UNDER NEW MANAGEMENT

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How Leading Organizations Are
Upending Business as Usual

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WRITE THE ORG CHART IN PENCIL

Constructing rigid hierarchies and enforcing them through a fixed structure may have worked in older industries like the railroad industry, but the nature of work today demands an organizational chart that can handle change. The best leaders write their organizational chart in pencil, allowing the best teams to form around problems and products, instead of drawing lines and boxes in ink.

Eden McCallum is a consulting firm with no consultants and no proprietary methodologies or tools. Founded in 2000, just as the dot-com bubble was bursting, Eden McCallum operates on a wholly different model than the big three (McKinsey, Boston Consulting Group, and Bain).

Traditionally, consulting firms have recruited freshly minted MBAs from elite universities across the globe. These junior consultants are then placed in an office and funneled into client projects that were acquired by the senior partners (who often go "missing in action" shortly after signing up the client). The junior

consultants put in grueling hours for several years before moving on to new career opportunities or (hopefully) making partner. Partners themselves spend less and less time on client projects as they move up the organizational chart and more and more time recruiting new clients.

Very few of these elements appear in Eden McCallum's organizational design, and that just might be its strongest competitive advantage.

Eden McCallum was founded by two partners, Liann Eden and Dena McCallum, both of whom were former consultants at McKinsey & Company.[1] They met in 1991 while each was studying for an MBA at INSEAD, but went their separate ways — Eden joined Unilever and moved to London and McCallum became a consultant at McKinsey in her hometown of Toronto. Just four years later, the two were reunited when they started working as consultants for McKinsey's London office. The two were separated again when McCallum joined Condé Nast as the director of strategy and planning. Shortly afterward, Eden also left McKinsey, this time owing to the birth of her first child — and the birth of the duo's new business.

Around the time that the dot-com bubble was reaching its peak, both Eden and McCallum had noticed a growing trend among consultants. Many of the people who left the world of consulting for executive positions found that they missed the culture of professional services, but they sure didn't miss the intense pressure that came with being a part of those firms. Others had jumped ship during the bubble to wade into the waters of entrepreneurship, but were washed ashore when the economy stopped raging.[2] In addition, as many of the former consultant class grew up in the ranks of the companies for which they had once consulted, the need for those organizations to retain the expense of a top-level consulting firm diminished. The companies still needed consul-

tants for certain projects, just not as often and not a small army of consultants.

"It was this coming together of clients who said: 'I really want a different way of working and engaging with strategy issues,'" Liann Eden explained. "And then a group of current and former consultants saying, 'I really want a different way of working, be- cause I have some issues with the traditional consulting firm.'"[3] Eden and McCallum knew there was potential for an alternative to consulting as usual.

That alternative took the form of a new kind of organizational chart — one built without organizational lines, boxes, or hierar- chy. Instead, it was built around the concept of a network and split the traditional consulting partner role into two roles: client de- velopment and project delivery. Eden McCallum, as a firm, was designed with a center core of traditional employees whom they called partners. But these partners weren't expected to work on projects: instead, they were responsible for developing and scoping work with clients and then partnering them with a team of con- sultants pulled from a network of independent contractors — the Eden McCallum talent pool.

When a new client signs on, Eden McCallum dives into its tal- ent pool and builds a team around the project. In the beginning, the company would bring the client a list of names of people it rec- ommended for the project, and the client would then choose who and how many people would be on the team.[4] Yet, as the company grew, they discovered that most clients preferred to have Eden McCallum make the people decisions and build the team. After all, it was Eden McCallum's partners who knew the talent pool the best. "We thought in the beginning," Eden recalled, "'Wouldn't it be great if you could pick your consultants?' We did that for a few years, but then as we got older clients actually turned around

and said, 'You know, I trust you guys. Just tell me who you think should do it and who that team should be.'"[5]

The talent pool itself is impressive. The firm is rigorous in its hiring process, bringing into the pool only one out of every ten applicants.[6] Eden McCallum now boasts over 500 core consultants, with another 1,000 in their network. A majority of them are refugees from top consultancies looking for intellectually engaging work with more choice and control in terms of what they take on. About half of its talent pool uses Eden McCallum as their main source of income, while the other half are happy to work on as little as one project per year. These consultants have individually defined their terms of engagement with the firm, deciding on what sectors to work in, when they'll work, and even their willingness to travel. All of the consultants' expertise and their preferences are entered into a database as search terms that partners can use as they build a team.

