

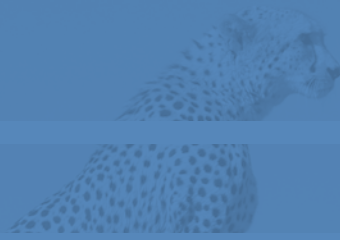


# Blue Organizations: Leaders of the Digital Age

What They Look Like  
and How They Act

Alberto Delgado and Alfonso Ramos

**Libros de Cabecera** Temáticos



# Blue Organizations: Leaders of the Digital Age

Alberto Delgado and Alfonso Ramos

Until Copernicus, no one had ever considered that Earth might not be the center of the Universe... and then that paradigm fell. In this day and age, with the world spinning at dizzying speed, is there still anyone who thinks that a company can only be organized hierarchically, with departments and functional areas, like a perfect production machine? Another world is possible, and we must build it.

After meeting with more than a hundred CEOs, Alberto Delgado and Alfonso Ramos have identified the strengths and weaknesses of companies and their leaders in order to propose a new model: Blue Organizations. Executives told them that Taylorist control is obsolete and that a different type of leadership is much more effective.

The new companies will be characterized by eight key competencies, which will enable them to compete in a different, more decisive, and more successful way. These eight competencies are described in **Blue Organizations: Leaders of the Digital Age**, a book that details what these companies are like, how they act, and how your company can become one of them.

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# Introduction

Under the pretext of the digital era, we have been predicting disruptions for years. Drawing on the experience of creative destruction in entire markets caused by the emergence of disruptive innovations, digital consultants pontificated about the inevitable need for transformation in order to avoid catastrophe on the next wave. Since the publication of *The hyperdigital society* (Libros de Cabecera, 2018), the first slide of our presentations contained an image alluding to the imminence of disruption. The message was compelling: “Regardless of the sector you are in, a disruption could make you irrelevant and push you out of the market is looming.” The objective of this message was to generate a sense of urgency that would prompt attendees to reflect on the rapid pace of change, and think about the speed, scope, and impact that those exponential changes have within their companies. Clearly, the nature and imminence of the disruptive threat varied in each sector, but our thesis was that in the hyperdigital society, we can never rest easy because the time between the moment when a change is perceived and when it actually happens has considerably shrank. Many of the attendees were skeptical, incredulous; others acknowledged the possibility of disruption in their industry; some expressed concern, and interest, and asked about the nature of their specific disruption and how to confront it.

## **COVID-19 as an Accelerator of the Inevitable**

And this is where we were when a minuscule virus, which couldn't even be classified as alive, unfortunately proved us right. The real disruption was not caused by a new technology that rendered a value proposition, a business model, or the position of an intermediary actor in an obsolete value chain. The disruption Covid brought was universal, and affected all sectors of the economy, favoring some while damaging others, yet leaving no industry untouched. In

March 2020, in a global phenomenon, all societies and companies, across all sectors, faced a universal, unexpected, and devastating disruption caused by a tiny virus, powered by the lack of preparation, global awareness, and efficiency of countries in containing its spread. A true black swan event, to use the terminology coined by Nassim Taleb<sup>1</sup>. Overnight, companies were forced to reorganize to enable their employees to work from home. They had to halt their operations, freeze, or slow down projects, and make crucial decisions within a matter of hours. Companies were compelled to digitalize, whether or not they believed in the transformative and multiplying power of technology. They reluctantly embraced remote work and started trusting in their employees' commitment, sometimes going against deeply entrenched convictions that employees were not trustworthy.

Over this period, we have interviewed over 100 CEOs from various sectors, and almost unanimously, they have been "pleasantly surprised" by their teams' level of commitment. Employees have passed the test with flying colors, which has brought satisfaction to top executives. The mandatory confinement forced us to completely change the way we work, with managers having to stop scrutinizing and micromanaging their employees. The office was empty, with no one in sight because they were home, without anyone being able to monitor them. A true nightmare for the archetypal controlling boss. Spain is a country where presenteeism is deeply embedded. In our industry, consulting, it was almost taboo to talk about work-life balance, and consultants would prolong their presence in the workplace under the relentless scrutiny of their managers. Productivity was a rarely measured and less valued indicator, overshadowed by the need to justify our worth based on the number of hours worked. Managers who wrinkled their noses when one of their subordinates put on their jacket in the afternoon in order to leave, suddenly found themselves devoid of their primary efficiency indicator: presence.

Organizations have learned that there are new ways of working that are less reliant on physical presence, more rational, intelligent, and human centered, and ultimately, more sustainable. They have

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learned that meetings can start on time and be shorter, that lunches can last half an hour, that the time spent commuting is a cost that nobody seemed to have noticed. Also that it is possible to have ten meetings in a day and achieve objectives, and that we can establish business relationships while maintaining rapport. Ultimately, companies have been forced to use technology to work and in the process they have realized that it does not have to be cold; but it can be a useful tool for fostering closeness and change when it is used properly.

