



## THE KEYS TO ORGANIZATIONAL EFFECTIVENESS

# The Ups and Downs of Managing Hierarchies

By ADAM GALINSKY and MAURICE SCHWEITZER

In March 2015, employees of Zappos, the online shoe and clothing store, received a surprise email from their CEO, Tony Hsieh. The email declared, “As of 4/30/15, in order to eliminate the legacy management hierarchy, there will be effectively no more people managers.” What Hsieh was proposing was the end of hierarchy at Zappos; in its place was going to be a new organizational form called “Holacracy,” which he’d been experimenting with over the past three years. It was a take-it-or-leave-it offer: you either accepted the new hierarchy-free organization or you left by the end of April, with

a generous severance of at least three months’ pay. When the deadline arrived, 14 percent of the company left – an astonishingly high figure given that, up until that point, less than 2 percent of new hires chose to leave after learning the Zappos way of doing things. Apparently, as enticing as the idea of self-management had been when it was just an offbeat organizational experiment, the enforced reality of no hierarchy was too much for many people to swallow.

Hierarchy: humans have gravitated toward this social structure since the beginning of time. Most executives will be all too familiar

As the beehive so elegantly demonstrates, hierarchy creates a division of labor. Each member has its specialized tasks. But together, the individual actions produce a symphony of coordinated activity.

with competitive corporate hierarchies, in which organizational members vie to work their way up the ladder; where the person at the top wields the most power and authority, and is obeyed unquestionably. Yet as scores of recent corporate scandals have revealed, such competitive hierarchies do not always encourage admirable human behavior or outcomes. So is the answer to adopt more cooperative, distributed organizational frameworks, like Zappos did? It depends.

The question of whether people achieve the best outcomes in life by being fiercely competitive or by being fundamentally cooperative has fueled intense debate. Based on our research, as well as studies by other academics, we believe this debate misses the mark.

As implied by the title of our new book, *Friend & Foe: When to Cooperate, When to Compete and How to Succeed at Both*, most complex human interactions involve some measure of both competing *and* cooperating. Instead of orienting ourselves to either doing one or the other, we need to be prepared to do both.

The key to success is knowing how to compete and cooperate in the right balance, and

becoming more adept at both. This article examines the role of hierarchy in the context of the competition/cooperation dilemma so that managers might learn to better navigate the shifting sands of their dynamic business environments.

### When Hierarchy Wins and When It Loses

Humans are inherently social beings. However, group living presents numerous challenges. How do we coordinate our efforts? And how do we keep individuals from pursuing personal interests that compete with those of the group? The answer is simple: hierarchy.

Hierarchy helps us solve the dilemma between cooperation and competition. This is why hierarchy is the predominant form of social organization, why it emerges quickly, and why, once established, it is surprisingly resilient.

There are times, however, when hierarchy is not the surest path to success. One critical weakness of hierarchy is that rigid structures limit the opportunity for low-power individuals to contribute wisdom and creative insights. Hierarchy can be costly and, at its worst, it can kill good ideas – and even people.

After extensively studying when hierarchy wins and when it doesn't, we have discovered an important insight: the more human the task, the less hierarchy helps. We will explain what makes a task truly human. And we will share examples of how too much hierarchy contributed to multibillion-dollar government bailouts and other disasters. The goal is to find a way to make hierarchy work without holding us back. (See **Exhibit 1.**)

### The Rise of Hierarchy

To understand why hierarchy has evolved to be the most dominant form of social organization across all species, including humans, it helps to look at one of its simplest forms: the beehive.

The beehive is a well-known symbol of cooperation; it is even emblazoned on the Utah state flag to represent the state's commitment to social harmony. A beehive's members work

## EXECUTIVE SUMMARY

**Having a well-defined hierarchy** can contribute to organizational effectiveness: it helps people know who does what, when and how, and promotes efficient interactions by setting clear expectations for the behaviors of people of different ranks. This is especially true when people feel under threat, helping to restore a sense of order and control.

