

# IN SEARCH OF NON CONVENTIONAL ORGANIZATIONS. IN FACT, WHAT WE ARE LOOKING FOR?

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## **Abstract**

This paper seeks to determine ways to identify NCOs (Non-Conventional Organizations). Over the recent period, we have identified a number of NCOs (Ford, Zara, GM, Duolingo, Toyota, Amazon, Apple, Grameen Bank, DabbaWallah, etc.), arranging their inventions and innovations using two models (the 4+2 formula and the COVA organizational model). We also discuss the roles that may facilitate becoming an NCO. Additionally, we list the reasons for considering it important in a national economy to address entrepreneurs in general and specifically. Obviously, we define entrepreneurs in Schumpeter's sense rather than as anyone who owns an enterprise.

## **1. What are NCOs?**

NCOs (Non-Conventional Organizations) are special enterprises that have changed the economy in their specific fields. We clarified the definition of NCOs as part of our joint research with Zoltán Csigás (Csigás and Németh, 2015).

We have already addressed the definition of entrepreneurs and enterprises in our previous papers (Magos and Németh, 2014), but there is also an extensive body of literature on the subject (e.g. Audretsch, 2002). We have also found that the owners of enterprises are not necessarily the same set as entrepreneurs as defined for our purposes; indeed, we have found the set of "real" entrepreneurs to be significantly smaller. As a working definition, it is sufficient to point out a critical element, which will be relevant to NCOs: by rearranging the system of resources and combining them in a particular and novel manner, the entrepreneur creates a new chain of added value, or specifically creates added value (creation of added value; Gray, 2002, p. 61).

Recent years have seen great interest in startups, which marks the other direction that has proven to be valuable in the foundation work underlying our research. There are a diversity of definitions in use (Magos and Németh, 2014), and we are primarily concerned with their intersection.

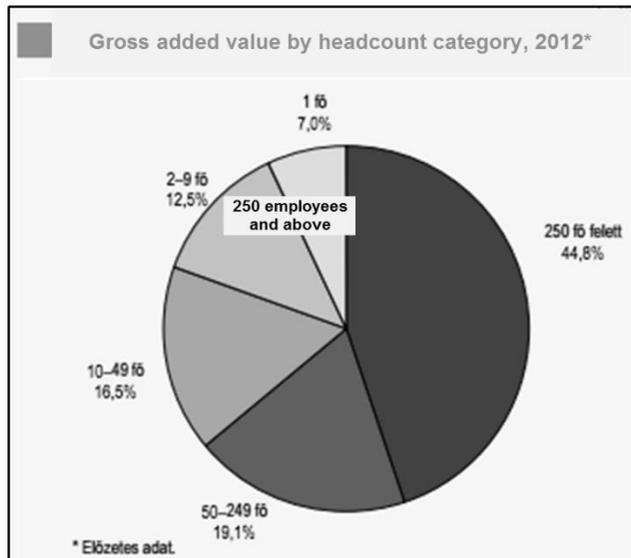
Based on the foregoing, NCOs can be defined as special enterprises that incorporate startup features in their cultures, and demonstrate, already at an early stage in their lives (as new enterprises), the potential of shaping their environment. Leaders of NCOs may appropriately be termed "real" entrepreneurs according to conventional definitions.

## 2. Why are NCOs important? What is their role in the economy and evolution?

The role and weight of the SME sector is significant in every national economy. In Hungary, the vast majority of enterprises belong in this category (of the 555,361 enterprises in total; 554,500 are SMEs, accounting for 99.8%, and 918 are large businesses, KSH).<sup>1</sup>

Unfortunately, only a fragment of these undertakings qualify as NCOs. Their percentage of the entire population is invisible to the unaided eye.

Figure 1 (KSH data)



(<http://kaleidoszkop.nih.gov.hu/documents/15428/123426/kkv12>)

## 3. What enterprise attributes qualify a company as an NCO?

We defined NCOs (Csigás and Németh, 2014) as having corporate capabilities (Németh, 2008) that confer on them a competitive advantage which will make them highly successful. Success is not a sufficient condition, only the necessary minimum that facilitates recognition. A classic NCO is also expected to demonstrate models in terms of operations (modus operandi), way of thinking, dimension of culture (and more, DNS) (Mérő, 2007), strategy and business which have made it successful and influence the thinking of others. Its developments are adopted and applied by others, even across industries. For a more accurate definition of the attributes, we relied on existing organizational models.