The interviewed executives shared with us that they had experienced an unexpected, revealing, and enriching experience, but nevertheless filled with uncertainty. Accustomed to leading their teams through their physical and tacit presence, often imposing and omnipresent, interacting with them in infinite ways, through gestures, informal chats in the hallway, or a timely joke by the coffee machine, leaders found themselves lost. None of those small acts that accompanied daily leadership, that omnipresent stagecraft, were available anymore. They began to be explicit, aware, and planned their interactions with their employees to maintain team spirit and motivation in this new context. They began to build new relationship models. Many of these leaders shared with us the gratifying growth experience they had when they became aware of how challenging their task was, and to what extent the human factor is crucial and should not be undervalued. Paradoxically, or perhaps not so much, under the restrictions that took place during the pandemic, creativity, and the ability of managers to invent mechanisms to empower their employees flourished, and employees themselves offered proposals to transform communication channels. Many of them held brief daily or periodical meetings to gauge the organizational climate, transmit instructions, and receive feedback. In many organizations, the lockdown helped managers to be more present than ever, teams to increase their cohesion levels, and leaders to have a more detailed and rapid understanding of what was happening than when conditions were, *a priori*, more favorable.

Companies had to reinvent themselves, even if only tactically, to respond to that disruption. Many businesses saw their sales drop to almost zero, in sectors such as tourism or hospitality, while others experienced tremendous growth in online sales and operations, having to develop new processes to cope with the excess demand, with service shortages and concerns about the profitability sustainability in the context of an incipient global inflationary period. Many rules were broken. But let's not be naive: COVID-19 didn't change anything, although it changed everything. The cancer of irrelevance, of obsolescence, was already present in our organizations, barely detectable, omnipresent, and silent, under the radar. Engrossed in day-to-day operations, stubbornly maintaining the status quo, we ignored the fact that we needed to become different competitive animals—faster, more agile, more flexible, more resilient, more innovative, more disruptive, and less complacent. Safely nestled in our traditional hierarchical structures, we forgot what was truly important and hid behind performance indicators, short-term results, strategic lines, and countless projects—the essential tasks that, as if by magic, were erased by a disease that we initially believed was no more significant than a common flu.

Overnight, the crisis forced us to change the way we worked. We got rid of the superfluous, prioritized the important, reacted, transformed ourselves, and discovered that our people are very good, capable, and powerful, trustworthy. We found that individuals are autonomous, quick learners, and are ready for new challenges, without having to be under constant supervision.

Are we going back to normal? Not a chance. Let's respond to the challenge, embrace the sense of urgency, turn necessity into virtue. We have what it takes to change our company; we just need to let talent express itself, break free from what we think we know, and accelerate towards a new future that has no fixed rules—a future where we are better, more satisfied, as organizations and as individuals.

## **We need a new kind of company**

Until Copernicus, no one had even considered the possibility that the Earth might not be the center of the universe. It simply didn't fit into the established frameworks. No one thought that Earth was just a small, insignificant planet orbiting around a minor star in a galaxy. The dominant perspective was so strong that it shaped our view of the world. Now we find that stubbornness ridiculous because scientific evidence has motivated a shift in the dominant perspective regarding the position of Earth in the cosmos. However, we are not free from the effects of perspective under dominant paradigms. Specifically, our ideas about organizations are heavily conditioned by our experience of how we have always organized ourselves, especially since the 19th century. It seems almost like a revealed truth to us that the only form companies can take is the one that thrived as a result of the Industrial Revolution: the company built as a hierarchical organization with managers, departments, and carefully structured functional areas to ensure that no mistakes are made, and to achieve safe and efficient production of goods and services. This has been the dominant perspective for the past 100 years. And yet, companies don't have to be that way; there is another way to organize work where we can do more with less.

Companies and hierarchical social organizations are a relatively recent phenomenon. In the early 20th century, economic and management thinkers sought the nirvana of perfect predictability. Managers longed for business management to become an exact science, a predictable engineering discipline. In 1911, Frederick Taylor published *The Principles of Scientific Management*<sup>2</sup>, which inaugurated the era of scientific management. In the decades that followed, management changed very little: managers around the world applied the Taylorist management model based on a mechanical view of the world —explicit cause and effect—, which turned management into a perfectly predictable activity. The manager's job was simple: to ensure that repetitive tasks were efficiently carried out, maximizing the productivity of people and machines.

Until the Industrial Revolution, the world didn't need the departmental hierarchy-based business models that we know today. Organizations in the pre-industrial revolution era were very different and followed other paradigms. The birth of industry and the need to coordinate the work of large collectives to produce efficiently led to the creation of new organizational models to ensure control and enable maximum efficiency in production processes. Since then, the industrial organization model based on the need to divide labor and standardize processes and functions, has created enormous wealth; it has been a fundamental element for the formation of companies and, ultimately, for the rise of the free-market economy. People have efficiently collaborated in creating wealth in this type of organization, to an such an extent that we consider it practically impossible to structure companies differently. However, other organizational models do exist, even though it may be hard for us to even think about them.

