

THE FUTURE OF LEADERSHIP – COMPETENT, COLLECTIVE OR CATASTROPHIC?

NEXTPRACTICE

Under the guidance of Prof. Dr. Peter Kruse nextpractice has developed its own approach and software-based methods to support companies and institutions seeking to gain a better understanding of the complex situations in which they are embedded and use collective intelligence to find solutions. The nextpractice portfolio ranges from method-supported strategic management consultancy and design of cultural development processes to market, trend and social research studies.





Prof. Dr. Peter Kruse is the founder and presiding genius of nextpractice. Trained as a scientist, he worked for over 15 years at the interface of neurophysiology and experimental psychology investigating the ways intelligent networks deal with complexity. In the early 1990s he reorganized the management of a family-owned manufacturing company and founded a consultancy focused on the implementation and application of self-organizing concepts in critical business issues.

His own unique approach to change management and the many inspirational and trailblazing talks he has given have earned him a high reputation as a consultant both in Germany and abroad. In 2005 Computerwoche magazine called this award-winning thinker “Germany’s Leading Change Management Guru”. In 2009 Personalmagazin included him, not for the first time, in its list of the “40 Top Minds in Human Resources Management”. In 2010 the network expert Peter Kruse was invited to join the German Bundestag’s commission of inquiry on “The Internet and Digital Society”. Today his main interest lies in the analysis of change on the markets and in society and its implementation for sustainably successful entrepreneurship.

THE FUTURE OF LEADERSHIP – COMPETENT, COLLECTIVE OR CATASTROPHIC?

*Interview with Prof. Dr. Peter Kruse
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Why is leadership written so big nowadays?

It's the result of a chain reaction triggered by the dramatic increase in network density we've seen over the last few years. The nonlinearities this has created have brought about an increase in unpredictability and system complexity. This means that nowadays it's much more difficult to find the right kind of solid substantial basis on which decisions can be made. **Decision-makers, executives, are caught in a complexity trap.**

What began years ago on the markets with the internet revolution – as early as 1999 the Cluetrain Manifesto was speaking of markets as conversations – has now reached the boardroom level. The explosive development of networking has unleashed a tsunami which has enveloped all areas of business activity. Born on the markets, this process of transformation logically first affected PR and marketing from where it swept on to impact internal communications. Enterprise 2.0 was the next logical step. Then the tsunami reached corporate culture. And now its end phase is challenging the very concept of leadership.

What we are now seeing in the corporate world is a shift in power structures – exactly as has happened on the markets. The demand side is becoming much stronger. The position of traditional management is being completely remodeled. We're in a situation where management must simply ask itself **what kind of value-added it can offer in this new world.** The value-added that management used to have through its ability to make decisions is now no longer the same.

What do you mean by a COMPLEXITY TRAP?

I mean that the gap between the information on which I base my decisions as a manager and the impact I create is becoming ever wider. The nonlinearity of systems and the uncertainty and complexity this gives rise to is sapping the efficiency of old management models. **The security-giving function of leadership is disabled.** In networks (non-linear systems) – in which small events often have big impacts – managers are increasingly having to examine the basis on which their decisions are made. And that's no easy matter.

To follow in the footsteps of the quantum physicist Hans-Peter Dürr, we are now in a transitional phase from a form of knowledge that

LINEAR SYSTEM
DYNAMICS

A PARADIGM SHIFT FOR
GOOD LEADERSHIP?



NONLINEAR SYSTEM
DYNAMICS

Setting courses of
action through goal
definition

Reducing
complexity through
pattern recognition

**INSTRUMENTAL
KNOWLEDGE**

Which action strategies
are effective and
efficient?

1. THE COMPLEXITY TRAP

**ORIENTATIONAL
KNOWLEDGE**

Which action strategies
are effective and
efficient?

The leader as a planer of
successful implementation
processes

The leader as a partner
in context-clarifying
reflection

LINEAR SYSTEM
DYNAMICS

A PARADIGM SHIFT FOR
GOOD LEADERSHIP?



