
HOW HARNESSING CHAOS CAN MAKE COMPANIES MORE NIMBLE

INTERVIEW WITH GARY ROBINSON

MB – Malcolm Borthwick

GR – Gary Robinson

MB Hello and thanks for joining us. I'm Malcolm Borthwick, editor of Intellectual Capital at Baillie Gifford.

The Industrial Age brought with it hierarchical - or command and control - institutions, which have dominated organisational structures for more than two hundred years. But this model is now irrelevant in an increasingly global, complex and diverse world. Instead Dee Hock, founder of what is now Visa Inc, argues that to survive and flourish, firms need to rediscover their sense of purpose. He pioneered the idea of the chaordic organisation. To discuss this, I'm joined by Gary Robinson, investment manager in Baillie Gifford's US Equities Team and our Global Stewardship Strategy.

Before we start our conversation, some important information. Please remember that, as with all investments, your capital is at risk and your income is not guaranteed. And this podcast has been recorded during Covid-19, so Gary and I are both at home, as opposed to in the usual Edinburgh studio.

Gary, welcome.

GR Thanks for having me on, Malcolm.

MB I'm just going to start by asking you what a chaordic organisation is and how it works.

GR Sure, yes. Chaordic organisations are firms which self-organise and which blend characteristics of chaos and order together. Dee Hock created the word chaordic because he was a bit tired of the phrases that were being used in the field of complexity science at the time to describe this phenomenon. Phrases like non-linear, self-organising, complex, or adaptive systems. He was looking for something which he felt better explained the phenomenon.

The most popular organisational structure today is still the hierarchical command-and-control organisational structure, and in these sorts of organisations, people are treated like cogs in a machine. So decisions are taken at the top, and they're



pushed down through the organisation. And the best ideas rarely make it through the layers of bureaucracy. It's almost akin to central planning.

And it's been really hard for the world to get away from this model because we've been steeped in this structure for so long through our institutions, like schools and churches and universities and governments. But Hock thought this structure was suboptimal for a rapidly changing world and proposed the alternative, which he called the chaordic organisation.

Chaordic organisations blend both alignment and autonomy. In chaordic organisations, the job of leaders is to inspire people by creating a compelling sense of mission and purpose and by working with the employees to set broad principles which everyone in the organisation buys into. But then, once that's done, the job of leaders is to get out of the way and give people autonomy to take decisions and innovate.

MB As you mention the word 'chaordic' combines order and chaos. What does Dee Hock mean by chaos in this context?

GR By chaos, what it means is really a willingness of leaders to let go and to allow individuals the freedom to experiment and to make things happen. It's that idea of autonomy and freedom that is meant by chaos. But it's not complete and utter chaos. Amazon talks about the difference between speed and velocity. You can have lots of speed, but it isn't productive because there's no direction to the speed, whereas velocity is about both speed and the direction. And it's important within a chaordic organisation that people are pointing in the same direction.

And so that comes through partly on the back of the shared vision, purpose, and in terms of the principles of the organisation. One of the things that Jeff Lawson, the founder of Twilio, talks about in his book, which is called *Ask Your Developer*, is the importance of guard rails. So, there is freedom. There is autonomy at Twilio, but there are guard rails. And those are actually really important, not as a mechanism for control.

But, actually, in the absence of any guard rails at all, it can be difficult to move forward because the situation for individuals is far too open and you don't know what direction to move in. So, having broad guard rails around this concept of autonomy and freedom is absolutely essential for an organisation to be productive and to have a high velocity rather than just having high speed.

MB How did Dee Hock transform Visa?

GR Dee Hock is the founder of Visa. It didn't exist before he came along. It's really interesting that he's not that well known, given the scale and influence of Visa as an organisation, and I think that partly reflects the philosophy that he espoused.

I first came across Dee Hock when I was reading about the history of the payments industry in the US over Christmas, when I was doing some work on a fintech company that we're considering investing in. And I ended up going down a bit of a rabbit hole, and I read Dee Hock's excellent biography, which is called



One from Many, and what Hock achieved with Visa was truly extraordinary in my view.

