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Jack Gilles, Editor

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SUBSIDIARITY - Charles Handy

Subsidiarity is an ugly word. But once you have learnt how to spell it and get your tongue around it, you will be unlikely to forget it. Subsidiarity is the idea at the centre of federalism; it is the key element in learning; change, if it is to be effective, depends upon it; the work of teams requires it, as does any attempt to make individuals take more responsibility for themselves. It is, however, a confusing word, because it has nothing to do with subsidiaries.

Reverse Delegation

Jacques Delors once offered a prize for a good definition of this ugly word. He need not have bothered, as various people were quick to remind him. Politically, the tenth amendment to the US Constitution, laying down the principle of States' rights, does it, without using the actual word. Much earlier, the Roman Catholic Church, borrowing the idea from political theory, coined the word and turned it into a moral principle. It was last restated in a papal encyclical, Quadragesimo Anno, in 1941: 'It is an injustice, a grave evil and a disturbance of right order for a large and higher organisation to arrogate to itself functions which can be performed efficiently by smaller and lower bodies . . .' Strong words. I translate them more simply - stealing people's responsibilities is wrong. You could also define subsidiarity as 'reverse delegation' - the delegation by the parts to the centre.

Federal organisations take subsidiarity seriously. They have to because they work on the principle of reverse delegation. The individual parts, or states, cede some of their powers to the centre because they believe that the centre can do some things better on a collective basis than they can on their own. They therefore retain as much independence as they think that they can handle. These 'reserve powers' of the centre are negotiated jointly and are then recorded in a formal constitution. All federal organisations have written constitutions. It may be that Britain's aversion to a written constitution has something to do with her intuitive distrust of federalism and its formality. There should be nothing vague or woolly about federalism or the place gets cluttered up with overlapping responsibilities and misunderstandings.

As more and more organisations collect alliances around their cores, they are forced to negotiate what should be done by whom and the pressure will be to allow as much discretion to the parts as is sensible and possible. What you do not own you cannot dictate to; negotiation is inevitable, so is subsidiarity - leaving power as close to the action as possible.

The New Centre

Homa Bahrami, describing the new hi-tech organisations of Silicon Valley, calls them multi-polar, saying that they:

are more akin to a federation or constellation of business units that are typically interdependent, relying on one another for critical expertise and know-how. They have a peer relationship with the centre. The center's role is to orchestrate the broad strategic vision, develop the shared administrative and organisational infrastructure, and create the cultural glue which can create synergies.

One company employs 100 professionals in roles which are classified as 'corporate'. These include finance and administration, infrastructure support (which includes purchasing), legal services, human resources and corporate communications. All these roles, we should note, are service roles rather than decision-imposing roles.

The 'horizontal organisation' is also in fashion. As described by McKinsey consultants Ostroff and Smith, these organisations have ten key principles, including: 'organise work around processes not functions and select key performance objectives, flatten hierarchy by minimizing non-added-value activities, make teams not individuals the principal building blocks of organisations'. What they are saying is that the trick is to find the optimum level of subsidiarity and then collapse as much into that as possibie so that the group or team or individual have the means at their direct disposal to do what they are responsible for. In their view it is the team which is closest to the action that is the appropriate level of subsidiarity. That done, it is the job of the centre to set standards but not necessarily to specify how they should be delivered. The unit is then judged, after the event, by its performance against those objective standards. Some call this 'process re-engineering', but that is only to give a modern name to an ancient principle, a principle which needs to be rediscovered, if we are going to have any chance of coping with the turbulence of the times. No longer do people believe that the centre or the top necessarily knows best; no longer can the leaders do all the thinking for the rest; no longer do people want them to.

Following this principle, organisations, everywhere, have been collapsing and dispersing their centres. The 100 professionals of Silicon Valley seem to be about standard. ABB, the Swedish-Swiss engineering giant, oversees 225,000 people with about that number in an undistinguished office building in Zurich. British Petroleum, in London, has twice that number but would like to make it less. Richard Branson's Virgin empire makes do with five! One way that they do it is by dispersing the centre. There is no need to have all the people with responsibilities across the organisation sitting in the same central place. Those who are responsible for co-ordinating a particular product range may sensibly be located in the place which does most of the work on that product. The research co-ordination can go to the biggest laboratory, a geographical watching brief to a country or state in that area. It spreads power around and down. That gives those who are nearer to the action a sense of involvement, of ownership, in the policies of the whole. It is subsidiarity in practice, as it is when they locate the European Bank for Reconstruction and Development in London or the

European University in Florence, or the European Parliament in Strasbourg. To put everything in Brussels would be to take too much power into the centre. It would be stealing responsibility.

Small the centre should be, and partially dispersed, but it must be strong and well informed. The centre, after all, carries the ultimate responsibility for the whole. Its reserve powers typically include 'new money', i.e. the choice of strategic investments; 'new people', i.e. the right to make the key personnel decisions in the group; the design and management of the information system, which is the artery of the organisation; and, most controversially, the 'right of invasion' when things go wrong. Only those in the centre can have a view of the whole. They cannot run it, and should be too few in number to be tempted, but they can nudge, influence and, if they have to, interfere. The centre's principle task is to be the trustee of the future, but it needs to be sure that the present does not run out before the future arrives.