However, sometimes hierarchy can hurt as much as it helps. In complex, dynamic situations, leaders need access to the most complete and

varied information to make the best decisions. During such times, hierarchy can be catastrophic if it suppresses the voices of lower ranking members.

In this article, the authors provide insight – based on research contained in their new book, *Friend & Foe* – into how to harness the benefits of hierarchy while mitigating its downsides. Armed with this knowledge, managers can create hierarchies that lead to victory with the fewest casualties along the way.

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so seamlessly together that the beehive has been described as its own living, breathing organism, as “a mammal in many bodies.” Each member of the hive has its specialized tasks to complete – some clean, others build, some forage, others guard. But together, the bees’ individual actions produce a symphony of coordinated activity.

It is this precision of coordination and seamless integration that has earned the beehive a rare distinction: it is considered to be a superorganism. Species that evolve into superorganisms are extremely rare, but once they emerge, they are extraordinarily successful. In fact, no species that has achieved superorganism status has ever gone extinct.

Superorganisms are so successful because they are quintessentially hierarchical. Within a superorganism, every group member performs a role in synchrony with others, and any individual competitive desires are suppressed for the betterment of the collective.

As the beehive so elegantly demonstrates, hierarchy creates a division of labor. In humans, this division of labor is often attentional, as leaders and followers direct their focus in different directions. Leaders view the forest while those with low power focus on the trees.

A general needs to consider broad and abstract questions of readiness and strategy, and not get entangled in the intricacies of how to operate a tank or jet. U.S. presidents are

supposed to focus on the big issues of the economy and foreign affairs and not get lost in the details of something as trivial as managing a tennis schedule (which President Jimmy Carter apparently did). Likewise, the CEO needs to consider a firm’s financial standing while the accountants crunch the numbers. This division of labor allows all necessary tasks to be distributed and accomplished.

The invisible hand of hierarchy also allows for coordination among group members. Hierarchy helps people know who does what, when and how. These rules promote efficient interactions by setting clear expectations for the behaviors of people of different ranks. Essentially, hierarchy facilitates social interactions by simplifying them.

It is good to be the king. As a result, hierarchy functions as an incentive system and creates motivation. Since those with greater rank receive greater rewards and face fewer threats, we have an incentive to work hard and contribute to the group in order to rise up the hierarchy and reap the accompanying rewards.

This reasoning suggests that cooperating and contributing to a group today can lead to a higher rank tomorrow. Indeed, Robb Willer of Stanford University has found that cooperative members of a group rise up the hierarchy more quickly: those who sacrifice for the good of the group have greater influence and receive more social rewards. Deferring to and cooperating with high-ranked members of the organization indirectly benefits low-ranked members by promoting group success. When a team succeeds, everyone shares in the rewards. Thus, cooperation can lead to competitive benefits.