Our reference comprised two models; however, our preparatory research involved an overview of a significant part of the relevant literature.

One of the models is the 4+2 formula by Nohria, Joyce and Roberts (2003), the working definition of which we tried. The other model is the organizational model

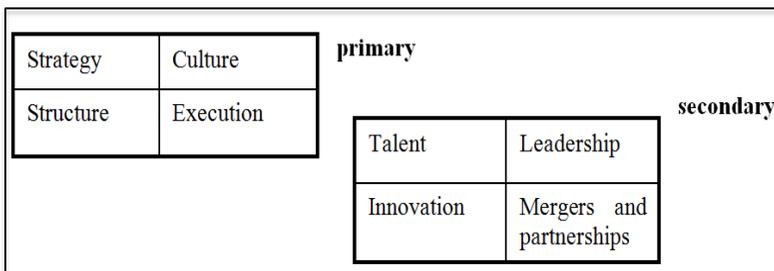
<sup>1</sup> [https://www.ksh.hu/docs/hun/xstadat/xstadat\\_evkozi/e\\_qvd022.html](https://www.ksh.hu/docs/hun/xstadat/xstadat_evkozi/e_qvd022.html) downloaded: 01/05/2016

implemented as part of development under grant KMOP-1.1.4-08/1-2008-0025 awarded to CoVa (Corporate Values Vezetési és Szervezetfejlesztési Kft.) (Németh, Kis-Tamás, Virág, Bodor, Kisházy et al., forthcoming). Nevertheless, this paper is not meant to resume or continue thinking along the lines of organizational excellence (for an early work on the subject, see Peters and Waterman: In search of excellence, 1982).

In his recently published book, Charles Handy (2016) writes about those who hit the “second curve” and thereby can renew and develop. But they are also the ones who often influence others and in doing so, they are capable of moving not only themselves, but their environment, markets, industries, or even certain social processes.

The primary elements of the 4+2 formula include strategy, structure, culture and execution, while its secondary elements are talent, mergers and partnerships, innovation and leadership. For 10 years, the Evergreen research team studied 160 organizations using non-participant observation methods. During that period, they observed over 200 implemented management methodologies, which were applied by the companies with a view to their survival and development. At the end of the 10-year period, the success of the companies was analyzed in retrospect (using the indicator of total returns to shareholders). They identified four clusters (losers, climbers, tumblers and winners). In their analysis of the companies, they found that it was not possible to pick one or two management tools that would provide an overall solution. Despite that, a company must focus on all of the primary organizational dimensions listed above, and at least two of the secondary organizational dimensions. In other words, a company that systematically addresses the dimensions, implements well and uses tools in these areas, has a better chance of success. We designated the model as one of the cornerstones of our research due to the essentially empirical nature of the model.

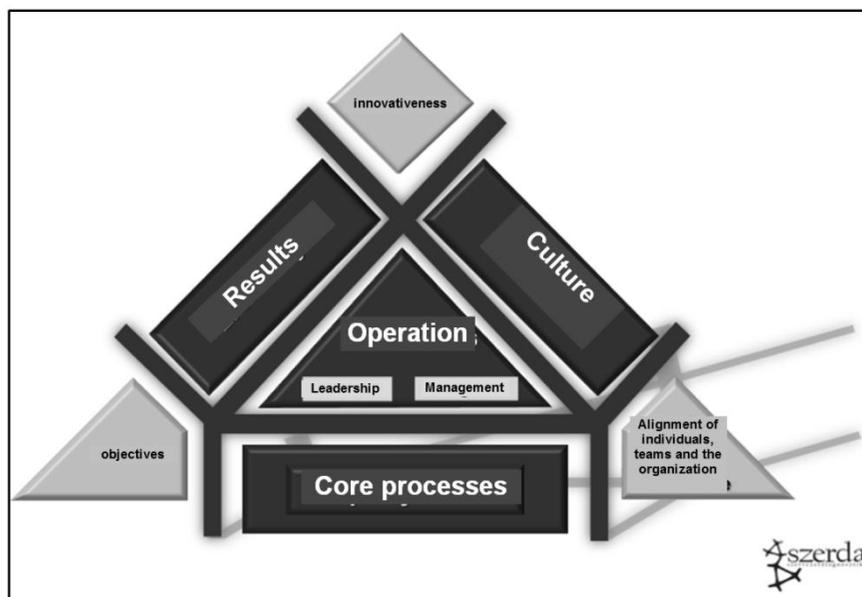
**Figure 2. Components of the 4+2 formula**