Federalism, insists Mike Bett of Britain's BT, cannot work without a strong centre. In the past, this meant that the strong centre was also a big centre. In order to co-ordinate plans and monitor activities, a lot of people had to be around. Power was then concentrated in one place. Federalism existed in name only. The information revolution which has overtaken us means that the centre can now be well informed but small, it can be strong but dispersed. Power can be more balanced. The nerve centre of the organisation can be in the chief executive's laptop computer - and in several others simultaneously. The 'Virtual Organisation' - the image of the organisation on your screen - is almost here, in our briefcases. The information age has made federalism possible.

This new, dispersed, centre has still, however, got to talk to itself as well as contemplate its screens. Video-conferences, voice mail and other technological devices help, but there is no real substitute for looking someone in the eye while you talk or they talk. Dispersed centres mean a lot of travel and red-eyes. The physical centres of these new dispersed organisations increasingly begin to resemble clubhouses, places where people meet, eat and greet but do not do their daily work. Like a club, there is a resident staff, those corporate services listed above, for instance, but the key players in the organisation live and work elsewhere and use the club for their necessary meetings. It is not even essential that the chairman or chief executive works out of the central club. For a large part of their time the officers will be, anyway, out and about, with the troops, where the different decision centres are, teaching, coaching, looking, listening. When they do go to the 'club', they can even have their own up-market 'puppy' or 'cart', a mobile desk with all its electronic paraphernalia, which is wheeled out and plugged in whenever the owner checks in.

Subsidiarity means small units, small units with real responsibilities. Richard Branson likes units of 50 or 60, Anthony Jay, in *Corporation Man*, favoured 400 or 500 and provided evidence from schools, Paris suburbs and Australia. Bill Gates of Microsoft likes 200 as a maximum. Tom Peters has documented many cases of organisations like Union Pacific Railroad breaking themselves up into smaller units, in that case of 600 people each, but comes down in favour of 150 as the natural size. He cites the findings in the *New Scientist* magazine that 'in most modern armies the smallest independent unit normally numbers 130 - 150 men', that 'there is a critical threshold in the region of 150 - 200, with larger companies suffering a disproportionate amount of absenteeism and sickness', that 'once an academic discipline becomes larger than (200 researchers) it breaks into two sub-disciplines', that 'neolithic villages from the Middle East around 6000 BC typically seemed to have contained 120 - 150 people' and 'the Hutterites, contemporary North American fundamentalists, regard 150 as the maximum size for their communities'.

Forget the precise size. The point is that we need the unit to be big enough to be competent to do what it has to do and small enough so that we can know everyone in it and they can know us. The Bishop of Occam would have understood. According to the principle of Occam's Razor, the unit should be as small as it can be and as large as it has to be, a paradox in balance.

Signatures and Rowing Eights

Subsidiarity, however, depends on a mutual confidence. Those in the centre have to have confidence in the unit, while the unit has to have confidence in the centre and the members of the unit have to have confidence in each other. When the mutual confidence exists, there is no need for the books of procedures, the manuals, inspectors, performance numbers and counter-signatures which clutter up large organisations. These are all the signs of distrust, the atmosphere of fear which makes so many organisations seem like prisons for the human soul. They should not, need not, be like that. Our work can be our pride. Put it this way: we want to be able to sign our own work. Every member of the team that makes a television programme puts their name on the end of it. As you watch the credits roll you wonder why anyone needs to know all those names. You don't need to know, but they need to tell you; they want the acknowledgment and the credit.

A friend was appointed manager of a small art-printing works. Shortly after his arrival he called the whole workforce together and told them that he was ashamed of the quality of much of the work that had been going out of the place. 'In future,' he told them, 'I want everyone who has worked on an order to sign their names to a slip that will go out with the order saying, "We are responsible for this work. We hope that you are pleased with it." ' I expected a revolt,' he said, 'but instead they cheered.' 'We, too, have been ashamed of much of the work. But we thought that that was what you wanted - the lowest acceptable quality at the lowest cost. We are happy to sign our names provided you supply us with the machines to allow us to do work to our standards.' Subsidiarity depends on a mutual confidence, but putting your name to it is the best guarantee of quality that I know. It is the reason why professionals always sign their work. The signature acknowledges their responsibility. We know who to blame if things go wrong - and who to thank if they go right.

Such mutual confidence, however, takes time to build up. It has to be earned by all concerned. I once described a typical British work team as being like a rowing eight - eight people going backwards as fast as they can, without talking to each other, commanded by the one person who can't row. I thought that it was witty. I was quietly rebuked, afterwards, by a member of the audience who happened to be an oarsman. 'You couldn't be more wrong,' he said, 'to make fun of it. We couldn't go backwards without talking, or be content to be commanded by a non-rower, if we did not know each other very well and have complete confidence in each other's ability to do the job we are supposed to do. That's why we practice together so much, eat together and even live together for long periods.'

Tough Trust

Subsidiarity in a group sounds warm and reassuring. It is, in practice, tough, and has important consequences for those in charge. For one thing, the group has to be small enough and be together long enough for the mutual confidence to grow. Confidence and trust cannot be ordered up from the store. A person must remain in a post long enough for others to judge the consequences of their actions and decisions. One-year assignments will seldom cover the feedback loop. More important even than that is the necessity to be ruthless if the confidence turns out to be unjustified. If you cannot have confidence in a member of the team, that member must go. Without mutual confidence the principle of subsidiarity cannot work. Check and checkers have to be installed. Suspicion and evasion become rife, morale declines, the work deteriorates and any remaining confidence evaporates. Mistakes can and should be tolerated, provided one learns from them, but too many mistakes erode confidence, particularly if they are what one company, W.L. Gore, calls below-the-water-line mistakes, mistakes which imperil the organisation. Those are not easily forgiven. It is better, then, to be tough than sorry.