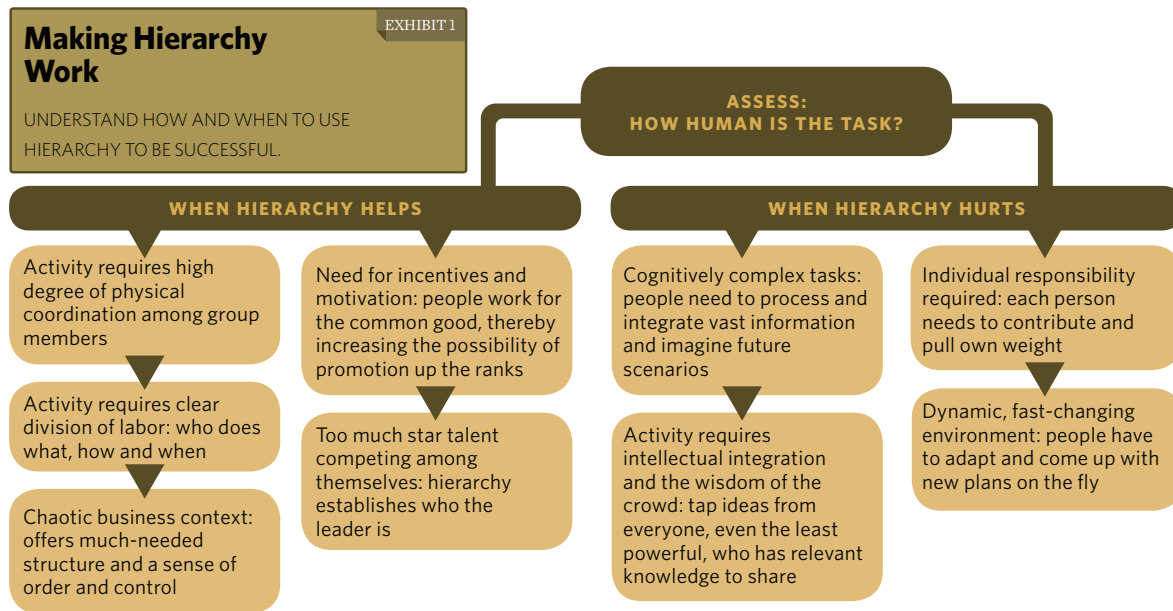
Hierarchy offers one other benefit to humans, but this one is purely psychological. To appreciate this benefit, think about a time when you wanted your group to have a clear hierarchy, when you just had to know who was in charge. What made you crave a well-defined hierarchy in this situation?

If you are like most people, you embraced hierarchy when you were trapped in a threatening situation, or felt little control over your

#### ■ ABOUT THE AUTHORS

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environment. In these situations, people desire a sense of order and control. Hierarchy offers much-needed structure. **Thus, when we lack control, hierarchies become psychologically appealing because they offer clarity in the face of chaos.**

In a project led by Justin Friesen from York University, we found that when people don't feel in control, they are more likely to endorse hierarchy as the most appropriate form of social organization. In these situations, people want to be led, and are willing to follow.

The idea of turning to hierarchy in times of threat can also explain why some countries have steeper and firmer hierarchies than others. When Michele Gelfand of the University of Maryland analyzed 33 countries around the world, she found that any force that put pressure on a society or threatened its security significantly increased the development of hierarchy. **When a country historically faced the problems of population density, scarce resources, natural disasters, wars and diseases, it tended to structure itself more hierarchically.**

### Too Much Talent

A further telling example of the importance of hierarchy comes from the world of sports. In 2010 the Miami Heat basketball team signed the two most coveted players on the market – LeBron James and Chris Bosh – to join their superstar Dwyane Wade, stacking the team with top talent. Immediately insiders started wondering if the Heat had too much talent, and whether the team would suffer from the absence of a clear leader.

Sportswriter Bill Simmons articulated this sentiment: “They believe two alpha dog superstars ... can reinvent themselves as co-CEOs of a basketball team. My gut feeling when LeBron took his talents to South Beach? ‘That can’t work.’”

Phil Melanson echoed these concerns in a blog post: “There’s no synergy between these players, and until they figure out a concrete pecking order, there won’t be any order.”

**It turns out that for basketball teams, steeper hierarchies lead to better performance. Why? Teams with a clear pecking order pass the ball more effectively, and as a result, players take higher percentage shots.** As any good manager or athletics coach knows, getting a group of talented individuals – egos and all – to coordinate their behaviors effectively is easier said than done. A group of all-stars can easily tip the balance away from coordination and cooperation to competition and petty rivalry. When individual interests take precedence over what is best for the collective, group performance declines. It no longer functions like a superorganism.

The too-much-talent effect persists beyond the basketball court. In business, companies and firms compete fiercely to attract the most talented individuals, presuming that ever higher levels of talent will produce better performance.

But Boris Groysberg of Harvard University has found the too-much-talent effect on Wall Street with sell-side equity research analysts. Here, too, top talent was beneficial for performance but only up to a point: the effect



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of more talent turned negative and started to harm performance.