(Nohria, Joyce and Roberts, 2003)

Our second reference model is the COVA organizational model, where it is appropriate to highlight the component that represents a difference from other organizational models. The model incorporates the common organizational dimensions of objectives, core processes, results, innovativeness, culture and operation. In terms of the organizational model, the COVA adds value by proposing the alignment of the individual, the team and the organization in the ecosystem of the organization’s operations. This phenomenon is aimed at the organizational phenomenon involving the transformations between the various entities (individual, teams and the organization). There a number of things that are commonly transformed between these levels, such as information, values, knowledge, activity, energy, work products etc...

Figure 3. COVA organizational model



(Németh et al., forthcoming)

The ultimate message of both models is that if management fails to focus on the organizational dimensions proposed by each model, the enterprise will not reach its optimal level (let alone success); indeed, failure is to be expected. These organizational dimensions are critical to the further development and survival of enterprises.

In our approach, innovation is cast in a particularly important role. Innovation may occur both accidentally and as part of conscientious research work. It is important for the organization to rely on novelty in the course of its operations. For our purposes, innovation primarily does not mean specific product or service innovation. We focus more closely on the organizational model (structure, mergers and partnerships), organizational culture, operation (modus operandi, execution), and the strategic and business models (strategy). In the second part of our paper, we present examples for such innovations.

#### 4. Key roles in the systems of innovative enterprises

Regarding innovation, it is important to point out that there is a considerable confusion of roles in the market environment, leading to countless misunderstandings and less efficient solutions.

Entrepreneurs are commonly expected to be competent in whatever arises in connection with the enterprise. According to an earlier proposition by Gerber (2004), the three roles found in an enterprise (those of the technician, the manager and the entrepreneur) have different competencies, not to mention the differences in interests resulting from the achievement of objectives in the three roles. It is often the case, however, that in reality these roles are shared by a single person: the owner, founder and leader of the enterprise. This leads to a role conflict, the psychological effects of which are known (Goffman, 1981, 1990; Gross et al., 1973; Sarbin-Allen, 1987). A similar problem arises when the entrepreneur is expected to be competent in innovation and invention.

Therefore, a distinction must be made between the innovator and the inventor and the investor, any between everyone else and the entrepreneur, and not the least the manager. In our approach, an inventor creates something completely new (the key aspect being originality), while an innovator creates new things through the combination and further development of existing ideas (Sim; Griffin; Price; Vojak 2007). An investor is the actor who sees so much potential in the idea that warrants support for it. The entrepreneur is the one who, to simplify the picture, has the necessary risk appetite and energy to start creating reality from vision, but (as these competencies are rarely present in a single person) usually needs a good manager who will build up and move the system so that things actually happen. In reality, these roles are never found in a chemically pure form. That said, the opposite is also true: in most undertakings, the first two actors are absent or are only present in the organization temporarily, with a limited impact. It is important to point out that if the impact from the outcome of innovation fails to reach a certain threshold of response within the organization concerned, changes and development will not occur.

Regarding NCOs, in the areas defined above, candidates are expected to produce inventive and innovative developments.

## **5. How to find them?**

Innovations and the changes in behaviour and habit resulting from their impacts are known to spread at varying rates, but definitely in a viral manner. While change is observed only in one or two isolated places, there is no “epidemic” to talk about. By contrast, when the population has grown into a critical mass within society and the economy, the spread of change will accelerate (Barabási, 2009). When a level is reached at which the novelty is no longer a novelty, the change will become a social expectation—indeed, a required minimum. The question is usually not whether a development can be recognized when it has approximated the critical mass. The exciting part is recognition at an early stage. It is typically after an event has occurred that researchers can make reassuring statements as to whether the event can be considered a development stage. On the way, one should be more cautious. Here is one example where, at this point, we are not in a position to determine what is actually happening—we obviously have our hypotheses, but the answer has yet to wait, and further observations are needed.