Since the world of an independent contractor can be a lonely one at times, Eden McCallum takes steps to ensure that its talent pool feels more like a team. The firm conducts knowledge-sharing and informational events for consultants where they meet each other and share experiences, as well as obtain industry and firm updates. Many of these trainings are run by the consultants themselves, both as a means of keeping home office operations lean but also as a way to stimulate knowledge exchange among the consultants. These trainings not only build a sense of connection but also reinforce the idea that Eden McCallum is making a long-term commitment, even if it's not a full-time one. "We'll have knowledge-sharing events, sometimes we'll have talks from people in industry about a particular topic, and then there's also simple social events," Liann Eden explained. "That's a large part of being in a relationship, not just a transaction. It's important to really get

to know them professionally, probably to a much greater extent than a traditional firm, at least in terms of what they're looking to get out of their career, and what projects and clients are going to really excite them."[7]

Combining interesting projects with a high-caliber talent pool has made for a strong performance by Eden McCallum. Founded in London, the company opened its first international office, in Amsterdam, in 2008. In 2015, it opened a new office in Zurich and is now planning to open an office in New York City. Although the firm started off contracting with smaller clients not traditionally pursued by the big firms, today its client list includes large companies such as Shell, InterContinental Hotels Group, and Asda Walmart.[8]

Eden McCallum is a consulting firm with no consultants and uses that to its competitive advantage. Its success can seem baffling, since it contradicts much of what we think we already know about organizational design — and in particular, the organizational chart.

Origins of Org Charts

Organizational charts are a fixture in the modern company. Even in small companies where everyone answers to the company founder, employees seem to instinctively draw out organizational charts, if only in their heads. The series of lines and boxes outlining who reports to whom is so commonplace that it's difficult to think of the org chart as a fairly recent invention. But that's exactly what it is — an invention — and exactly when it arrived — relatively recently.

The first organizational chart is dated around 1855.[9] Daniel Mc-

Callum (no affiliation with Eden McCallum), the superintendent of the New York and Erie Railway, began experimenting with a way to keep the 5,000 employees under his supervision informed and efficient. McCallum utilized the telegraph as a way to communicate information quickly and the organizational chart as a means for outlining who was responsible to whom.

McCallum's organizational chart, drawn by civil engineer George Holt Henshaw, looks very different from today's typical organizational chart. Instead, it looks a lot like a railroad map. More than a dozen lines spread out from a wheelhouse of senior managers, who occupy the bottom section of the diagram. Instead of top-down, the chains of command move outward and upward along the picture. These lines separate into branches and tributaries as the divisions get more complex. In the end, McCallum's chart outlined the entire scope of the railway's administrative duties and also the number and class of employees in each department. Combined with innovations in communication, it provided an efficient means by which information could travel throughout the New York and Erie Railway, and it is still considered a landmark innovation in management history.

In the early years, this innovation didn't spread very far beyond the railroad industry. A survey conducted in the 1920s showed that organizational charts seemed not to be in widespread use among ordinary businesses.[10] More than fifty years after its invention, the tool still hadn't scaled. However, by the organizational chart's 100th birthday, it could be found in almost every major company in America.

Organizational charts did exactly what they promised: they organized groups of people into clear and concise reporting relationships. Assuming that the nature of the work didn't change and that employees completed the same tasks every day, the org chart made

it possible to estimate how many employees were needed for daily tasks and how much supervision those employees needed. Personnel directors could assess the work needs of a department, write up a job description, and find someone to perform the specific bundle of tasks needed.

The Ever-Changing Org Chart

Assuming that the collective value of all of those tasks (all of the jobs in the company) was worth more to those outside the organization than the cost of performing them, the organizational chart ensured that the company stayed in business. As long as the nature of the work didn't change, the organizational chart didn't need changing. And for a long time it was possible to work one's entire career in an organization and climb the organizational chart without ever witnessing it change; at most, it might change only slightly. But eventually things did change. The very nature of work changed — from manual work to what Peter Drucker famously labeled "knowledge work." Knowledge work was much harder to predict and organize because the tasks and work effort required changed much more often than was the case with manual work.