When there is too much talent, the stars and high-status individuals compete among themselves to establish who the alpha dog is. As Corinne Bendersky of UCLA has shown, these status conflicts hurt group performance. With too many people at the top, individual competition dominates, and cooperation and coordination break down.

### When Hierarchy Hurts

In studying when hierarchy helps versus when it hurts, we began to realize that the more human the task, the less useful hierarchy appeared to be. So what makes a task human?

Humans, more than any other species, have the capacity to learn from each other and produce insights that build off each other's knowledge. For us, the coordination required is often intellectual.

So when we say a task is human, we mean that it is cognitively complex. In these cases, the number of things that have to be attended to is so great that no one perspective can capture all of the necessary information.

In complex tasks – from flying a plane, to performing surgery, to deciding whether a country should go to war – people need to process and integrate a vast amount of information while also imagining myriad possible future scenarios. And the more complex the task, the more likely we are to make a mistake or miss something critical.

In tasks like these – tasks that go beyond instinct and physical coordination, and instead require intellectual integration – the costs of hierarchy can exceed its benefits. Why? Because to make the best complex decisions, we need to tap ideas from all rungs of the hierarchical ladder and learn from everyone who has relevant knowledge to share.

There is a lot to be learned from cases in which hierarchy has silenced individual voices. Take the global financial crisis of 2008. As we now know, the housing bubble that led to the economic meltdown was fueled in part by a

financial innovation called credit default swaps – financial instruments that function a lot like insurance. Investors could insure themselves against the risk of default by paying an annual premium that would protect them against the failure of their investment.

One company that offered this financial insurance was American International Group (AIG). AIG made unbelievable amounts of money insuring mortgage-based securities. As long as housing prices went up, they would get their premium checks and have to pay no claims. But as AIG was making a huge profit, storm clouds loomed on the horizon.

Unfortunately, the head of AIG's Financial Products division was Joe Cassano, a man who suppressed the voices of employees who spoke out about the looming crisis. Cassano would express rage and bully people into submission when they presented information that challenged his position. He was especially critical of anyone who suggested that AIG's strategy of providing credit default swaps was no longer sound.

Because he had so successfully suppressed alternative voices, Cassano's team was overexposed and completely unprepared for the financial crisis of 2008. As mortgage-based securities fell into default, AIG was responsible for honoring the insurance claims. Ultimately, the federal government had to bail out AIG, lest the entire financial market collapse, to the tune of \$182.3 billion.

And it wasn't just Cassano who suppressed concerns about the housing bubble. As chairman of the U.S. Federal Reserve from 1987 to 2006, Alan Greenspan was devoted to low interest rates and limited regulation, and was convinced there was no housing bubble. He was also devoted to letting his colleagues know exactly where he stood on policy recommendations. When he met with bank presidents, he would open with an in-depth soliloquy about his own views before opening up the floor for comments. Few dared to challenge this economic savant. In contrast, his successor, Ben Bernanke, chose to offer his perspective last,

## ■ How to Build Trust

Follow these tips to build psychologically safe environments where team members feel encouraged to speak up and share ideas.

**T**rust is essential for almost every social relationship, whether a happy marriage, a supportive friendship or a successful organization. If we cannot trust our spouses, our friends or our business partners, then our relationships break down. In fact, almost every transaction we engage in requires some level of trust. When trust is high, these relationships are collaborative and frictionless. Trust, in so many ways, is a key social lubricant.

When trust is low, on the other hand, there is friction in every interaction. We are consumed with minimizing the risk of being exploited. As a result, we become competitive, even combative. It's tough to be a good friend (or an effective foe) when we are constantly suspicious and fear exploitation.

Conventional wisdom tells us that trust is slow to develop and, once broken, is almost impossible to repair. We challenge these blanket assumptions by offering a guide for how to inspire and build trust quickly – and how to restore it when it has broken down.