So, how have we performed with Taylorism? Average at best. One hundred years later, we are still struggling with scientific management, experiencing as many failures as successes along the way. While it has improved our understanding of mechanisms to increase productivity, enhance quality, and minimize costs, managing a company is not much more predictable now than it was then. Any impartial observer will agree that scientific management is not at its best: managers still frequently fail and destroy value; in fact, evidence suggests that they make more mistakes now than before. In the 1990s, the average tenure of a CEO in Fortune 500 companies was 10 years. According to a study by Temple University<sup>3</sup> in 2013, that period had decreased to just over 7 years. The study also reveals that in companies with good results, the period in office is even shorter, averaging just 4.8 years. It seems like the CEO's seat is becoming increasingly hot. At the same time, we note that the average life of companies in the United States has fallen from 23 to 12.5 years. Is scientific management in good health? We think not. As management guru Gary Humel<sup>4</sup> stated: "Management is the least efficient activity in our organizations".

## **People are not satisfied with hierarchy**

For years, we have been witnessing a growing discontent among individuals regarding the way business activity is organized. Workers see how corporate pyramids limit their growth and demotivate them, gradually diminishing their passion for their jobs. This discontent, contrary to what might be assumed, is not only present among people in the lower levels of the corporate pyramid but also extends to the leaders of organizations themselves.

In our years of experience as consultants, we have seen numerous executives express deep dissatisfaction with the role they have been assigned, that feeling of abandonment, the loneliness of the leader, discouraging moments that take a toll on them psychologically. Organizational structures, far from providing comfort, are often one of the factors behind the burnout phenomenon. Endless workdays, constant reporting, the logic of success above all else, the irrationality of compensation schemes, performance management based in many cases on subjective and paternalistic criteria, the merciless loneliness of many executives, detached from the more enjoyable aspects of day-to-day activities. Never before have executives felt so left on their own. This situation is also reflected in the political sphere, mirroring the society we live in, which lacks solidarity. There has never been such a profound disenchantment with leaders as we are witnessing in the early days of the new century. Over and over again, politicians face low approval ratings, which are no less disheartening despite being constantly repeated. We lack statesmen with a global, strategic, yet pragmatic vision.

Business organizations are, to a large extent, the playing field for the unchecked ego of ambitious executives, a barely navigable territory that is not designed on a human scale and does not provide genuine gratification. Here and there, we observe how corporate machinery, self-complacent bureaucracy, titles and positions, departments, committees, and divisions hinder innovation, disconnect people from their vocation, create distance among collabora-

tors, and distance companies from their true and often forgotten purpose: to make us a little happier.

No matter how many irrelevant exercises of mission, vision, and values we carry out, accompanied by well-dressed consultants, we have to face the unpleasant conclusion that we are not comfortable in our corporate skin. Corporate life is increasingly inhospitable, change is more distant, satisfaction is fleeting and illusory; incentive programs fail to truly motivate people. And yet, we keep things like this because we don't see an alternative. You may reproach us and accuse us of being overly pessimistic, and they are probably right. Yes, organizations, in their current form, serve the purpose of controlling and ensuring the proper production of goods and services excellently. However, this is no longer sufficient to guarantee the survival of the company. Not in the context of the hyperdigital society as predictability is no longer a guarantee of success or survival.

## **The evolution of organizations**

Do we have to resign ourselves to the fact that organizations are dysfunctional? Should we assume that these unwanted characteristics are inevitable in business organizations, a necessary toll, an undesired and collateral effect of the need for collaboration in any minimally complex venture? Are power struggles, miscommunication, diverging interests, procedural dominance, and bureaucracy inevitable, overshadowing enjoyment and generosity in work?

We firmly believe that it is realistic to propose a new model of a company that is more tailored to the individual needs of its members, a structure that minimizes the problems of hierarchical organizations, enabling employees' personal fulfillment while driving higher levels of productivity. We envision an organization that facilitates innovation, and the exploration of new business opportunities. A more resilient and sustainable model that is less alienating, fairer, and more livable. Moreover, we believe that not only is this possible but also inevitable and irrevocable. Organizations are gradually evolving toward this new model without us realizing it, just as

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they did during the industrial revolution over a century ago. The expectations and aspirations individuals place in companies today are very different from those of our grandparents or parents. The new generation of workers won't settle for working in Taylorist organizations where people are systematically ignored, making it difficult to identify with companies conceived as machines. Companies will evolve, we are convinced, simply because those that do will achieve higher performance levels, making them more competitive and profitable. The resulting model will become the dominant paradigm, leading to the emergence of new practices, procedures, and standards that will become widespread, much like the ways of Taylorism did in their time.

Let us try to justify these claims by looking at studies from Academia on the evolution of organizations. Various social scientists, including Maslow, Wilber, Torbert, Kegan, and Gebser, have analyzed the evolution of organizational models and the relationship between these different models, dominant political paradigms, and the evolution of human needs. While their perspectives may differ to some extent, there is one aspect on which nearly all authors agree: the ways in which humans organize themselves have been changing in waves, evolving in parallel and driven by major cultural, economic, and social phenomena. In other words, the ways of organizing reflect and drive social changes, with each social era having its associated model of a company suitable for the prevailing way of creating value.