Subsidiarity sounds like another ugly word - empowerment. There is a significant difference. Empowerment implies that someone on high is giving away power. Subsidiarity, on the other hand, implies that the power properly belongs, in the first place, lower down or farther out. You take it away as a last resort. Those in the centre are the servants of the parts. The task of the centre, and of any leader, is to help the individual or the group to live up to their responsibilities, to enable them to deserve their subsidiarity. In this way it is possible to handle one of the paradoxes of individualism, that we want to belong but we don't want to be bossed around, or to be 'empowered' if the hidden message is 'I empower you to do this, but I can disempower you if I don't like the way you do it'. Subsidiarity, therefore, is a tough deal. One has to understand one's responsibilities and then deliver. It means, too, that we have to be able to face up to disagreements. If we are going to take responsibility we need to be clear about what the criteria for our success are to be, what is acceptable and what is not. Only if there is a mutual confidence can agreement, argument and conflict be handled positively. Organisations based on subsidiarity are full of ambiguity and argument and conflict, but if it is argument among trusted friends, united by a common purpose, then it is useful argument. Truth, said the Scottish philosopher David Hume, springs from arguments among friends.

It is, as a result, extremely demanding to run an organisation on the basis of reverse delegation and confidence. It also feels quite lonely at the centre. As one director of ABB commented, 'All we can do is to watch the herd and observe, with some relief, that in general it is heading in a westerly direction!' Why, then, are so many organisations trying to make reverse delegation work? It is partly in response to the paradox of individualism, the recognition that the well-educated knowledge-worker increasingly wants both freedom and structure. To attract and keep the best of these knowledge-workers, to be a so-called 'preferred organisation', subsidiarity has to be guaranteed.

Most of us are little different from the knowledge-worker. We want to own our work, but we like to work within a structure. We need to know what is expected of us but then to have the discretion to do it our way. Subsidiarity is also, and more urgently, a response to the need in our institutions to be flexible but coherent, to be all things to all people but still recognisably the same to all. Deep down, however, subsidiarity is a moral imperative. Power belongs to the people. It is the manager's, or teacher's, or parent's challenge to help them to exercise it responsibly.

Subsidiarity, with its emphasis on our individual rights and duties, is the basis of any concept of citizenship and critical to any concept of society. If we want our personal freedoms, and if we want them underwritten with guarantees of health care and welfare, we must accept our responsibilities to our fellows and earn the confidence which will allow the freedoms. That is the kind of thing one learns from parents as much as from teachers, but, then, the messages implicit in subsidiarity are a good guide to parenthood. Give a child as much responsibility as she or he can handle and then help them to live up to it. Subsidiarity is an old word, packed with meaning. It may sound out-of-date but it carries a modern punch. We would be foolish to discard it.

BUSINESS WITHOUT BOSSES - C. Manz & H. Sims

To some, the notion of business without bosses, is paradoxical and even unnerving. Many organizations, however, have already adopted the use of teams, and by the end of the decade, as many as half of us may be employed in some type of empowered work team environment.

Self-managing teams are not just for a select group of people working in unique environments. Teams are employed in a variety of workplaces and by a diverse set of companies. They face difficulties and challenges, but the payoffs are high.

Payoffs From Using Self-Managing Teams

Well-implemented self-managing teams have produced some clear benefits. From an organizational point of view, costs frequently go down and productivity goes up. When employees experience greater ownership of their jobs and their outputs, they become motivated and committed. Conflict is reduced. We saw workers describe their operation as "our business" and heard them cheer and congratulate one another when company performance reports indicated positive results for their operation. We observed the significant pride on their faces as they detailed to us the kinds of important decisions they had made and the problems they had solved. They described with obvious pleasure how they saw themselves as important contributors to the organization's performance and progress. Our research shows that these kinds of feelings generally translate into bottom-line payoffs such as reduce manufacturing costs as high as 50 percent and productivity improvements in excess of 50 percent.

The creation of these empowered employee systems resulted in significant advantages for employees too. They experience a higher quality of life at work. Team members told of how they could never go back to the old way of top-down management. They talked about thinking of new work improvements when they were away from work. We saw dramatic examples, such as the employee who stopped by the plant one weekend to make sure everything was okay with his equipment. They clearly revealed an appreciation and pride that put a bounce in their step and look of confidence on their faces.

Perhaps one of the best indicators of this sense of satisfaction was the decreased absenteeism and turnover frequently reported by these organizations. One manager was able to count on the fingers of one hand the number of people who had left his nearly 300-employee self-managing team plant in the last few years. We also saw workers skillfully handle tardiness and absenteeism problems with members of their own group.

Other payoffs could be found in terms of improved quality and increased innovation, which frequently went hand in hand. As employees gained psychological ownership, they took personal pride in the quality of their products and services and worked diligently to eliminate defects and mistakes. In most cases, team members monitored their own output quality. If they detected a quality problem, they initiated action to correct it. Team members also frequently developed creative work procedures to improve quality, efficiency, and service. When work teams combined the experience and knowledge of their various members, they frequently identified innovative solutions to stubborn problems.

Teams also provided effective mechanisms for resolving employee interpersonal conflicts that might otherwise interfere with performance. Team meetings served as a forum where differences of opinion and hard feelings could be worked out between team members. Effectively integrated teams, which were able to allocate their members more flexibly to address current needs, helped the organization to be more adaptable.