### EXUDE WARMTH & COMPETENCE

Research shows that the people who inspire the most trust are

those who project both warmth and competence. Politicians serve as a good example: while many are viewed as competent, few are perceived as warm – which is why you see candidates kissing babies on the campaign trail and why every U.S. President over the past 30 years has gotten a dog. Think of a coworker you trust (or don't trust): is this person warm or cold, competent or ineffective? Think of the qualities you project to your coworkers, as people tend to connect with those who are high on both dimensions.

### CONVEY CARE & CONCERN

"Sorry about the rain!" and "Sorry you got stuck in traffic!" may seem like superfluous apologies for things over which you have absolutely no control, but studies show they go a long way toward boosting trust. As long as the words convey genuine care and concern, people are more willing to cooperate, even in situations when they might feel vulnerable.

### USE NON-VERBAL CUES

When it comes to building trust, how we say it is just as important as what we say. Physical connection is one of the best ways to build trust. Face-to-face meetings are critical, as

are actions like handshakes, leaning in when conversing and a pat on the shoulder. All send powerful cooperative messages.

### WALK THE TALK

In any sector, using the correct terminology is important to project competence. That said, people pay more attention to how well your actions align with your words, so make sure there is no mismatch. Nobody is less credible than a hypocrite.

### SHOW VULNERABILITY

Intentionally spilling your coffee or singing off-key karaoke may seem inane, but making yourself appear vulnerable is one of the fastest ways to build trust. Revealing your foibles makes you seem more approachable. There are caveats, however: build credibility first and make sure the vulnerability doesn't compromise the area in which you are hoping to inspire trust.

### BUILD LONG-TERM RELATIONSHIPS

One of the best strategies, in both personal and professional spheres, is to cultivate long-term relationships. By transforming single transactions into repeated transactions, we promote cooperation and make friends out of possible foes.

after all other members of the committee had had a chance to speak first.

**We see similar dynamics at play with mountain climbers. Everyone knows climbing Mount Everest can be deadly, but what many people don't realize is that the climbs are dangerous not only because they are so physically challenging, but because they also require a great deal of complex and dynamic decision-making.**

In order to be successful and avoid fatal errors, leaders and expedition members need

to communicate frequently and coordinate not only physically but also intellectually. As a group, climbers need to assess the physical condition of each climber, monitor supplies and navigate extreme and dynamic weather patterns. In other words, mountain climbing is the kind of activity that can suffer from hierarchy.

In May 2006, two teams – one from the United States and one from New Zealand – lost five members, including the leader of each team, when a storm hit during their descent. A

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contributing factor to the fatalities was hierarchy. As one climber noted, “There was not ... a sense of individual responsibility; rather, clients were encouraged to see the leader and guides as saviors.” The members relied too heavily on the leaders, never questioning their plan nor contributing their own vantage point. Tragedy resulted.

We conducted a study to test whether hierarchical cultural values would predict fatalities in a high-stakes situation. Along with Eric Anicich of Columbia University, we analyzed more than 30,000 Himalayan mountain climbers from 56 countries on more than 5,000 expeditions. We found that members of expeditions hailing from more hierarchical countries were more likely to die in the Himalayas. Why?

In countries and cultures that are hierarchical, decision-making tends to be a top-down process. People from these countries are more likely to die on difficult mountain climbs because they are less likely to speak up and less likely to alert leaders to changing conditions and impending problems. By not speaking up, these climbers preserved order but endangered their own lives.

Importantly, we isolated the role of group processes by showing that the higher fatality rate occurred for group, but not solo, expeditions. It was only when a group of individuals had to communicate effectively that hierarchical cultures produced disaster.

The Himalayan context highlights a key feature that creates complex decisions: a dynamic and changing environment. **When the environment can change dramatically and suddenly, people have to adapt and come up with a new plan. In these cases, we need everyone’s perspective brought to bear, and hierarchy can hurt by suppressing these insights.**

The key lesson is that for human tasks that require knowledge to be shared and integrated in fast-paced, dynamic environments, hierarchy can contribute to catastrophic failure. In these environments, anyone in the team, even the lowest-ranked member, may have the critical insight that tips the balance.