NONLINEAR SYSTEM
DYNAMICS

Executive power
defined
by structures

Executive power
endowed
by resonance

HIERARCHY

Where should the
system be heading in
the long term?

2. THE SHIFT IN POWER

AUTONOMY

Where will the
system's own
dynamics take it?

The leader as
trailblazer and chief
supervisor

The leader as
network player and
impulse-giver

helps me act to a form of knowledge that helps me understand what are the framework conditions that govern my action. Today we are seeing a shift away from instrumental knowledge to orientational knowledge. These are two different types of knowledge and we're now moving from the one to the other.

In other words you're saying that decision-makers are losing their "individual" power to make decisions and are turning to their networks - which at the end of the day means relegation of power.

Yes, if you like, this is a secondary consequence of these network dynamics. If I find myself as a decision-maker caught in such a complexity trap, I have to ask myself how I'm going to solve this quandary. The first way to solve it is always to use individual intuition by trying to detect patterns. The moment I understand these patterns, I can reduce complexity to its bare essentials and thus I have a relatively stable basis on which to make my decisions. Yet in a world that spawns such a high degree of complexity, the individual brain is stretched to the outer limits of its capacity, even when working in an intuitive manner. Which leads us to the question of how will I then justify the reasons on which my decision-making is grounded. I can no longer justify my decisions from a rational perspective and perhaps not even from an intuitive perspective. So what comes next?

And this is precisely the point where the concept of the collective comes in. Is there the possibility of using a collective form of thinking and reflection to create patterns that enable me as a manager to make clean decisions? **In other words, there's a particularly strong need for networking on the solution-finding side.** Individual intelligence is no longer adequate, I need collective intelligence, I need the network.

What we're actually doing here is following Ashby's Law: a complex world requires a complex answer and the logical consequence of implementing this networking on the solution-finding side is a shift in power.

As a leader I am still the one who ultimately lays down the law on which course of action will be taken Only this is no longer a decision

LINEAR SYSTEM
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NONLINEAR SYSTEM
DYNAMICS

Employment as a
security-giving anchor
for identity

LOYALTY
What nurtures
lasting personal
bonds?

The leader as an
authoritative role
model

3. THE CORE MELTDOWN

Employment as a
passage on a life-long
learning path

ATTRACTIVENESS
What makes
collective action
meaningful?

The leader as
a facilitating
coach

Networking implies collaboration rather than competition. Cooperation dissolves boundaries. So what happens to the core identity of a company in such a system?

I take on my own. I am constrained to involve other people in it. And when networking is pushed very far – as it has been with Web 2.0 – we see that involving others in decision-making is not only a goodwill gesture on the part of management but also a sign of the empowerment of the network. Because then the really powerful person is no longer the one at the top of the hierarchy but the one who is important to the network. In other words, it's no longer the transmitter that makes something important and significant but the receiver. And then we really do have this fundamental shift of power from the supply side to the demand side that we've seen, and are still seeing, in the network. This development has been very apparent in the markets and is now increasingly taking place on the company level over Enterprise 2.0 and other communication structures where it is leading to far-reaching changes in corporate culture. And, if you like, it's leading to the next stage which is a questioning of the role of leadership.

What we're now seeing is a shift in those elements that make for stability. Stability used to come from a sense of identification; in other words, I bonded with a structure, I am a member of the company I work for. Once I start working for Daimler-Benz, I will work for Daimler-Benz for the rest of my life. Once Daimler-Benz, always Daimler-Benz, as they used to say. Yet with increasing networking we shall see that this doesn't stop at system boundaries (= company boundaries). It continues over and beyond system borders and the system definition is changing, it's getting bigger.

Nowadays cooperation is a winner strategy. Companies cooperate horizontally and vertically; both inside and outside their borders. And when this is the case, we can confidently predict that something like a core meltdown is going to happen. The core identity of a company – the things company employees used to identify with – will suffer a clear loss of traction.