Previous reports on the company claimed that using a novel organizational and management culture, it succeeded in achieving outstanding performance. The company is run according to a model of management and organizational culture by the name of Holacracy, which involves a flexible organizational structure, greater employee autonomy, meetings for efficient organizational operations and communications, and a unique decision-making process. Employees live in an autonomous community, are granted training opportunities, elect their own leaders, and receive wages on market terms (the precursor of the model may have been Maverick culture, cf. Semler, 2001). Employees working in such an operational “Canaan” are economically successful. The viability of the culture is strongly determined its strength, which makes it essential that the loyalty of the team should be homogeneous. To that end, management took

a bold step in 2015. They proposed the option that any employee who cannot identify with the company and its unique organizational culture is free to go and will be paid three months' wages (that is an outstanding amount to be paid for voluntary exit). There are two competing hypotheses. One assumes that the management needs people who reinforce the organizational culture. Apart from Zappos, the method has been used by other companies to facilitate voluntary exit. Those remaining are expected to develop stronger ties on a psychological basis. They are forced into a cognitive decision, which, unless they want to experience frustration due to cognitive dissonance, will result in stronger ties with their chosen team. This will result in increased performance for the benefit of the team. The only risk element is that the goal provided must be attractive enough to ensure that actors really make their decisions on a cognitive basis. Over- and undercalibration will not deliver the expected impact. The other hypothesis is that a culture is being built in which employees feel good. When people feel good and marvel at the methods developed by the company, what is more, even measured satisfaction indicators confirm that the path taken is right, the team will stand its ground, whatever happens.

Despite the above, the end of the story for Zappos was that 14% of employees (210 people) have left (Yahoo Finance).

This raises a number of questions. The Holacracy culture of Zappos fits into the NCO concept we are seeking to define. Yet, at this point there are too many questions to determine whether the approach will stand the test of time.

The criterion we established, i.e. that the new approach should go viral locally, spares us the trouble of having to process a public company database in alphabetical order. It is more reasonable to wait until an idea develops to a level where it attracts a degree of interest in a specific area (either geographically, or professionally or in terms of industry).

We have observed that although there are a multitude of ideas, whatever is incapable of survival does not deserve our attention (evolution and selection of mones). The unique pattern of the absence of human competencies and personality traits plays a significant role in this.

Fortunately, the trade press is eager to track down whatever is unique. Due to its craving for novelty, there is an extensive base of watchdogs, allowing us to draw up a list of qualified candidates. Rather than in this respect, the problem arises concerning the evaluation of whether the organizational phenomenon emerging will actually be disruptive in the broader sense.

We have been able to identify companies which, at least 10 years in retrospect, can well be defined as NCOs for research purposes. We have found that NCOs are typically innovative in more than a single area.

Below is a list of examples (using the dimensions of the 4+2 formula), which is non-exhaustive in terms of both its selection and the fields where the companies are outstanding. The selection is subjective.