These positive benefits were not realized without cost. Self-managing teams are not a panacea for contemporary organizations. On the contrary, they introduce new problems and challenges. The lessons learned to address these suggest some important prescriptions for achieving success with teams.

Challenges For Successful Implementation

A great deal more has been written about the benefits and advantages of teams than about the problems and challenges they raise, especially during the implementation phase. An employee in one company commented that outsiders "seem to think we don't have any problems anymore since we went into teams." Then he went on to describe in some detail the difficult daily struggles teams face. Typically teams face the following challenges:

Organizations tend to expect too much, too soon. Perhaps the notion of teams is now achieving fad status, when managers expect easy implementation and immediate results. To put it another way managers sometimes expect too much, too soon. Managers who severely underestimate the effort necessary to launch teams successfully are setting up their organizations for failure.

Things often get worse before they get better. Like any other innovation, teams undergo a learning curve. In fact, sometimes organizations suffer a reduction in effectiveness as teams start up, and it may take a year simply to regain former levels. Significant increases in productivity may not become evident for almost 18 months.

This decrease in productivity may occur as team members learn new behaviors and new responsibilities and, especially, struggle to find the path for internal organization that works for them. Many employees have no practical experience with self-management strategies, such as self goal setting, self-feedback, and designing their own information system, so they must learn how to go about these tasks.

Others believe this temporary drop in productivity can be eliminated, or at least reduced, through an appropriate lead time for planning the changeover to teams and intensive training to help team members learn to adjust to and succeed with the new system.

Finally, management should be aware that employees sometimes test the system to see if management truly has moved to a self-management philosophy. That is, they may deliberately make decisions that they know are contrary to management preferences and then wait to see if management steps in and revokes the decision-making authority. This is a critical moment in any team implementation, because the naysayers, opposed to teams, will be saying, "I told you so!" and management begins to feel as if total organizational effectiveness is threatened. Yet if they step in and overturn a team decision, they will cause a setback that may last for years. The team system itself may fail at this point.

Our experience is that teams do go through a period where they test management but rapidly move on to a higher level of trust and sense of responsibility. Once through this period, they are confident of management commitment and support, they take on some of the challenges of improving quality and productivity that make a real difference to the bottom line.

Managers' and supervisors' sense of power and control is threatened. Frequently, the middle managers and the supervisors feel as if they are the big losers in the transition to team systems. In one sense, they are right; the number of managers and supervisors is typically reduced with the team system. In fact, one of the major sources of savings that derives from a team system is a delayering of management and supervisors.

When an organization changes to teams, managers and supervisors must be guaranteed that none will lose their job because of the new system. (However, they may not be doing the same job or performing the same duties. Also, the commitment does not typically cover job loss due to declining economic factors.) Typically, managers or supervisors who are displaced are reassigned to more technical specialized positions or will be covered over a longer period of time through normal attrition. The important point, however, is that management needs to make an upfront guarantee to managers and supervisors that no one will be out of a job because of the team system.

A more insidious and difficult challenge is dealing with the psychological loss of control that supervisors and middle managers sometimes experience. They have grown up under a system in which the manager is a boss who gives orders, and employees carry out those orders. Typically, they have risen to this position after following orders; now they have the satisfaction of giving orders. They find satisfaction through the power they exercise as the boss.

Most of all, these individuals do not know how to behave in a team system. How can they "get" others to carry out their work if it's no longer legitimate to give orders and instructions - if they can no longer discipline? All of a sudden, their world has turned upside down, and they are indeed frustrated and confused.

These individuals could pose a threat to the team system if they do not allow a team to become self-managing. Perhaps they reverse team decisions if they feel a mistake has been made or if they believe that team decisions are too self-serving, or they may set out to sabotage a team launch searching for team mistakes and errors and pouncing on these as definitive evidence that "this team stuff will never work!"

Can traditional supervisors be converted to team facilitators or coordinators? Clearly, this change requires both new attitudes and new behaviors, and many are incapable or unwilling to learn these new behaviors. Our experience is that the capability to make this transition is difficult to predict. We have seen the traditional bull of the woods become the most ardent supporter of the team concept. Others are unable to make the transition and must be moved to more technical or specialized functions. Some may retire or quit rather than accommodate themselves to a team system. In a few cases, top management has asked a supervisor or manager who cannot adjust to leave the organization.

Clearly, middle managers and supervisors cannot be ignored when launching a team system; they have the power and the capacity to retard the transition or cause it to fail. They must become part of the solution, not part of the problem, through training and orientation. Sometimes training is almost exclusively focused on the teams themselves, and supervisors are left out. Supervisors and managers must be involved early with orientation, information sharing, and question-and-answer sessions. Mainly, they want to know how they will fit into the new system.

New Leadership Perspective

A new perspective on leadership is needed. Occasionally, we see organizations that move to teams but leave untouched the system of managing. That is, we bring in teams to supposedly increase productivity, but the mode of leadership at the management level remains top-down as it always has. The automobile industry has been especially troubled by this problem. Ford and General Motors have made considerable progress with teams and employee involvement systems, yet the mode of leadership in the middle ranks has remained virtually unchanged since the 1960s.

Trouble inevitably emerges when a company launches a team system designed exclusively for the lower levels of the organization. At some level in the hierarchy, a large contrast between the way things are done "above" versus "below" will be painfully evident, and somewhere, a manager in the middle will be trying to lead a cluster of teams according to principles of self-management while receiving orders from above in a traditional manner - a troublesome situation posing a severe philosophical conflict. Only an exceptional person can survive under these dramatically opposed expectations.

