest marketing of this world as two sides of the same coin.

WHERE does this leave traditional approaches to strategy? They do not become obsolete, but most of them move from being the centrepiece of strategy to highlighting certain aspects that need to be taken into account as a reality check.

Most current approaches to strategy build on the notion that companies are physical objects that can be neatly and sufficiently understood in quantitative terms. Since companies are works that can never be understood appropriately in quantitative terms, it should come as no surprise that current approaches to strategy have a failure rate of up to 90%.

But how should we then go about strategy? Once we understand that companies are works, the analytical side of strategy focuses on understanding the world that the company sets up and how the company sets up this world. This can no longer be primarily an exercise of quantitative analysis but largely depends on the honesty of those who are in the world of the company.

This honesty is similar to honestly sharing the experience of coming to a company for the first time. The impression of the entrance hall, the way one is treated at reception and the experience of the way people treat each other is not something that can be fully captured by some sophisticated measures; however it is possible to make honest statements about one's understanding of the world of this company.

The process of strategy formulation and implementation would be guided by the questions: "What is the kind of world that the company should set up?" and: "How do we have to create the company so that it would set up this kind of world?"

The answer to these questions can not be a set of mechanical conclusions from an analysis. The ability to appropriately respond to these questions is a function of high levels of honesty, integrity and creativity.

There will never be a perfect company, just as there is no such thing as a perfect painting or a perfect piece of music. There are however paintings that show a much higher level of mastery than others. Highly masterful and original works distinguish themselves by their ability to powerfully set up a world for those who attend to the work.

Similarly good companies powerfully set up an attractive world for all those who in some way participate in the company. An example of a company that has made considerable progress in this regard may be The Body Shop. It creates the world of social activism and environmental responsibility with a high degree of consistency. It uses natural products in many aspects of its operations and it contributes in many ways to the societies in which it operates. It equally attracts employees, customers and suppliers who are attracted by this kind of world. And all of this is achieved in a profitable and financially sustainable way.

Any managerial action should first and foremost be assessed by asking, "what kind of a world is this creating or reinforcing?" rather than merely looking at the immediate impact on the cost structure. To view companies as works does not reduce the importance of sound financial management, though it locates profitability as a necessary condition rather than by definition the focal purpose of a company.

To come back to our example of the Eiffel Tower, we might think of its structural stability in similar ways as the financial sustainability of a company. If the Eiffel Tower is structurally unstable it will collapse and it will loose its ability to be an integral part in setting up the world of Paris. In a similar way, if a company goes bankrupt it will not be able to set up a world either. Enron is no longer setting up a world that is attractive and people neither want to nor can participate in the world of Enron any longer. The financial collapse makes it decidedly unattractive to participate in the world of Enron.

When a company is financially sustainable and its profits are above average, this surely contributes to its ability to set up a credible and attractive world. Though, to understand a company merely in terms of its balance sheet and profit and loss account is as poor an understanding of the company as regarding the Eiffel Tower merely as a well engineered metal structure. To regard the Eiffel Tower merely as a metal structure is not wrong, since it obviously also has a metal structure, but it is only an impoverished understanding of what the Eiffel Tower truly is.

Profitability and financial sustainability therefore are not by definition the end all and be all for any company. However, they are a critical condition for any company to be able to successfully set up a world in the first instance.

What does all this mean for the task of the people who are mandated to run a company? It means that the task of running a company can never be a clinically clean job that can be accomplished by a mere "management by numbers". Just like for the task of a master painter, there are technical aspects to the task of business leadership. A painter can learn how to put the canvass onto a frame and certain techniques in painting. These techniques are insufficient to becoming a master painter. Paint-by-the-numbers does not produce art. While it is critical that business leaders understand the logistics, financial structure and the economic dynamics of the company, these capabilities alone do not make them masterful business leaders.

Creativity in setting up a world for people is at the centre of the leadership task. For this creativity to be relevant, business leaders need to understand the world of the company as active participants in this world and they need to understand how this world is set up by the company. They need to have a keen and well-informed sense of the world that the company could and should set up and work on ways to re-create the company in such a way that this new world actually happens. This is an ongoing task since companies are highly dynamic entities.

This also redefines the role of external consultants. While consultants are useful in giving technical advice, they can never actually lead a company, because leading a company requires an intimate understanding of the world of this company. Consultants cannot possibly offer leadership advice about a world that they are not a part of since the world of the company can never be fully captured by the slick analytical tools of business consultants. Their task would be better defined in a facilitation role of a process that permits company members to articulate the world they live in and the world they intend to create. This is something staff know infinitely more about than any external consultant.

However, for members of a company, the world of their company is mostly so obvious that it becomes transparent for them and does not explicitly show up for them any longer. They subsequently find it difficult to articulate the world they are in and to formulate a desired world. It is here that external facilitators can play a critical and valuable role in this process of guiding members of the organisation in articulating their current world and formulating a desired world.

To understand companies as works also suggests a rethinking of educational approaches to develop business leaders. The concept of business schools was first developed in the 1920s and was intended to train administrators to run industrial bureaucracies such as Ford Motor Corporation, which at the time was developed largely out of an understanding of the corporation as a machine. The resulting educational efforts predominantly focused on analytical and quantitative methodologies which were in perfect harmony with the then prevailing understanding of the nature of a company.

Many traces of this understanding are still left in the standard educational toolbox of the institutions of business education. Educating business leaders to create and attend to a company appropriate to its nature as a work cannot be limited to applying smart text-book formulas and two-by-two matrices to business issues. It means creating the sensitivities to understand the world they live in and to develop the type of creativity that allows them to develop attractive, sustainable and viable companies.

Understanding companies as works leaves a significantly broader responsibility in the hands of those who are tasked to run them. It also creates exciting possibilities for creativity in the way we create and run companies. As Andy Warhol noted, "Being good in business is the most fascinating kind of art."

Dominik Heil can be contacted at dominik@resofact.com.