

Organisation design and development

Charles Handy's Doughnut

One of Charles Handy's useful concepts from his [Empty Raincoat](#) is the 'doughnut principle'. He says to imagine an American donut then imagine that instead of a hole in the middle, you have a core, and outside of the core you have an area bounded by the donut's edge.

He says the core is what's essential. It's the agreed given of a job, or a project, or a person. And the outside of the core is the potential. The potential is variable and you can develop as much or as little of it as you want. But it does have a boundary, or a limit.

Without a boundary it is easy to be oppressed by guilt, for enough is never enough. In today's world this is certainly true as we increasingly feel swamped by the communication channels technology has opened up and by the pressure brought on by the recession to do more for less. So let's go back to the creator of this principle.

The doughnut dimension

Firms need outsiders to get as much of the jam as insiders and to cut the stodge, says Charles Handy

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Creativity is too good a thing to be rationed. Putting it in a box on the organisation chart, even if you call the box a 'skunk works', ignores all the latent creativity hiding in the everyday workplace. Instead of bottling it up, I would urge organisations to treat insiders like outsiders and follow the 'doughnut' principle.

Organisations realised some time ago that they no longer need to have all the people in the same place at the same time to get things done. Obvious, perhaps, but it contained the seeds of an organisational revolution.

It will now be in the interests of the provider as well as the purchaser to investigate improvements both in the design of the product or service and in the way the work is done, as long as the benefits are shared. Sadly, in spite of some good intentions, it does not often work that way for ordinary employees.

The reason is simple - although anyone can have ideas, doing something with them involves time and trouble. Employees do not always realise that they gave away any rights to the fruits of their ideas when they accepted their employment contract. Few people are prepared to stick their necks out to test or develop a new idea unless there is something in it for them at the end of the day.

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On the face of it, then, organisations should strive to arrange as much as possible of their work on an outplacement basis, with managers becoming, in effect, purchasing officers. Perhaps they already have. In Britain two-thirds of registered businesses have only one employee, the owner, and 80 per cent have fewer than five employees. Most of them sell not to the general public but to other organisations. They are the new outsiders.

Add together these independent businesses and self-employed, part-timers (25 per cent of the workforce), temps, those in training and unemployed, and the startling truth is that less than half of the UK labour force is in a full-time job these days, while at least a quarter of any organisation's true workforce is outside.

Some now think that outsourcing has gone too far, that we are in danger of creating hollow organisations in which the only people left inside are a few contract managers and accountants. Such organisations, it is claimed, can lose their soul and *raison d'être* as well as the continued commitment of subcontractors who are only accountable to themselves.

There is truth in this. But in pulling some operations back inside we don't need to discard all the benefits of their independence. We could treat many insiders as outsiders, managing their outcomes rather than their processes. This is the doughnut principle.

In the doughnut theory the jam in the middle represents the essential requirements of the job, things that have to be done no matter what. But the responsibilities don't end there. The white part is the opportunity for initiative and creativity, for going beyond the manual, for adding extra value, for getting more out of less. There is, however, a boundary, an official limit to discretion, the line beyond which one should not go.

In old-fashioned organisations most jobs offer little scope for discretion. The jam filled most of the doughnut. In one job I had the imposing job title of Regional Co-ordinator Marketing, Mediterranean Region excluding France. The job description ran to three foolscap pages. At the bottom was an item headed Authorities. It read 'authority to initiate expenditure on own account up to a maximum of £10. That was the white part of my doughnut, not much of an invitation to creativity.

But that was how most companies used to work. They were designed like railway timetables, all activities neatly dovetailed together. In an ideal world, you pressed a button and it worked like clockwork. In such conditions you did not want the train driver to use his imagination or try a quicker route.

The doughnut principle substitutes effectiveness for efficiency. Efficiency seeks to minimise costs for a particular outcome; effectiveness, being concerned with better outcomes, will accept higher costs for higher outputs.

The doughnut idea requires managers to treat insiders as outsiders; to negotiate with groups, specifying minimum delivery requirements (the central part of the doughnut) and the general aims of the project, paying for any increase over the specified minimum outcome.

They would be treated as far as possible as independent contractors, as outsiders, but would still be insiders, full members of the organisation in terms of security of employment, career and a sense of belonging to something bigger than themselves. However, the group would have every incentive to improve productivity and be creative within their areas of discretion.

Does treating insiders like outsiders work? Ricardo Semler finds that it does. His radical organisation, Semco, in Brazil, encourages every group to think for themselves as a small business. If they come up with a new business idea and the board gives it the go-ahead, they are required to organise it and get to keep a fixed proportion, sometimes up to half, of the resulting profits.

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As a result, Semco has grown from a small factory making marine and industrial machines into a federation of 16 companies, including 10 internet ventures, all financed from their own earnings. The workers are free to appoint their own leaders, decide their own pay (within defined limits) and their hours of work. Semler says: 'Once employees feel challenged, invigorated and productive, their efforts will naturally translate into profit and growth for the organisation.'

In the end, doughnuts are built on trust. The occupants have to be left alone to get on with it. Trust is more easily given to those one knows well over time. It should, therefore, be easier to trust insiders rather than outsiders, yet, perversely, we give a freer rein to outside contractors than to our own workforce.

That has to be bizarre. Designing doughnuts should be the new organisational priority, finding ways to treat insiders as outsiders and outsiders as insiders and sharing the results. If the organisation chart looks untidy, so be it.