Sometimes a change to teams at the lowest level will become a driving force to change the pattern of leadership at higher levels, but this is the hard way to do it. Instead, in parallel to a transition to lower-level teams, higher-level management should reexamine its own leadership and teamwork practices. In essence, the leadership philosophy at the top must be consistent with the team and leadership philosophy represented at the lower levels.

Some high-status employees initially feel like losers. Just like supervisors, some other employees also feel like losers. From our experience, we can generalize some characteristics of employees who are likely to have negative feelings about the change. Employees who enjoy some privilege because of seniority may feel the loss of that privilege. Teams tend to reward and value people more on the basis of performance and contribution rather than seniority. Employees who have achieved a special position, such as specializing in a job with a degree of prominence that derives from a particular knowledge or experience, are more likely to feel a loss.

Implementation of Self-Managed Teams

Managers who are about to embark on a transition to teams should not assume that every employee or category of employee will embrace the team concept enthusiastically. In the planning stage, it may be advisable to conduct an analysis that attempts to identify whether some employees have special stakes in the existing system that they are reluctant to part with.

These employees can be dealt with in several ways. Bluntly forcing the change upon them will cause resentment. Sometimes these employees leave the system, and sometimes they cause distress to the team implementation. A better approach is to involve them in the transition planning process and attempt to deal with their concerns. Sometimes their special status or pay might be grandfathered into the new system. Most of all, it is important for management to realize that not all employees will see a transition to teams as a winning proposition, and these employees can cause considerable damage to the transition.

Employees need expanded technical and behavioral skills. Added responsibility and expanded autonomy means that both the technical and behavioral skill repertoire of employees must be expanded. One of the fundamental changes typically accompanying a team implementation is the notion that a team member becomes capable of most, if not all, of the tasks required of a team. Typically, task or technical-oriented training is required to ensure that team members develop these skills.

But perhaps more important, and not as well understood, is the idea that team members must develop individual and group self-leadership capabilities. They need to learn organizational, planning, interpersonal, and self-direction skills. For example, they must learn how to set goals, interpret feedback systems, lead and participate in meetings, resolve conflicts, and initiate problem solving on their own rather than automatically shifting the burden to a supervisor.

Team implementation requires planning and organization. Recently, we have heard of organizations that have formed teams by removing the supervisor and making a grand pronouncement that from henceforth the work groups are teams. This approach - with no training, no design, no organizational change strategy - is a sure recipe for failure. The general logic behind this implementation strategy is that teams that are really self-managing will also be able to self-manage the implementation. The flaw in this logic is provided by the rubber band metaphor. A rubber band can absorb a limited amount of stress by stretching; however, if it is pulled too much, too soon, it breaks. Self-managing teams can also break.

Typically, failure comes because teams are given total responsibility without the necessary technical and social knowledge and skills. Teams need to be trained in the fundamental social processes of learning to lead a meeting, to generate creativity, to conduct a problem-solving session, to engage in conflict resolution, and, most of all, to develop leadership skills.

A total quality management approach needs integration with a self-managing system. A wave of total quality management (TQM) is currently sweeping the globe. Often, a TQM program is implemented mainly as a technical innovation, and the critical social skills are ignored. Many TQM programs try to place a quality overlay on an existing traditional management/leadership system, with no real fundamental change to the hierarchical approach. Yet to take total quality management to its logical end, a team system is necessary. Moreover, the team system cannot be partial or voluntary or superimposed on a traditional top-down type of leadership philosophy. A fundamental change is needed. If TQM does not include real changes to the fundamental way of doing business, then the prospects for failure are high. On the other hand, if TQM is integrated with a true self-managing system, the two can work hand-in-hand to move the organization to competitiveness.

I was always in the middle of everything. My head-buffalo mentality led me to always want to be involved and in control. That meant that I wound up owning most of the responsibilities. That was just the way I wanted it, until I realized that I'd take those ever-increasing responsibilities to my early grave. As long as I owned it, no one else did.

I then became an expert at "delegating" work. I learned how to give assignments and follow up. That relieved my work load a little. But I was still stuck with making all the decisions. People soon learned that I preferred "my way." They constantly asked me what I really wanted. They checked every little detail with me. They kept me constantly informed. Soon I was spending more time, not less. The delegation approach was not working.

Finally, one incident brought my foolishness home to me. We had a trade show to prepare. It was a big annual event. We showed off our new products and booked orders. We had on put on the best program possible. I hired a communications coordinator to handle these kinds of events. He was highly recommended and high-priced. He spent weeks preparing the booth, the handouts, the demonstrations. His mistake was to not keep me informed at every step. When I realized that the date was just two weeks away, I asked him to brief me on his plans. What he presented was dramatically different from what we'd done in the past. I didn't like it and told him so. I insisted that he redo the program.

But it was too late. The time was too short to make any changes. Several of my managers told me how much they liked the new approach. So although I was tempted to cancel the show, I reluctantly agreed to go forward. My "I told you so" speech was just waiting until the show closed. To my amazement, I was wrong. We had the best show ever. We increased our bookings by 41 percent. Our booth was the hit of the show. The next day the coordinator resigned, saying he couldn't work in such a restrictive environment.

My owning all the responsibility cost me a great person, and almost cost me a year's worth of orders. It was clear to me that I had to change. As the leader of my organization I am responsible for creating the environment that enables each person to assume responsibility for his or her own performance. The people own the responsibility for delivering great performance. I am responsible for creating the environment where this ownership takes place.