As Roger Martin, former dean at the Rotman School of Management in Toronto, points out in an article for *Harvard Business Review,* the difficulty in prediction can actually make the organizational chart less efficient, not more so.[11] When the basic units of labor are jobs (a collection of repeatable tasks), planning the right number of people and where they should go on the organizational chart is easy. The flow of work is smooth, and the same tasks are repeated every day. But when the basic unit of labor is knowledge

work (research, discussions, and so on), planning the right number of people is much more difficult because the flow of work isn't smooth. Martin argues that this random kind of workload often creates excess capacity and even fuels the cycle of layoffs and rapid hiring that seem to follow from economic depressions and recoveries.

However, if the basic unit is the project instead of the job and people are reassigned to different roles and projects depending on needs, then excess capacity is reduced and overhead and fixed costs are lowered. Layoffs might even be avoided. "The key to breaking the binge-and-purge cycle in knowledge work is to use the project rather than the job as the organizing principle," Martin writes. "In this model, employees are seen not as tethered to certain specified functions but as flowing to projects where their capabilities are needed."[12]

It's worth pointing out that most consulting firms operate slightly more on a project basis than the industrial companies that birthed the organizational chart. However, they still struggle with capacity problems and getting the right number of people to the right job. Even consulting firms struggle with rewriting the organizational chart quickly enough. Eden McCallum, by essentially writing the organizational chart in pencil, erasing it, and rewriting it quickly, is able to take advantage of Martin's insight and doesn't have to worry about whether employees are working at full capacity. That difference in capacity is why Eden McCallum can offer a match at a lower cost. According to Roger Martin, when companies adopt a project-focus organizational design, they "can cut the numbers of knowledge workers they have on payroll because they can move the ones they have around. The result is less downtime and make-work."[13]

Clay Christensen, the theorist behind the concept of "disrup-

tive innovation," even labeled Eden McCallum as one of the companies disrupting management consulting.[14] It was Eden McCallum's fluid structure that allowed it to become such a disruptive force. With its network of independent consultants, instead of full-time, hierarchy-climbing employees, the firm keeps a low overhead and has relatively small fixed costs. In the early days, those low costs allowed the firm to work with smaller companies with smaller budgets.[15] In the beginning, the average project brought in about $75,000. As the firm's reputation grew, however, so did the size of the clients that pursued it. Today Eden McCallum's typical project budget is $250,000 to $400,000, with many projects going over $1.5 million.

Because of its smaller beginnings, the firm developed a reputation for providing Big Three–caliber consultants but at much lower prices to small and midsize firms. Shortly after the firm entered the Dutch market, an article in the Dutch financial newspaper *Financieele Dagblad* ran with the headline: "Eden McCallum Delivers Ex-McKinsey and Ex-BCG People at Half the Price."[16]

The Dutch newspaper's description of Eden McCallum's value proposition made its partners uncomfortable. In their minds, and in the minds of most of their long-term clients, it wasn't just that the fluid organizational structure provided a lean operation and a lower cost. By writing their organizational chart in pencil and then rewriting it as new projects came up, Eden McCallum had also found a way to provide a better-quality consulting experience — one that tapped into its high-level talent and drew out even higher-quality work than its consultants had produced when they were employed by the Big Three. "Every single project team is selected based on what's right for the project," Liann Eden explained. "They are also choosing to do each project — so we get 100 percent commitment."[17]

The Organizational Network

To understand the true value of this new way to write an organizational chart, we have to leave the executive boardrooms of high-level consulting and move to the world of Broadway. Specifically, we investigate the teams that bring a Broadway musical from idea to reality.

Every Broadway production is created and run by a senior leadership team with the same seats at the table, but who sits in those seats and how they got to them can tell us a lot about the best way to staff projects and design organizations. The senior leadership team of every show consists of about six roles — producer, director, composer, lyricist, librettist, and choreographer. Broadway as an industry, however, is a very small world. It is an amazingly dense and interconnected network, with different people often rotating to new roles as new shows are produced. As a result, the people in these roles sometimes find themselves working with total strangers but at other times find that their new team has several familiar faces. This constant churn caught the attention of two researchers, Brian Uzzi of Northwestern University and Jarrett Spiro of INSEAD.[18]

The duo was interested in discovering the right mix of connections for a team, and hence the right level of connectedness for Broadway as a whole. "It's well known that people in the industry form long-term partnerships with one another and these partnerships repeat themselves in different musicals," Uzzi explained. "What we were looking for is, how are these partnerships imbedded, so to speak, in a larger web of relationships that goes beyond just the team that someone worked with and into how that team was connected to other teams?"[19]

To answer this question, Uzzi and Spiro collected reports on every six-person leadership team from every Broadway show from 1945 to 1989.[20] They even included shows that were started but killed in preproduction. In the end, they built a database of 474 musicals and more than 2,000 individuals, from unknown choreographers to legendary composers such as Cole Porter and Andrew Lloyd Webber.