Visa has its origins in the BankAmericard credit card system. Back in the 1960s, Bank of America decided that it wanted to expand its credit card network outside of its home market of California, and it did that by licensing the BankAmericard product to banks in other states.

And this enabled the network to grow really very quickly. So by the late 1960s, there were over 250 licensees of the BankAmericard product making up the network, and Dee Hock was one such licensee because he was the credit card manager at the Seattle National Bank of Commerce at the time.

And Hock had been tasked with launching Seattle National Bank's BankAmericard programme, and it was in the process of implementing this that he discovered just how much of a mess the BankAmericard network was in. You had over 200 banks in the network, but each had a different contract, and there was no standardisation or automation or mechanism for dispute resolution. And so, it was complete chaos, and there were huge fraud losses in the system and massive inefficiencies.

And so Hock took it upon himself to fix this problem, and he thought the only way to really fix the problem was to create a new type of organisation. He had been thinking about organisational models very deeply for a long period of time. And what he wanted to do with the Visa network was to bring together all of these different banks, allow them to retain their independence but ask them to sign up to a common purpose and a common set of principles and a common set of operating procedures.

At the time, this was called NBI, but it would eventually change its name to Visa. And the fact that Dee Hock was able to bring together over 200 independent competing institutions to sign up, not only to a set of principles as they stood today but also to the future evolution, was frankly astounding, I think.

MB The chaordic model talks about purpose, principles and people within organisations. Dee Hock talks about the importance of communities. How hard is it to get that sense of community and the buy-in of employees?

GR I think this is a really important point. Hock's views on leadership and principles are absolutely fascinating. He makes the point in his writings that most of what we would describe as leadership is actually tyranny. He says that a true leader can't be bound to lead and a true follower can't be bound to follow. In other words, you're only going to get the best out of people if they're doing something because you motivated them to do so, not because you commanded them to do so.

And so when you're creating a chaordic organisation and when you're building a sense of purpose and when you're putting together principles, the really important point is that people really need to be bought into these principles and they really need to believe them. And Hock used a really interesting and not very



often used word to describe this process. He called it 'educing'. The word 'educer' means to draw forth something which is already present in a latent or undeveloped form.

And so, principles which you educate are principles which bring out the best in people. But I think we have a tendency to default to principles which compel or to principles which tell people what to do. Principles shouldn't tell people how things should be done. They should give people a broad sense of the direction of the company and where they want to go but leave scope for individuals to find their own way.

MB Give me an example of a modern-day chaordic organisation, a company that does this well?

GR One of the companies that perhaps best embodies these chaordic principles today is Amazon. Amazon practises many of the aspects of the chaordic model that Hock described. The company has got a very strong sense of purpose, which is to offer customers the lowest prices, the greatest selection, and the highest levels of convenience. And it's also held together by four core principles and a further 14 leadership principles.

And these principles are really tightly integrated in everything that Amazon does from its hiring process through to promotions and through to strategic decision-making. And that's the glue that holds Amazon together as an organisation.

However, Amazon is also highly decentralised. The company has always been really conscious of the tendency for coordination costs to increase and for productivity to decrease as organisations get bigger. And perhaps the most famous manifestation of this at Amazon is the two-pizza team rule.

Two-pizza teams at Amazon are called that because there's a rule at Amazon which states that no team can be larger than the number of people who could be adequately fed by two large pizzas. And what this means in practice is teams can be no bigger than ten. And so, these teams are autonomous. The desire is for these teams to be small to reduce coordination costs, and they're also autonomous in the sense that they don't need to communicate with other teams in order to get their job done.

To ensure that these teams function well, there's still a clear sense of purpose and there're boundaries set for each of the teams, which are clearly defined. But each of the small two-pizza teams is led by a single-threaded leader who has the authority to build product and to make changes without coordinating or without gaining approval from other teams.