People nowadays no longer ask whether he or she is an inspirational leader, one whom they'd love to follow or whether this is an intriguing company, one they'd feel very much at home in. No, people ask them-



selves what's meaningful for them, what resonates for them at the moment. **People are much more prepared to change and they change much faster.** They're no longer so fixated on career ladders in corporate structures; they're much more interested in individual learning paths. They think about how they can network with others to make the best possible learning path and by so doing – if they have something worthwhile to offer – they very quickly become prepared for change.

Companies today must make use of matching processes much more frequently than they did in the past: does this employee really fit into our company or what should we do to make and keep our company attractive for the best people? Here too, what we're seeing is a shift in power which means that companies are under the constant necessity of reflecting afresh on the meaning of what they're doing. We can be confident that corporate governance and corporate social responsibility are much more than just fig leaves or something that's "nice-to-have". Such concepts play a truly paramount role nowadays because the people now around on such individual quests for what is meaningful to them are certain to cast a very keen and critical eye over what the company stands for before they join up, before they commit themselves. They are no longer on the lookout for stability to the exclusion of everything else.

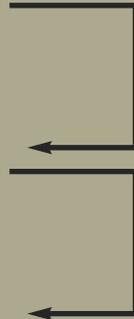
Yes. Higher network density is leading to nonlinearities and the exponential growth of complexity. And this lands managers in the complexity trap. On the one side there's non-planability and on the other this huge mass of complexity: we've lost our grasp of the big picture. Consequently, managers have lost their grasp of the perspectives on which they should base their decisions. The first way out of this dilemma is an individual intuitive attempt to generate the basis on which decisions are made. Only then the perfectly reasonable question arises as to whether I can gain added value through the collective. Can I, so to speak, create value through participation? Through having other people discuss matters with me, can I create a better basis for decision-making? Put simply, this means that networking is a logical consequence of avoiding the complexity trap. And if we streng-

*So it really is a chain
reaction that's underway ...*

1. THE COMPLEXITY TRAP

2. THE SHIFT IN POWER

3. THE CORE MELTDOWN



Networking in and between companies as a response to the exponential increase in complexity

Loss of the power of structures to confer identity as a consequence of networking

1. THE COMPLEXITY TRAP

2. THE SHIFT IN POWER

3. THE CORE MELTDOWN

The Complexity Trap
Leadership by goal definition and strategic control is losing its practical relevance.

The Shift in Power
The spontaneous dynamics of networks are driving radical democratization.

The Core Meltdown
Structural borders are becoming less and less important for people's personal identity

THE FUTURE OF LEADERSHIP?

Proposition:

Changes in system dynamics are driving a paradigm shift in good leadership.

then networking on the decision-making side, then the shift in power that we've talked about occurs and by necessity goes hand in hand with networks: the one who supplies loses importance while those who demand gain it. We've already observed this happening on the markets; now we're seeing it on the company level. But that's not the end of it. Because networking goes much further, it goes over and beyond company borders, and then we get to the situation of the core meltdown where the identity core of a company slowly dissipates. Individual network denizens are more connected by their sense of what is meaningful to them than through any structural sense of belonging.

All this has a great deal to do with leadership. **I think what we need to do is reinvent leadership.** We are facing a paradigm shift driven by the changes the world has been through in the past few years. And whenever such a paradigm shift occurs we have to ask ourselves whether we should just let it happen or whether we should follow what Thomas Kuhn predicted would be the order of things when he said that the agents of the old paradigm first have to be eliminated.

What I would like to see as our collective goal is that we set our sights on doing this with one another in a slightly more intelligent manner.



Andreas Greve
Geschäftsführer
nextpractice GmbH
Schuppen 2
Hoerneckestr. 25-31
D-28217 Bremen

Tel. +49 (0)421 - 33558 - 80
Mob. +49 (0)172 - 44 00 444
Fax +49 (0)421 - 33558 - 30

a.greve@nextpractice.de
www.nextpractice.de