### Finding the Right Balance

As we’ve seen, hierarchies can help teams and organizations collaborate more effectively and operate more efficiently. At the same time, steep and strong hierarchies suppress the voices of the less powerful and can lead team members to tragic outcomes. How do we leverage the benefits of hierarchy without the downsides?

Johns Hopkins Hospital tried to find a way to do this when it explored how to reduce critical mistakes during surgery. Every surgery carries risks, especially those of infections. A particularly problematic infection is one involving a “central line” (long tubes or catheters) because it spreads throughout the whole body, massively increasing the risk of mortality. In 2001, Johns Hopkins implemented what it thought would be a simple but effective solution: a straightforward five-part checklist of sterilization to prevent infections when putting in a central line.

The checklist proved to be a failure, doing little to stem the tide of infections. Why? Because for more than a third of patients, the doctor skipped one of the crucial steps, even while using the checklist.

The hospital adopted a radical approach: it authorized the lowest-ranked members of the surgical team – nurses – to intervene if a doctor skipped a step on the checklist. The nurses were empowered to ask questions about the timing of the central-line removal. By getting the nurses to speak up and share their concerns, the hospital prevented numerous infections and saved many lives.

Amy Edmondson of Harvard Business School has popularized a simple yet revolutionary phrase to describe the conditions within a group that encourage the less powerful to speak up: psychological safety. **In psychologically safe environments, team members feel encouraged to ask for clarification, to point out critical errors, and even to share new and challenging ideas. These psychologically safe environments produce fewer errors and more innovative ideas.**

To ensure that the perspectives and wisdom of the less powerful are brought to light, leaders and institutions need to promote psychological safety for their lower-status members. This encourages broad participation.

Often it is the day-to-day behavior of the powerful that determines whether psychological safety exists in an organization. With simple steps, the powerful can diminish barriers and create a sense of inclusiveness. By openly soliciting the input of others, the powerful can curtail the fear of speaking up. (See the sidebar on **How to Build Trust.**)

Small gestures can also provide people with an unexpected sense of inclusion. For example, when surgeons invite nurses to seminars previously reserved for physicians, it not only elevates the status of the non-surgeons, but also expands their knowledge and scope.

### Be Aware of the Trade-offs

Leaders need to understand how and when they need hierarchy to be successful. Generally speaking:

- **For interdependent, physical tasks, we need coordination: hierarchy can win here.**
- **For complex, dynamic decisions, ones that require the involvement of different perspectives, leaders need access to the most complete and varied information to make the best decisions: hierarchy can lose here and even be fatal.**

To ensure that the perspectives and wisdom of the less powerful are brought to light, leaders and institutions need to promote psychological safety for their lower-status members. This encourages broad participation. The effort you dedicate to this can generate tangible benefits, especially for complex tasks.

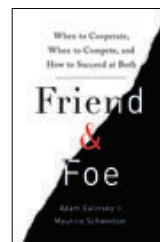
That said, almost every group still needs a leader, someone who sets the vision and the course, and is able to integrate all the different perspectives to make the final decision. People still need to know who is in charge – just as in the operating room, we still need the surgeon to lead and direct the operation. And once a decision is made, we need hierarchy to produce the coordination necessary to successfully implement that well-conceived decision.

For a group or organization to achieve the highest level of success, we need to learn how and when to fluctuate between more versus less

hierarchy. We need to figure out what type of hierarchy will enable our teams to cooperate, so they can compete effectively.

When using a hierarchy, be conscious of and sensitive to the trade-offs you are making between coordination and voice – recognizing the fundamental tension between suppressing individuality to achieve synchrony and denying key insights from those below. By understanding a few basic principles like those described in this article, managers can make hierarchy win with the fewest casualties along the way. □

### ■ TO KNOW MORE



- This article is based on *Friend & Foe: When to Cooperate, When to Compete and How to Succeed at Both* by Adam Galinsky and Maurice Schweitzer (New York: Crown Business, September 2015).