In his book *Reinventing Organizations*<sup>5</sup>, Frederic Laloux studies how organizational structures (not just companies) have evolved since ancient times. Laloux adopts a historical perspective and provides a detailed analysis of the evolution of power structures in human organizations. Political, religious, business, and even criminal organizations have transitioned from authoritarian and messianic models to the prevalent model found in the majority of companies in Western market economies: a hierarchical organizational model focused on individual or collective achievement. This has taken the form of family bands, tribes, empires and the nation-states of today.

Laloux draws on the aforementioned studies to identify dominant business models of the past and their evolution. We refer to Laloux's text for a detailed description, but we can briefly outline these models to illustrate how the evolution of social consciousness explains the changes in organizational models. In his book, Laloux distinguishes different stages of organizational maturity, each identified by a color, ranging from infrared to teal.

The first stage is the **infrared**, or reactive stage, which extends from 100,000 to 50,000 B.C. During this stage, society was organized into small family clans, consisting of a few dozen individuals. In some parts of the world, these types of clans still exist, where individualism has little place, and where family serves as the unit of interests and social order. These societies have high levels of violence and little organization. There are no leaders, task distribution, or specialization of any kind. In a way, it is a preorganized society, corresponding to very underdeveloped levels individual and social consciousness.

The next level of organizations is **magenta**, associated with the emergence of tribes consisting of hundreds of individuals. These societies developed approximately 15,000 years ago. The concept of group begins to sophisticate, individuals have greater self-awareness, although there is a poor understanding of cause and effect, leading to a society built around magic and superstition as a way to explain the world. Leadership figures begin to emerge, usually elders or shamans, who interpret reality for the group. Life is predominantly lived in the present, with little projection of the future and a very untranscendental view of death. Life has very little value, viewed from our current standards. Social organization is still underdeveloped, with minimal specialization and task distribution. We could associate this level of social consciousness with that of a child in early childhood, where things happen magically. Although there is a certain social order, it is magical, as parents provide security and are taken as a reference, just as elders or shamans provide comfort.

The next level is **red**, which emerges around 10,000 years ago, alongside the full consciousness of human beings as separate indi-

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viduals from the collective, capable of enjoying, suffering, and dying. At this level, organizational structures worthy of that name begin to appear. Socially, precursor forms of government are created, leading to kingdoms and empires, where power is exercised violently and often arbitrarily. The rule of the game is power, derived from strength, and individuals submit to the most powerful in search of protection. The perception of reality is extremely short-term and unsophisticated, based on impulse rather than planning. The only thing that matters is the moment, the only relevant thing are facts, not feelings. Causes and effects are raw and explicit, but powerful. Individuals move in the direction dictated by rewards and punishments.

The emotional palette is very narrow, and feelings are basically fear and security that comes from the absence of fear. There is a basic differentiation of social roles, and a distribution of work and specialization of functions begins to take shape. Slavery appears as a mechanism for subjugating enemies and assigning arduous and the least recognized tasks and jobs. Red organizations are still present in our society, especially in criminal organizations. They are built on the use of power as a tool of subjugation, on the existence of rewards and punishments, and on more or less explicit coercion. Wherever we observe a leader using power as a means to bend the will of their followers, we are witnessing an example of this type of organization. In such organizations, the leader is the leader as long as no one challenges their position and demonstrates that they are beyond the reach of their power. Like it happens with lions, the leader remains the leader as long as they can maintain their privileged position through force, as long as the pack considers that the dominant lion has the ability to exert force over the rest of the individuals. The leader surrounds themselves with a cohort of trusted followers to whom they bestow a certain amount of power, but there is no sophisticated organization.

The next evolutionary level of organizations is **amber** or conformist organizations. These organizations emerged with agriculture and their appearance marked the emergence of states, institutions, and

civilizations. This evolutionary level is related to causality and temporal linearity. That's why these organizations are sometimes referred to as Newtonian. Amber organizations are based on solid principles of cause and effect, allowing the collaborators within them to predict what will happen and have incentives associated with complying with norms and desired behaviors. This predictability is necessary for agriculture, where causes and effects are clear and essential: if work and irrigate the land, you will (almost certainly) harvest the fruit of your labor. In this context, planning is possible, which is extraordinarily important for organizational development. Group rules are created, communities of interest emerge, and society develops. These are the first social groups deserving of such a name. Culture emerges, groups form, beliefs, morals, and religions develop. These societies have few ambiguities and nuances, where things are either true or false, right or wrong, good or bad. This provides comfort and stability, a certain degree of conformity, which gives this type of society its name.

Amber societies are stratified, with social classes that are almost immutable from birth to death. Once you belong to a social class by birth, mobility becomes difficult, which discourages personal and professional growth. Amber societies were prevalent from the beginning of history until the 19th century, with few variations. The great churches and states followed this paradigm of clear and established roles. Formal hierarchies appeared with these organizations, which were later refined and perfected. In more traditional organizations, everyone had their role and hierarchical position. The managers gave orders and made decisions, and the workers complied and worked but were not deemed trustworthy.

