

# Market Volatility, Organisations and Reversal Theory

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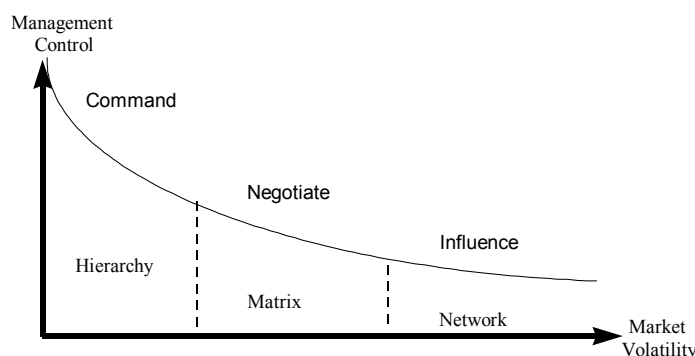
*The Ken Smith Memorial Conference  
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Whatever the dangers in simplification there is no doubt that making a point clearly and simply can be a potent way of establishing clarity of position that allows for creative conflict, debate and a mutual development of understanding. Such has been the case with the “Volatility Curve” which I first drew on a scrap of paper to outline a point to some senior managers a few years ago. Since then at numerous other occasions and in different organisations it has proved a useful way of highlighting the link between the markets in which an organisation operates in and the management style and organisational structure that flows from it. The notion of this relationship is not new – but this representation of it seems to cut through a lot of clutter to make a powerful point.

The Volatility Curve makes a very simple proposition that the greater the level of change and renewal in an organisation’s operating environment the less easy it becomes to exercise rigid top down control. The result of this is greater pressure for a structure and style centred upon individual action, and informal, looser operating arrangements.

Fig 1 **Management Control and Market Volatility**



The proposal is that in operating environments where there is low volatility, repeatability and economies of scale are dominant management concerns. This is best achieved by rigid specification and viewing employees as “holders of roles”, carrying out tasks and implementing decisions that have been made elsewhere. This is very much the environment of mass production of the twentieth century in which total control of every aspect of the supply chain was viewed as achievable and desirable. It was on this basis that many of the world’s large corporations grew and formed their distinctive contribution to human history.

It is no news however that the world is changing. In particular the world of organisations where the impact of information technology has, almost without exception, left every industry tackling fundamental shifts in the way successful organisations operate.

The impact of this is felt in every aspect of organisational life. At the core of this change has been the need for organisations to re-evaluate the way they view and manage their employees. High levels of change mean that decision-making is increasingly dispersed throughout the organisation as it struggles to keep up with the rate of change. Employees instead of waiting to be told what to do increasingly need to respond and pro-actively control events themselves. Top management is simply not in a position to either understand the nature of this pressure or to be able to respond quickly enough.

The solutions that tend to arise first focus on providing matrix management arrangements with project groups and initiatives taking increasing amounts of management time and with responsibilities and contribution increasingly a matter of negotiation. Typically employees in this situation find themselves with more than one boss. Greater levels of volatility lead to even greater requirements for flexible structures like networks and ultimately the ‘virtual organisation’. Responsibilities and contributions here are as much a matter of influence as formal negotiation or dictat.

There are other features of this change, some of which are summarised in table 1. The argument so far does not suppose that all organisations are responding to these levels of change in the way suggested by the volatility curve – several like Canute – are denying anything much needs to change at all.

**Table One**

|                            | <b>Low Volatility</b> | <b>Medium Volatility</b> | <b>High Volatility</b> |
|----------------------------|-----------------------|--------------------------|------------------------|
| <b>Communication</b>       | Top down              | Bottom up / Top down     | Intensive              |
| <b>Strategy</b>            | Planned               | Scenario                 | Opportunistic          |
| <b>Employment Contract</b> | Role holder           | Line manager contract    | Individual             |
| <b>Role of Centre</b>      | Centralised           | Autonomous               | Interdependent         |

## Building an Organisational Response

What is required of individuals operating in these more volatile conditions and how should they be managed? I would argue that organisations simply can't require individuals to contribute in the way that they need them to under volatile conditions. There is simply too much paradox around to exist on compliance to others' expectations and rules. This is a world of work that is full of uncertainty. Individuals are expected on the one hand to show the levels of leadership that allows an organisation like to Gore-Tex to say that over 50% of its workforce are leaders and the same individuals to be brilliant, committed followers. They are also asked to be great team players but to act as autonomous individuals who can contribute effectively across the five or six teams of which they could be said to be a member. Other paradoxes abound. Swift execution and quality require buy-in by all involved to the routines and processes through which an organisation operates. But in volatile conditions current processes are the very things that need to be challenged and changed, so individuals need to want and feel able to do this. Related to this is a typical organisation's obsession with plans and goals. An over fixation with this will result in an organisation failing to experiment and act spontaneously which provides the sense of excitement and arena for mistakes that has led to most of the major break throughs in medical science over the last hundred years.

All of this requires a fundamental shift in the way that individuals are viewed and lead within an organisation. In the past we have ignored individuality focusing on the role rather than the person, or at best, seeing individuals differing within a role in a relatively static way. My overwhelming sense from this is that there is an increasing demand for organisations to start treating their employees as individuals first, building on the inconsistent and paradoxical reality of human nature to encourage a breadth and richness to their contribution. This is not something you can **require of** people; it is something you must work to **inspire IN** people. It will depend as much on the climate of an organisation as the structure and processes that are in place. It will take a new form of leadership that works to create a 'performance climate', which allows and motivates a much broader range and more intensive level of contribution. **It will be a form of leadership that enables leadership in others.**

On this basis it may be possible to postulate two more factors, which arise form increasing market volatility.

|   |                   |                          |                         |
|---|-------------------|--------------------------|-------------------------|
| <b>Commitment</b>                       | Length of service | Length of service / team | Breadth of contribution |
| <b>Leadership</b><br>(dominant stance.) | Authoritarian     | Democratic               | Inspirational           |

## **The Role of Reversal Theory**

The percipient amongst you will already have noticed that this discussion of the emerging world of work readily lends itself to Reversal Theory analysis. The paradox and inconsistency outlined and its reflection in human nature will be something that is no surprise to you. I believe that this makes the opportunity for RT to make a major contribution in this field substantial. As we enter probably the most fundamental changes in work experience for over 200 years, I believe RT offers the most promising framework to explore both the theoretical and practical implications of this seismic shift.

Almost every aspect of work and organisational activity I can think of can benefit from using RT concepts but in particular I would highlight the following:

Theoretically how can RT contribute to our understanding of what work will mean to people as the nature of employment changes? What will be meant by commitment? What will be meant by performance management and how best should it be enacted. Most theoretically of all perhaps what will be the role of work itself in a society, which largely may not need it?

At a practical level Reversal Theory can contribute to a broad range of work related issues such as building more effective teams, career development, managing stress and change, personal development, organisational climate and the implications for leadership discussed above.

If behaviourism was the dominant psychological paradigm for the world of work that led to the creation of the vast corporations of the 20<sup>th</sup> Century then the opportunity and challenge I believe before us is to establish Reversal Theory as the psychological paradigm through which we can better understand and intervene in the new organisations of 21<sup>st</sup> Century.