Shortly after my trade show experience I had an opportunity to learn how to transfer ownership to the people who do the work by creating the ownership environment. As usual, it was serendipitous.

"Who Should Make The Decision?"

One unit was selling software to government units in our geographic region. Initially, the first team of employees sold, installed, and supported all the systems, since they were the only people in the company. Everyone assumed that that pattern would change as soon as the company grew sufficiently. It is standard in the industry to separate selling, installation, and support. There's an assumption that salespeople, and good support people are different from both. That assumption did not prove true.

The team quickly sold out their local market. In order to grow, the team either had to seek out smaller customers within their geographic area, which meant changing their product, or they had to move into new geographic areas. I sensed an opportunity for people to assume increased responsibility. So I posed the following question to the group: "What can you do to assure that each customer gets the best service?" Rather than my deciding what to do, I turned the decision over to the people who had to make the decision work.

The people decided to hire new people to sell smaller customers in their original geographic area and to move into new geographic areas. They set up a rotation system within the teams so that everyone learned all the skills. They set up an internal monitoring system to keep the skills current. They assumed ownership for the training and monitoring themselves, and for assuring superior service to their customers. One of the team members offered to start the new team for the smaller customers. Another offered to relocate temporarily to start up a new operation in a new geographic area.

Today, there are more than seven hundred people in the company, organized into thirty-seven semi-autonomous teams stretching from Singapore to Moscow. These team members are responsible for hiring, training, and maintaining superior levels of service to customers. The team members themselves assumed responsibility for delivering great performance to their customers when I created the environment which encouraged that to happen. That's leadership in the intellectual capitalism age.

Modify Systems to Enable Ownership

As the company grew, so did complaints about performance discrepancies among teams. We tried several different tactics to deal with the discrepancies all to no avail. Finally, one day, I realized that this was another opportunity to transfer ownership. At the next all-employee meeting I asked, "How can we assure consistent high performance across all teams? What can we do to be certain that we are all equally proud of the work of each person in the company?"

The employees wrestled with the problem for a complete day. Finally, they decided that each team would meet each week and set individual and team goals. The goals would expect measurable, responsible action from each member. These goals would be entered on the E-mail system along with daily progress. Team members agreed to help other team members - both in their own team and in other teams - to set realistic and stretching goals and then support each other in attaining them.

Today, each team member inputs his/her individual and team goals every week, reviews and comments on others' goals, and reports daily progress. There is a lively E-mail exchange about goals and performance among most people in the company. And goal attainment averages 99+ percent every week. A system designed by the people helped create the environment wherein the people assumed ownership of their results.

Knowing The Results of Actions

We have an extensive full-cost, real-time cost accounting. I heard a discussion some years back on "activity-based costing," and became a believer. I urged the design and installation of this system in the company. Everyone charges his/her time, expenses, and materials directly to a project, customer, or program. These costs are collected daily, where a real-cost thirty-day rolling average is computed for every product for every team.

This real-time, full-cost data bank gave the teams the opportunity to make such business decisions as pricing and delivery. It enabled them to own the responsibility for making profitable bids.

Initially, I reviewed and approved each bid. I was concerned that bid prices wouldn't be high enough, and they weren't. I found myself continually raising the bids. I realized that I had to change the situation or else I'd be there forever reviewing bids, and I didn't exactly see that as my preferred future. It was fun being the head buffalo, but it required too much work. So I looked to change another critical system which helps create the ownership environment: the reward system.

Want Ownership? Pay For It

In the first year, each person was paid a bonus on a percentage of overall company profit. The executive committee determined that bonus. The first year's bonus was not very large, as start-up costs ate into the profits and we needed to conserve cash. This caused considerable discontent. Finally, after much fruitless discussion, I realized that I had another opportunity to transfer ownership. I was learning my new leadership behaviors.

At the next quarterly all-employee meeting I asked the question "What is a fair and equitable bonus system? What would make you feel like a winner, and still leave a return to our shareholders and enough capital to grow the business? What bonus system would reward people on the basis of their contribution?" As a trigger to the discussion I suggested a 50/50 split of net profits before tax to be allocated on the basis of team performance.

The group took some time to decide. Eventually, they chose to use the 50/50 split as a framework, but added certain provisions. They decided that the teams would allocate the bonus among team members, ensuring that everyone received the reward based upon his/her contribution. But eligibility for the bonus pool was initially restricted to those individuals who met their weekly individual and team goals 90 percent of the time and received a rating of 8 or better (out of a possible 10) on the monthly customer satisfaction survey. Interestingly, the group has continually raised the standard for admission into the bonus pool. Today, the group has established 100 percent goal achievement and a perfect score of 10 on the customer survey.

Almost immediately, bid prices and margins rose, as did the preoccupation with supplying superior products and services to create the additional value. Furthermore, after the initial excitement caused by the distribution of big monthly team bonus checks, the focus shifted to the weekly performance management reports. E-mail notes flew back and forth challenging, supporting, and sharing information relevant to the attainment of individual and team goals.

Over the period of a few months I withdrew from approving bids. The teams now had full responsibility to bid jobs and deliver a superior product, which delighted customers and earned the company a profit. I had created the ownership environment. They accepted the ownership for running their business. They had the intellectual capital. They were in control.

Managing External Chaos

All the while we'd been changing so dramatically internally, the market was doing flip-flops. Our technology base changed four times in four years. Our programming language changed several times in the same four years. Our customer base shifted five times in the same four years.