The next evolutionary level of organizations is **orange**, or achievement oriented. As the world became more sophisticated, it became evident that the immutability and absolute predictability of amber organizations were not entirely adequate for explaining the world. Things were not so simple, and the reductionism of amber organizations did not work properly. Individualism and the pursuit of social improvement led to the discovery that the outcome each person

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achieved could and should depend on the effort they put into it. Things ceased to be black or white, and nuances became important and could make a difference. The focus shifted to results, what one could achieve regardless of social class and starting point. A certain social nonconformity that drove humans to strive to change their fate and evolve became acceptable. One can achieve anything if one puts enough effort, whether economically, socially, or politically.

Our economic and social model, the principles that have directed the economy in the last 100 years, are based on this type of organization, which is as inherent to us as breathing. It is the dominant paradigm in Western capitalism and market societies. As we have discussed, this model has brought unprecedented growth and prosperity, contributed to wealth generation, scientific and technological advancement, innovation, and increased life expectancy. However, this paradigm is not without its problems: inequality, short-term views, depletion of natural resources, concentration of power, corruption, etc. Everything we have said in so far about hierarchical organizations applies exactly to orange organizations.

The final evolutionary step of organizations is pluralistic or **green**. These organizations acknowledge that achievement and results are not the only things that matter; that there is much more than money and power. Different perspectives and feelings exist, and they should be respected. Green organizations seek equality, harmony, community, and consensus. They have been very present in NGOs and social movements working towards equal opportunities in the past century, especially since the 1960s and 1970s. While in the orange paradigm decisions were made top-down, in the green paradigm, decisions come from the base of a pyramid that is intended to be demolished. Consensus is sought as a source of legitimacy. Cooperative movements are a practical example of this way of viewing the world.

The green paradigm has been excellent for changing the rules of the game, highlighting the injustices, inconsistencies, and inefficiencies of orange organizations. It has brought concepts such as purpose, corporate values orientation, and the importance of culture,

which are extraordinary. However, it has not been very successful in proposing practical alternatives. Cooperatives and assembly-based parties rarely function well, for better or worse. The incentive that achievement provides to drive entrepreneurship and innovation is rarely present in green organizations. And we all know what has happened with leaderless movements that emerged from the 1970s revolutions. It is very difficult to incentivize individuals when the organization is not oriented towards achievement in some way and is inherently egalitarian.

## **Companies are no longer machines**

Most companies are currently orange organizations, for better or worse, organized under Taylorist models that have provided such good results in the last century for exploiting markets in an industrial world. Activities are divided for efficiency and scalability, and workers specialize. We create a bureaucracy—the managers—in charge of supervising the performance of specialized teams that work on tasks that align and complement each other with the goal of generating goods or services with maximum quality and minimum cost. This bureaucracy, necessary for coordinating tasks, controlling team productivity, and the performance of subordinates, immediately incurs an added cost for the company, a cost that is assumed to be more than compensated by the efficiency gains derived from task specialization.

Taylorist organizations have been conceived as machines, seeking to minimize errors in production, ensuring maximum predictability. The objective is that, given a set of inputs, the machine is capable of generating marketable results in a safe, fully predictable, error-free manner, with the involvement of people who participate as cogs in the corporate mechanism, at minimum cost. For this invention to work, it is desirable that the output and the way of creating it is stable over time, because the company has to make an investment that can be significant to set up the machine, including the education and training of participating individuals.

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What happens when we are forced to change something substantial in the production process unexpectedly? Well, the company finds it difficult to adapt to change, transform its ways of doing things, and switch the arrangement and capabilities of its resources. The hierarchical organization is excellent for ensuring that the machine functions perfectly under stable conditions, but it becomes a serious problem when significant changes occur (such as a shift in market circumstances); the company has to restructure, adjust its structure, its operating model, the roles of its members. We have witnessed these phenomena continuously: restructuring, downsizing, process reengineering, reorganizations, etc. Usually, we forget about the costs of the hierarchical structure until the company does not achieve the desired results or when an economic crisis arises. Under these circumstances, the company questions its structure, and initiatives to streamline it appear. Deep down, the company knows that it has operating costs derived from its organization that it must optimize: in times of prosperity, the drive to optimize the structure is forgotten, but when things go wrong, it resurfaces.

Since the Industrial Revolution, no sane manager would think of breaking away from the paradigm of task segregation and specialization. Workers in a car manufacturer are not left to their own devices with a pile of materials to build a vehicle on their own; instead, they are organized to coordinate with hundreds of colleagues to collaboratively build cars on a production line, in which they play a part, efficiently performing only a portion of the tasks needed to create the vehicle. The productive system of industrial society has relied on the concentration of production and division of labor to facilitate specialization and the development of specific skills for each position.

The problem is that the world has become much more complex. The Taylorist model no longer serves its purpose. Companies must become more sophisticated, creating organizational models that allow talent to collaborate within the company and with actors beyond the limits of the organization. Companies must transform into Complex Adaptive Systems, just like a colony of bees. The rules in a Com-

plex Adaptive System are not as clear, prefigured, or predefined; everything is much more fluid and dynamic, exactly the characteristics we want our companies to have to be competitive in the new world. Organizations in the hyperdigital society coexist with others, establishing complex relationships of competition, coexistence, and collaboration. They work in networks and must evolve rapidly. All of these attributes are difficult to achieve with the hierarchical organization of departments, divisions, managers, and organizational charts that we all are used to and find so familiar.