1. **Ford Co.** – *execution and innovation*: the first to apply the assembly line technology, laying the foundations of mass production; standardized tools for the assembly of parts; *strategy*: a car for everyone at an affordable price; *leadership*: paid higher wages than others, attention to workers' rest<sup>2</sup> (Wood and Wood, 2003b)
2. **General Motors** – *structure*: Sloan created an implemented the first divisional organizational model (Wood and Wood, 2003a).
3. **ZARA** (Inditex Group) – *execution*: shorter production cycle, faster logistics between stores (Ferdow, Lewis and Machusa, 2004)
4. **Toyota Co.** – *execution and innovation*: strive for perfect quality, development of Lean management, Just in Time (JiT) system, Kaizen, SCM (Suply Chain Management) system, which today is a production system in its own right by the name of TPS (Toyota Product System), perhaps the only car manufacturer that can produce cars at a profit; *culture*: a definitive set of values focusing on quality orientation; *strategy*: focus on becoming the largest car manufacturer in the world and outperform every competitor in terms of quality; *innovation*: creation of the first hybrid car (Liker, 2004)
5. **The Metropolitan Opera** – *strategy and business model*: go beyond the boundaries of a conventional “stone building”; *execution and innovation*: reliance on HD technology; *mergers and partnerships*: establishment of a world-wide network of theatres where the performances of MetOpera are available
6. **MIT OCW** (OpenCourseWare) – *strategy and business model*: go beyond the boundaries of a conventional “stone building”; *execution and innovation*: reliance on HD technology; *mergers and partnerships*: establishment of a world-wide network of universities; creation of a market for MOOCs (Massive Open Online Courses)
7. **IKEA** – *strategy*: assembly makes customers feel they own the products; *execution*: fewer warehousemen, because in logically constructed warehouses customers pick products and carry them to checkout
8. **UBER and airbnb**: *strategy and business model*: implement (*execution and innovation*) organization without real resources (cars and real property) for sharing believers, allowing the sale of taxi and hotel services; early precursors were Couchsurfing and SETIhome (the latter provided for the processing of data that required large computing capacities, using the computers of individuals at nights when they were not using them)
9. **Linux and Wikipedia**: *strategy and business model*: implementation of large projects using now classic crowdsourcing
10. **Amazon**: *strategy and business model*: the first to transfer the shopping experience into a virtual environment (first with books); *execution*: online banking and a solution for fast logistics (Stone, 2013)
11. **Grameen Bank** (Nobel prize winning idea): *strategy and business model*: micro-credit for the population in poverty, peer-to-peer and community financing (Morduch, 1999)
12. **Apple**: *strategy and business model*: develop a product that is not only useful but also beautiful; *innovation*: build an ecosystem for entertainment, leisure and learning, to be connected through Apple devices<sup>3</sup> (Isaacson, 2011)

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<sup>2</sup> <http://grasshopper.com/blog/useful-business-lessons-from-henry-ford-historys-best-entrepreneur/> downloaded: 16/05/2016

<sup>3</sup> <http://www.forbes.com/sites/frederickallen/2011/11/07/the-three-principles-that-always-drove-apple/#7c6bdecf4f1c> downloaded: 16/05/2016

13. **Dabba Wallah:** *execution:* delivery of a daily 175,000 to 200,000 portions of food (Ravichandran, 2005); although addresses are colour coded as most employees are illiterate, there is 1 error per 8 million transactions (Pathak, 2010)
14. **Duolingo:** *strategy and business model:* a free language learning service, where homework translations are distributed and when completed, rearranged by an algorithm. The arranged homework translations are actually CNN news items, which are sold by Duolingo's operator to CNN as translated news material, obviously in several languages<sup>4</sup>
15. **Goretex:** *leadership:* continuously pushing the boundaries – Have you made an error today? (Carney and Getz, 2010)

## 6. Is it good to have so few of them?

Statistically, there cannot be many of them; that is the quick and simple answer to one half of the question. To the other half concerning whether this is good, we do not have such a quick and satisfactory answer. Cautious governments with intent to increase their own power have always wanted to build strong economies, one possible element of which is to enable increasing the level of enterprising competence and willingness for the population of entrepreneurs. This also means that when something (an organization, an idea, or an entrepreneur) manages to make the breakthrough from a specific environment and then repatriates the knowledge, experience and investment funds gained, this may contribute to such a level increase in the country of origin (see Estonia and the Skype effect). The higher the level, the more difficult the climb, yet climbers may have better chances to enter the global market, as they are much closer. The whole world is developing, which requires every national economy to keep up, otherwise the gap between the national economy and the world economy will widen.

For a good number of good ideas that are useful and applicable in the market, basic research is required to lay the foundations (Satell, 2016)<sup>5</sup>. A close correlation appears to exist between educated people, spin-off research conducted at or around universities, and the success of future enterprises. Obviously, the formula comprises a number of factors and studies are required to clarify the concept of “close” and to provide quantitative data, which are beyond the scope of this paper.

Nevertheless, the issue of measurability also needs to be addressed in respect of NCOs. This will be the next stage of our explorations.

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<sup>4</sup> <https://www.quora.com/What-is-the-business-model-of-Duolingo> downloaded: 16/05/2016

<sup>5</sup> [https://hbr.org/2016/04/innovative-companies-get-their-best-ideas-from-academic-research-heres-how-they-do-it?utm\\_campaign=HBR&utm\\_source=facebook&utm\\_medium=social](https://hbr.org/2016/04/innovative-companies-get-their-best-ideas-from-academic-research-heres-how-they-do-it?utm_campaign=HBR&utm_source=facebook&utm_medium=social) downloaded: 16/05/2016

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