All of my leadership efforts directed toward transferring the ownership paid off. Despite the external chaos, the people were able to keep focused on delivering great performance for their customers.

My job as a leader in the intellectual capitalism era is to create the environment wherein the people want to take ownership.

SELF-DIRECTED TEAMS - Richard S. Wellins

Today's organizations face unprecedented challenges. Fierce competition, globalization, deregulation, technological change, and shorter product life cycles can create new opportunities for them - - or economic disasters. To survive, companies will have to focus on total quality, speed to market, and cost containment; mastering only one or two of these three key areas will not be enough. In addition, the values and attitudes of today's workforce have changed. Today's workers demand greater participation, flexibility, and autonomy; they want opportunities to work with their heads as well as their hands. The organizations that have positioned themselves for success are those that focus on empowering their workforces. Business leaders have come to realize - albeit slowly - that innovations to reduce defects won't come solely from the minds of a few "super leaders" but will be the products of cultures that foster continuous improvement - small incremental changes made by every worker, every day. One successful strategy for creating an empowered work culture is the use of self-directed team. SDTs are small groups of employees who have day-to-day responsibility for managing themselves and their work. Members of SDTs typically handle job assignments, plan and schedule work, make production related decisions, and take action on problems. SDTs require minimal direct supervision. They differ in design from quality circles and cross functional task groups in that SDTs are formal, permanent organizational structures. SDTs operate with fewer layers of management than do traditional organizational structures. They require team members to learn multiple jobs or tasks and to take on many tasks that were once reserved for supervisors or managers - including hiring, firing, conducting appraisals, and setting schedules.

A recent survey conducted by Development Dimensions International (DDI), in conjunction with Industry Week magazine and the Association for Quality and Participation (AQP), estimates that about 25 percent of U.S. Companies are implementing SDTs somewhere in their organizations. Companies that already use SDTs include Corning, Toyota Automotive, Texas Instruments, Digital Equipment Corporation, Procter & Gamble Co., and Colgate-Palmolive.

The results have been impressive: Organizations that use SDTs have maintained or reduced labor costs while improving productivity by 50 percent or more.

Instituting a culture that places a premium on empowerment is no small feat. Establishing SDTs requires major organizational and cultural changes. Without such changes, implementation can turn into a management directed nightmare. And because SDTs require extensive employee involvement and trust, failed implementations can set back an organization's employee-involvement effort for years.

An organization must focus on five major issues in order to make self-directed teams work:

- designing teams for success
- selecting team players
- training for success
- initiating leadership transitions
- rewarding team performance

What follows are some suggestions for addressing each of these five important issues.

Designing Teams For Success

The most important suggestion for creating a successful team implementation is a simple one: Make planning a priority. In moving toward self-direction, the organization and its employees need to consider such questions as these: Where do we start? What training do we need? How will SDTs affect our work and our jobs? What role will support departments play? What responsibilities will be transferred from leaders to teams?

The following six-step process can help companies get started in creating a successful SDT implementation.

Step 1: Learn about SDTs. The odds of success are better if upper management is properly schooled in the concept of SDTs. Resources about work teams are abundant. Dozens of articles and books have been written on the subject. Several companies sponsor conferences about the team concept. And visits to team-based organizations can serve as valuable learning tools.

Step 2: Conduct a "readiness" assessment to determine if teams are right for your culture. Off-the-shelf instruments and interview guides can help you decide if teams or alternative forms of empowerment strategies are bound for success or doomed to failure in your organization.

Step 3: Communicate to your employees the organization's vision and values as they relate to empowerment and teams. Management must have a clear picture of where the company should go and how the concept of self-direction ties in with the existing mission and cultural values.

Step 4: Take your organization through a process known as "workplace redesign." This process requires an organization to take a hard look at the nature of its work (work flow, job design, and layout) and its systems (compensation, training, hierarchy, and appraisal), and to blend them for maximum productivity and employee satisfaction.

Step 5: Implement. The actual implementation should include the positive features found in any sound change process: open communication, leadership support and training.

Step 6: Continually evaluate the progress of SDTs. Most organizations convert either on a trial basis or in start-up locations, so constant evaluation is critical. Team implementations can always benefit from critical and continual adjustment and improvement.

Selecting Team Players

Companies that are moving to self-directed teams must select workforces that are equipped with - or capable of acquiring - the competencies, skills, and values necessary for successful performance in high-involvement organizations.

Any good selection system must have the following features: •The selection system must be accurate in identifying candidates who are most likely to succeed in the new organization. •It must be legally defensible. •It must be perceived as fair; candidates should believe that they are treated in a just manner and that the system has accurately assessed their potential for performing the jobs in question. •The selection system must be efficient.

The first step in setting up a team oriented selection system is to identify the targets - called "dimensions" or "job competencies" - against which a team member's or team leader's performance will be assessed. Many organizations accomplish this through the process of job analysis. A job analysis generates a list of behaviors, technical knowledge, skills, and motivational areas that differentiate successful performers from unsuccessful ones. Once the dimensions have been identified, the company can design its selection system. The best selection systems tend to include a combination of techniques, including interviews, paper and pencil cognitive ability tests, technical tests, reference checks, simulations and "realistic job previews" (often in the form in a video that depicts the working environment and culture of a team-oriented facility). A realistic job preview is not meant to be a marketing video, but rather a down-to-earth preview of what work will be like in the new facility and what will be expected of workers in the team-oriented environment.