## **Hierarchy is no longer what it used to be**

According to Wikipedia, hierarchy is defined as the “order of elements in a series according to their value.” In the context of organizations, the concept of hierarchy is used to designate the chain of command that starts with top-level managers and extends to non-managerial employees, passing through all levels of the organizational structure. From this, it can be inferred that hierarchy is a system of organization based on a chain of command through which formal authority relationships are established between superiors and subordinates. Scalability and mass production required an orderly army of workers who faithfully followed the orders of their superiors to achieve maximum system efficiency. Hierarchy as an order based on a chain of command has been considered the natural way to coordinate human effort. These deeply embedded assumptions in our organizations represent the biggest barrier when it comes to taking our companies into the future.

We as humans understand hierarchy very well. It is almost in our DNA. We are born into a family context where the parents are in charge of supervising and correcting us (in addition to loving us, of course). This is a not-too-sophisticated message that everyone understands without any difficulty, for which there is a very clear and deeply established mental framework. Companies often use the paternal paradigm in many areas. When you enter an organization, you become part of the family. In fact, throughout the last century,

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there was a certain social contract in which a worker would join a company in their youth, with the implicit promise that the company would take care of them permanently and indefinitely. As long as one fulfilled their job, they became part of the corporate family that would provide for, care for, and sustain the worker throughout their lives. Furthermore, this contract was embedded in a fairly predictable life context. Life had three stages: one studied for 20 years, worked for 45, and rested for 10.

This professional relationship entails rights and obligations between employee and employer, which are put in writing in a legal contract. However, it is also necessary to consider a series of expectations derived from this relationship that lack the formal nature of the previous ones, as reflected in the social contract. With the arrival of new generations to our organizations, that come along with new capabilities and professional expectations, the old social contract has evaporated in the 21st century. Workers in the new century face a context where it is not enough to learn during the years of education: the professional career is less solid and predictable, workers will most likely change jobs several times, even professions during their professional trajectory, and they will have to continually adapt and learn. The company-worker relationship is less sacred and more ethereal, less stable and reminiscent to the relationship between parents and children. The old contract based on loyalty and stability has been broken.

The hierarchical organization has created a lot of value and has led humanity to unprecedented levels of wealth. While this is true, we have also taken the traditional organization beyond its reasonable limits. The emergence of phenomena such as *The Lean Startup*, self-managed organizations, *crowdsourcing*, or the sharing economy are manifestations of the need to design different organizations—less hierarchical, more participatory, simpler, with less useless bureaucracy, and fewer wasted resources. Organizations that are able to act faster, with more agility and less strict policies, where innovation is not so difficult, dissent is encouraged and the aim is to better serve the interests of its members, allowing a more fulfilling

journey. We need to build more open, participatory, and transparent organizations that enable collaboration among all individuals who integrate them to provide a collective response—the only possible one at this point—to the new challenges that arise.

## **The twelve problems of traditional organizations**

Traditional hierarchical organizations have a series of problems that we are going to outline in the following lines:

- **Lack of transparency:** The hierarchical organization is designed to facilitate the flow of information upward quickly, but it struggles with the horizontal information flow. Departments often withhold information from other areas of the company, and managers keep the situational vision to themselves, avoiding exposure. From the perspective of employees, this creates a situation of helplessness due to the lack of information and a sense of exclusion from relevant information flows.
- **Existence of silos:** As mentioned before, the hierarchical structure often isolates certain areas or departments from the rest, leading to inefficiencies, duplicated efforts, and lack of coordination. Breaking down departmental barriers becomes difficult, resulting in the destruction of value.
- **Lack of multidisciplinary:** Projects benefit from the collaboration of individuals with different skills, perspectives, and visions. The organization by department often limits interactions and work primarily within the same department, reducing the ability to generate new concepts or solutions. Overcoming departmental barriers to foster collaboration among individuals from different departments often faces resistance.
- **Limited strategic involvement of teams:** As we discussed earlier, the best way to achieve results is to align teams around a purpose, a goal. In hierarchical organizations, employees at the base of the pyramid usually have a limited view of strategy and, most of the time, virtually no ability to alter or influence it. This

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lack of strategic understanding leads to teams becoming disconnected from the company's vision and strategy, either due to ignorance or distance. If the "why" is the main motivator we can have in an organization, disengagement becomes a cause of strategic misalignment and lack of involvement, which we should avoid at all costs.