And this is a wonderful model because it enables Amazon's teams to move quickly, to deliver innovation rapidly and even at scale. As Amazon has grown, it's now got hundreds of these teams that are led by single-threaded leaders who focus solely on the objectives of those teams. And that's one of the things which has enabled Amazon to maintain its pace of innovation and stay nimble, even at the huge scale that it's at today.



MB And how much do you look at organisational structure, Gary, as part of your investment process when you're assessing whether or not to invest in a company or to sell it, for that matter.

GR It's absolutely critical. We place a huge weight on culture when we assess companies. I personally think culture is one of the most important and simultaneously underappreciated drivers of long-term stock returns. And so, when we're assessing companies, we're thinking about some of these questions about organisational structure because the reality today is that we exist in a world which is rapidly changing on the back of technological innovation.

And for a company to thrive in this sort of environment, it needs to be resilient and adaptable and nimble. And the top-down, hierarchical, command-and-control organisations of the past are simply not well suited to that backdrop. And so when we look at companies and when we analyse culture, one of the things we're thinking about is, 'is the company structured in a way which is going to enable it to be nimble and adaptable in the face of these rapidly changing market situations'?

And I think the chaordic model is a very good model for enabling a company to cope with that rapid change, because you have people who are motivated through a broad sense of mission and purpose, who are held together by principles.

But because you have this autonomous, decentralised structure, it leads to lots of experimentation, which means that these firms are, in general, much more adaptable because you have all these of experiments going on and you have the people who are the closest to the frontline making decisions within these organisations. Those sorts of structures tend to be the strongest and most likely to lead to success over a five- to ten-year-plus time horizon.

MB Reading Dee Hock you're constantly questioning yourself, challenging your own sense of ideas, your own situation. Is Baillie Gifford a chaordic organisation?

GR This is a really interesting question. I think Baillie Gifford does follow the chaordic model to a pretty significant degree. I think we have a strong sense of purpose as an organisation. In our shared beliefs we talk about our purpose as being to add value for clients, to support companies and benefit society through thoughtful long-term investment. And that long-term thinking permeates everything that we do at Baillie Gifford, and it's enabled by our ownership structure, our partnership structure. But we combine this strong sense of purpose with a very decentralised model on our investment floor.

So, we haven't formalised the two-pizza rule or a 12-doughnut rule at Baillie Gifford, but most of our investment teams have fewer than ten people, and they operate independently from one another in terms of investment decision-making and in terms of process evolution. And this helps to keep people motivated and accountable. But it also leads to a much greater degree of experimentation and faster evolution in my view.



I think one of the strengths of Baillie Gifford is that when a team comes up with a great new idea, it's often picked up by other teams around the investment floor and copied and percolates across the organisation organically. But there's no one telling teams exactly how to go about investing beyond our purpose and shared beliefs. The way that great ideas get adopted at Baillie Gifford is through this organic bottom-up process rather than through some top-down, command-and-control process. In that sense, I think we're very much a chaordic organisation.

MB Thanks very much, Gary. I've really enjoyed learning more about Dee Hock and chatting to you about him.

GR Thanks Malcolm. Thanks for having me on. He's a fascinating individual. It's wonderful when you stumble across someone that seems to have had such a big impact on the world but is below the radar screen, because I think a lot of the founders that have made an impact more recently, in terms of the organisations that they run, have almost been overanalysed. You know the Elon Musks of the world. How many books have been written about Steve Jobs?

Whereas actually, if you think about the scale and scope of Visa as an organisation, it's had as much impact as just about any other organisation out there. Yet Dee Hock is relatively unknown, and so that's one of the things that drew me to him and to doing more digging on his work.

MB That's a nice place to end it, Gary. Thanks very much for joining us.

GR Thanks Malcolm.

MB And many thanks to Lord of the Isles for the music. The track we've used is called *Horizon Effect*, which is released on Permanent Vacation. And if you're listening at home, if you're listening in the car, wherever you're listening, stay well and we look forward to bringing you more insights in our next podcast.

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