Using the database, the researchers could re-create the network of the Broadway industry spanning over four decades and calculate the levels of connectedness for any given year. They then analyzed the density of the network from year to year using a measurement they called a "small world Q," or simply "Q." Q measures the level of interconnectedness in a network on a scale from 1 to 5. A loose network with very few preexisting relationships and little familiarity between network members would have a Q score of 1, while the densest possible network, one in which everyone knows and has worked with everyone else, would have a Q score of 5.

Using the Q scores, they analyzed the success and failure of a given year on Broadway (judged by critical acclaim and financial success) and the extent to which networks affected Broadway's overall success. The result was astounding. The Q score — and hence the networks — had a tremendous effect on success, but it wasn't linear. As the Q score of a production year rose, so did that year's success rates, but it only rose so far before the success rates started dropping again. Instead of a straight line, Uzzi and Spiro got an inverted U, with the peak success rate hovering around 2.6 on the Q scale of 1 to 5.

What this meant was that a team of total strangers usually wasn't very successful, but neither was a team of strongly familiar colleagues. The best years on Broadway were marked by teams with a combination of somewhat close connections and new perspectives. "Broadway as an industry works best when things are

connected to each other but there is also enough space that the creative material can flow and go to different people at different times," Uzzi explained.[21] As teams with this combination tackle the challenges involved in producing a show, they benefit not only from the experiences and social norms of their known colleagues but also from the diverse perspectives and new ideas of newbies.

It's tempting to read the results of Uzzi and Spiro's study and assume that the key to success is merely to build project teams that combine old colleagues with newcomers. But the study isn't about the team — *it's about the network*. It's the network of Broadway that allows 2.6 teams to form, produce a show, and then disband into new teams. If you build a 2.6 team and force it to work together for a long time, it ceases to be a 2.6 team and moves toward becoming a 5 team. Instead, you need to focus on the overall network so that you can create the right-combination team around a project but you can also reassign its members quickly to new projects and new teams.

This is the problem with organizational charts that stay stale for too long. Besides capacity issues and overhead costs, organizational charts outline who is on what team, and that won't change until the organizational chart changes. By writing its organizational chart in pencil — by making a fluid network instead of a stale hierarchy — Eden McCallum can form new teams around projects and then reshuffle teams when the projects are over. "It's always a bit of a mixture," Liann Eden said, describing Eden McCallum's consulting teams. "There are consultants who have worked together before and some who are new."[22] By building a system of independent consultants, Eden McCallum has built a network that runs similarly to the best-performing production years on Broadway.

Eden McCallum isn't the only company to have done this, and they're not the first. In fact, many companies have structured

themselves in a way that allows them to hire full-time employees and still organize them around projects instead of around positions on an inflexible organizational chart.

The employees of SumAll, in addition to having totally transparent salaries, also have very fluid job assignments. Employees' positions in the organization depend on what they're working on at the time. The company organizes around projects instead of products. Founder Dane Atkinson and an appointed committee settle on the strategy and objectives for the year and then empower employees to start new projects so long as those projects are aligned with the strategy. "New products come complete from employee teams," said Atkinson.[23]

Teams build around those projects and self-elect a leader. Then they go to work on the project. When it's completed, or when an individual's contribution to the project is finished, the team then gets reshuffled. Sometimes teams make trades based on their skill needs. "There's a little bit of horse-trading going on between team leaders at times," Atkinson said. "The average person changes teams once or twice a year"— which is far more frequently than if SumAll had built the organizational chart around set products and kept people permanently assigned to their teams.

By creating this project-based format, SumAll has set up a structure similar to the social network of Broadway or the talent pool of Eden McCallum, but using full-time employees instead of independent contractors. As a result, the teams at SumAll are kept well balanced between folks who have worked together before and newbies with new perspectives. By abandoning the traditional organizational chart, SumAll has organized around a network that would probably score somewhere close to 2.6 on the small world Q scale. In other words, it would have a most beneficial score.