- **Slowness due to bureaucracy and excessive procedures:** Bureaucracy and rigid processes are excellent for ensuring success and preventing mistakes. Procedures enable employees to carry out activities with maximum efficiency while ensuring that precautions are taken to minimize the likelihood of undesirable actions and results. However, these procedures often slow down processes, making it difficult to respond quickly. Approval processes are often cumbersome, especially in large multinational organizations, discouraging action and leading to attempts to bypass or circumvent procedures, paradoxically resulting in actions being taken without the necessary controls.
- **Hierarchy stifles initiative and generates aversion to risk:** An unintended consequence of hierarchy is that it often leads employees to act in predictable and expected ways, suppressing differences and "black swan" events. Few employees have the energy, confidence, and perseverance to overcome corporate obstacles and take initiatives that they know have a high probability of failing on their path to decision-makers. As a result, innovative initiatives with a high potential for value contribution are disregarded due to resignation among employees who could drive them. While risks need to be managed and minimized, a certain level of risk is essential for innovation. If a company is unable to assume a certain level of risk, it will likely stagnate and perish. Entrepreneurial activities inherently involve taking controlled risks. Hierarchy hampers employees' ability to take risks, perpetuating the status quo.
- **Lack of cross-functional vision:** In a hierarchical organization, most employees are confined to their departments, divisions, or areas. Based on the Taylorist model, companies structure them-

selves into departments with homogeneous functions. People within a department have related, if not identical, responsibilities. Since they have similar roles and related objectives, we often seek individuals with similar profiles to belong to a department, which likely results in similar viewpoints. However, for the success of a project, it is often necessary for the people involved to have complementary, unbiased perspectives, rather than a partial departmental vision. Hierarchy hampers the ability to achieve this.

- **Hierarchy is costly:** When looking at a corporate org chart, the first thing that comes to mind is cost. Taking it to the extreme, the organizational chart and the structure it represents are mechanisms of necessary redundancy for the control and management of employees. To control a department of ten people, a manager whose tasks overlap with those of their team is needed. If the team could work effectively and efficiently without the manager, they would be unnecessary. However, it is widely agreed that managers are generally not superfluous, but it is certain that they come at a cost. In many organizations, the structure becomes a living entity that consumes significant resources, persisting with determination, growing during prosperous times, and optimizing or downsizing during challenging periods. While organizations need coordinators and team leaders, whose roles are by no means disposable, it is also true that the cost of hierarchy can be excessive.
- **Hierarchy causes strategic myopia:** Why do managers make better decisions than their subordinates? In principle, there is a meritocratic ingredient: those who reach the top are the best, the most intelligent, capable, hardworking, and committed. Therefore, this selected group is likely to have greater capacity for making sound decisions. However, meritocracy does not always work, and managers are not always noticeably better than their subordinates. Managers may make better decisions because they possess more knowledge and have access to more information. Additionally, managers often have a broader view of the

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company's strategic objectives, communicated more directly by the top of the pyramid where objectives and strategic guidelines are set. Employees often lack a clear vision of the company's strategy; it feels foreign to them, and they remain disconnected from it. This frequently leads to what we call strategic myopia, which manifests as a disconnection between the work done by teams and the company's strategy. Companies often operate on inertia, lacking sufficient alignment with a profound purpose. While hierarchical structures don't necessarily have to cause this myopia, they often do.

- **Hierarchy is conservative:** Structures can provide shelter and comfort to individuals who need protection to feel secure. Many employees prefer to work for others because they feel better being a part of something bigger and collaborating within a structure that provides security. Seeking support is legitimate, but it can have an undesired effect: people become complacent. In large organizations, there are true corporate creatures, Darwinian survivors of any cataclysm, who navigate the minefields of corporate structures with ease, surviving any restructuring. These individuals endure, survive, and strengthen their position within the structure when others fall out of favor. In today's political parties, those who prosper within the organization are unfortunately not necessarily the brightest, but the apparatchiks, professional corporate officials, those who avoid stepping on toes, take minimal risks, and specialize in following procedures and party discipline.
- **Hierarchy becomes entrenched:** Hierarchical structures consume a significant amount of energy to maintain themselves. Organizations have a kind of basal metabolism that consumes a substantial portion of corporate resources to keep functioning and stay alive. The higher the resting metabolic rate, the lower the organization's efficiency, the greater the cost of maintaining the status quo, and the more frustrated individuals become when attempting to drive change but without success. The proliferation of inefficient meetings, monitoring committees, and

departmental gatherings are some manifestations of this phenomenon.

## **Organizing to exploit and explore**

As we will see in the chapter dedicated to disruptive competencies of Blue Organizations, companies face two major challenges that effectively explain their performance. All entrepreneurial activities are based on and initiated by the detection of a business opportunity that deserves to be explored (exploration), and the subsequent exploitation of that opportunity by serving customers in a sustainable manner through optimal resource utilization. This opportunity often arises from a need of a group of potential customers that we could satisfy with a significant benefit if we develop certain capabilities. The entrepreneur, after evaluating that opportunity, acquires those capabilities and begins serving that market. Once the process of meeting the market's needs has started, the key lies in satisfying those needs at minimum cost to maximize profit. This is what we call market exploitation.

Exploitation is fundamental; as it generates profits for the company, which motivate and justify its existence and create value for both the company and its customers. To exploit effectively, we need operational efficiency, error reduction, and scalability to maximize the volume of goods or services we sell. Clear guidelines, task segregation, functional specialization, and operational control are essential to achieve these three aspects. For all these reasons, a hierarchical organization is extremely valuable. Exploitation is all about efficiency, avoiding mistakes, minimizing risks and costs, consistent success, and avoiding surprises. It is satisfying because it generates profits, but it is not inherently an especially exciting activity.

However, let's not forget that we are exploiting a market because an entrepreneur identified an opportunity at an initial moment and defined a value proposition and production processes to exploit it. We are exploiting because, in the past, someone explored. Exploration, on the other hand, is radically different from exploitation. Ex-

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ploring is risky, with no guarantee of success, divergent, open-ended, and uncertain. It can be more fun and exciting, if that's what you enjoy, but it is much more prone to mistakes. 9 out of 10 startups fail, and 9 out of 10 exploratory efforts are fruitless. Does that mean we should not explore? Absolutely not, because without the 9 failures, success would not exist.

It is extraordinarily difficult to explore and exploit simultaneously. The entire organization, its objectives, culture, compensation mechanisms, resources, promotions, and company processes are designed to ensure that we don't make mistakes and maximize productivity and profitability. They are conceived under the imperative of predictability and directed towards the futile elimination of black swans that distract us from our goal: making money. And that hinders the necessary activity of exploration from the root.

Therefore, if we need the company to both exploit and explore, to be ambidextrous and innovative while operating, we will have to structure it somewhat differently from what the Taylorist hierarchy proposes. If we measure innovative activities in the same way, with the same criteria and mechanisms we use to evaluate productivity, we won't be able to innovate, and we will wither. We don't want that.

## **The new leaders**

The evolution of companies is not done yet. Neither orange organizations nor green organizations have all the answers, at least not to all the questions. We need a new type of company, organizations better equipped for the insanely changing times that we are experiencing. We need companies that combine achievement incentives with the full sense of belonging and purpose found in green organizations. We need organizations that allow exploration and exploitation, where information flows more democratically, that don't alienate their members, which seek equality without egalitarianism, where decisions are not necessarily made solely at the top of the pyramid, where leadership is more shared. We need organizations that don't focus solely on themselves, that actively listen to what is

happening around the world and act quickly accordingly. We need less self-absorbed, more open and connected organizations, braver and more innovative companies, more fulfilling and livable, obsessed with the customer but also genuinely concerned about the well-being of their employees, trusting in their willingness and ability to contribute.

We need new models for companies that compete differently. The time for effective decision-making has shortened, the need for agility has become more pressing, the amount of information to process has grown exponentially, and the mechanisms for creating value have changed. Digital reaches every corner of the organization, changing the way we gather information, learn, communicate, and collaborate, eliminating organizational or geographical boundaries. In a world where the flow of information is completely horizontal and democratic, the mere existence of barriers in the form of organizational charts and their regulatory channels is a paradox that causes inefficiencies and frustration. We need to create new team dynamics, and to deploy more agile and open organizational models that facilitate the expression of talent. We also need new ways of working based on the collaboration of competent, diverse, and autonomous teams. We require mechanisms to leverage talent wherever it may be, whether inside or outside corporate structures, coming from partners, customers, suppliers, and of course, even the most distant collaborators. We need to empower employees, encourage their contributions, and spur their autonomy.

In short and to wrap it up, we need exceptional leaders with broad perspectives and clear ideas, nonconformists who fight against a static status quo, who constantly question the why without losing agility, who seek clarity to find the right direction without making mistakes. Leaders who don't exude fear, who analyze and make decisions seeking a balance between intuition and objectivity based on data, acting today while foreseeing the future.

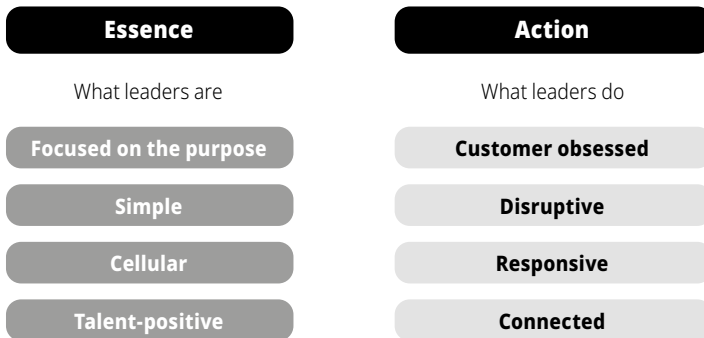
In this book, we want to reflect on the characteristics of the companies that will lead the new era and provide readers with some keys to equip their companies to do so. We will define eight key charac-

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teristics of 21st-century leading companies, which we call **Blue Organizations**. We will go through each of these eight characteristics with one clear and single objective: to convince you that a better future for your company is possible and that transformation is necessary to achieve it.

In the first part, we will present the four key competencies that reflect what these companies are like, the competencies that define the essence of a Blue Organization. Each chapter, both in this first part and the following one, will conclude with a self-assessment and 10 actions that companies can take to improve these competencies. In the second part, we will focus on the four competencies that show how Blue Organizations act, how they interact with the environment to manifest their purpose. Finally, we will present the matrix of Blue Organizations - the self-assessment tool - and reflect on business leadership in a hyperdigital society.

### The eight competencies of Blue Organizations





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