Eden McCallum and SumAll are perfect examples of the benefits of a project-based organizational chart, but again, they are

hardly the first ones to try it. One company has been writing its organizational chart in pencil since it was founded in 1958: W. L. Gore. The creator of GoreTex fabric as well as equally innovative products like Elixir Guitar Strings and Glide dental floss, Gore was founded around the idea that it could better tap into the innovation talents of its people if it created what founder Bill Gore called a "lattice, not a hierarchy," with every employee connected to every other employee. Just as at SumAll, Gore employees propose and volunteer for new projects and rotate around as projects change. As projects draw to a close, employees begin looking for the next place to jump in and help, thus keeping the network capable of refreshing the diversity of teams. Gore has used this model throughout the almost sixty years in which it has grown from Bill Gore's basement to a 10,000-person company with offices on three continents and more than $3 billion in annual revenue.

Eden McCallum, SumAll, and W. L. Gore all represent radical attempts to continuously redraw the organizational chart. By contrast, the well-known design firm IDEO has sought to create a culture in which the organizational chart is relatively stable but people still feel free to move around to assist various projects.[24]

The root of this culture at IDEO probably began in the mid-1990s. IDEO, then only a few years old, had grown rapidly from a small design studio to around 150 people who all reported directly to the original senior team. The company needed a reorganization that would make the firm more efficient but also preserve the collaborative benefits of the small design company. Instead of locking himself away and creating a master diagram, as Daniel McCallum did, IDEO founder David Kelley decided to let the organizational chart develop organically. Kelley called a meeting and explained to everyone that, instead of one big organizational flow chart, they would instead be working in and around five leaders, with each heading a new "studio."

The leaders then took turns speaking about the type of work they preferred, the challenges they faced, and what was exciting about their approach to design and innovation.[25] The meeting ended with Kelley asking employees to list which leader they'd like to work with and which project they'd like to work on. Employees were asked to rank their first, second, and third preferences. As a result, instead of leaders picking their team and plotting them on the organizational chart, IDEO employees got to choose their leader. As it turned out, everyone got their first choice.

As they were reorganizing, however, Kelley reminded everyone that one of the firm's guiding principles was "enlightened trial and error": even with this new structure, their assignments and their preferences were all a prototype and would change as needed. "The changes we are trying to make," Kelley told the group, ". . . are temporary and reversible experiments."[26] A few years later, after the company had grown even more, IDEO shuffled everything again and repeated the process, allowing employees to once again pick their place on the organizational chart around studio leaders.[27] David Kelley and the team at IDEO treated the organizational chart as a prototype, on the principle that trying to organize individuals shouldn't block them from collaborating and doing great work.

Nearly twenty years later, this unique philosophy continues to permeate IDEO's culture despite its expansion to more than 500 employees scattered across ten offices worldwide. Although the expansion has led to a bigger organizational chart, employees are still encouraged to branch off from their place in the hierarchy and help another team on a project. In fact, it is so encouraged that IDEO gives employees a certain amount of time in their workweek to dedicate to helping other project teams.

In a study of IDEO's culture led by Teresa Amabile of the Harvard Business School, researchers found that collaboration and

helping others, even those outside of their project, form a regular part of how employees get work done at IDEO. "Most people at IDEO learn to do it as they become steeped in the culture of the organization, participate in its regular activities, and develop networks within the firm," the researchers wrote.[28] To study these networks, the researchers mapped one office at IDEO by asking employees who had helped them on projects and who the top five helpers in the organization were. Amazingly, every single employee was named as a helper by at least one other person in the company. In addition, 89 percent of all employees showed up on someone else's list of the top five helpers. The researchers even witnessed firsthand a member of the senior team using his helping time to jump into a brainstorming session for a team whose project hadn't even formally begun.

IDEO's organizational chart isn't as malleable as the ones at Eden McCallum, SumAll, and W. L. Gore. Even in its early years, however, the company has reinforced the notion that the organizational chart isn't hard doctrine. It encourages employees to branch out beyond their formal teams to produce better collaborations and keep the network humming (though probably unintentionally) somewhere around 2.6 on the small world Q scale. In doing so, IDEO is an example of a company benefiting from the power of network culture even if it isn't free to rewrite its organizational chart around projects.

To abuse the analogy, just because you can't write the organizational chart in pencil doesn't mean that you can't write it in erasable pen.