Training For Success

SDTs encourage multiskilling and job rotation, which require a heavy investment in technical training. Workers must learn to work together as a team - workers who in the past have been rewarded for individual performance. Successful self directed organizations commonly find that 20 percent of a team member or team leader's time during the first year of team operation is spent in various training activities.

Three categories of training are essential for effective team performance: **Job skills** are the technical skills required for job performance; **Team/ interaction skills** are the interpersonal and communication skills needed by team members, including giving and receiving feedback, handling conflict, valuing diversity, working in teams, and training and coaching; **Quality/action skills** involve identifying problems and implementing improvements. These skills include statistical process control, use of various quality tools, continuous improvement techniques, and troubleshooting.

Initiating Leadership Transitions

In reality, few organizations have totally converted to SDTs. In most cases, managers and supervisors still serve the teams as valuable resources after SDT implementation, but their roles change radically.

In SDT organizations the team assumes the functions of controlling and scheduling work, appraising and disciplining employees, hiring and firing as well as sole responsibility for quality of the product or service. Thus managers and supervisors take on entirely new sets of responsibilities: coaching and training team members; serving as the contact points for suppliers; helping teams gain access to the resources and training that are needed for success; filling in when team members are absent or during peak-demand periods; and helping teams coordinate efforts with other teams and other units within the organization.

It is important that organizations help their supervisors and managers make successful transitions. They should ensure that these people have clear expectations about their new roles, as well as the necessary training in different types of leadership skills. Change should occur slowly, to allow team leaders and managers the time they need to learn their new roles. The smoothest transitions involve leaders and managers in the change process.

Rewarding Team Performance

For years industry has focused on rewarding the lone hero. Many organizations that use self-directed teams implement various types of "gain-sharing" or team-bonus schemes, along with skill-based compensation plans.

Skill-based plans hold a unique advantage with SDTs because they focus on rewarding the number of skills a team members has mastered and applied, thus increasing production flexibility. Such compensation schemes reward team members in three areas: **Job depth** - learning a specific process in greater depth. For example, first a person might learn how to operate some equipment, and then he/she might learn to do basic preventive maintenance on that machine. Finally, they progress to performing advanced maintenance. **Job breadth** - every team member learns all the jobs or tasks required of the entire team. **Vertical skills**. With this third and least common method, team members learn leadership skills that are used in all jobs. Examples include troubleshooting techniques, training other employees, safety procedures, and meeting leadership - skills that are required for successful team performance.

Performance of teams also can be rewarded via gain sharing or team bonus programs. These programs reward teams for increases in productivity that exceed some measure of baseline performance. In many cases, management divides the bonus equally among team members; occasionally, team members decide how to distribute the bonus among themselves.

CASE STUDY: XEL - John Case

In the mid-1980s, not long after Bill Sanko and his partners had engineered the buyout, they could see that their fledgling telecommunications-equipment company was struggling.

Granted, the numbers weren't so bad. XEL Communications Inc., as they had christened the new business, was selling a lot of custom circuit boards to GTE Corp., its former parent. It was making money. But Sanko, a longtime GTE executive who took the entrepreneurial plunge at age 44, knew he'd be foolish to depend too heavily on his ex-employer. He needed to sell more to the Baby Bells, and to big industrial customers that operated their own phone systems.

The 180-employee company would be up against the likes of Northern Telecom and AT&T. XEL's only hope was agility. Lightning turnaround of orders, quicker than any big company could manage. Speedy response to customer needs. All done with close attention to cost. The low bidder in a competitive situation didn't necessarily get the job, Sanko knew. The high bidder didn't have a prayer.

Fleetness of foot, unhappily, was just what XEL lacked. Costs weren't exactly rock-bottom, either. On the shop floor, for example, cycle time - the period from start of production to finished goods - was about eight weeks. That left customers disgruntled and tied up money in inventory. The company's chain of command, moreover, had scarcely changed since the GTE days. Line workers reported to supervisors, who reported to unit or departmental managers, who reported on up the ladder to Sanko and a crew of top executives. Every rung added time and expense. "If a hardware engineer needed some software help, he'd go to his manager," Sanko says. "The manager would say, 'Go write it up.' Then the hardware manager would take the software manager to lunch and talk about it."

Sanko fretted, talked with his partners, fretted some more. "We needed everybody in the building thinking and contributing about how we could better satisfy our customers, how we could improve quality, how we could reduce costs," says the chief executive. Soon XEL began the kind of top-to-bottom transformation that numerous U.S. companies have attempted in the past decade.

First came the vision statement, crafted by Sanko and colleagues with the help of a consultant. That turned out to include the pregnant clause "we will be an organization where each of us is a self-manager." Next, manufacturing vice-president John Puckett redesigned the plant for cellular production, with groups of workers building whole families of circuit boards. Finally, Sanko and Puckett decided to set up self-managing teams, then a hot new concept, and brought back their consultant to help them get started. By 1988 the teams had been established - and the supervisory and support staff reduced by 30%.

Today, five years later, XEL has rebuilt itself around those teams so thoroughly that the Association for Manufacturing Excellence recently chose the company as one of four to be featured in a video on team-based management. Dozens of visitors, from companies such as Hewlett-Packard, have trooped through XEL's Aurora, Colorado factory.

What they see is striking. Snappily colored banners hang from the plant's high ceiling to mark each team's work area. Charts of the wall track attendance, on-time deliveries, and the other variables by which the teams gauge their performance. Diagrams indicate who on a team is responsible for tasks such as scheduling.

Every week, the schedulers meet with Puckett to review what needs to be built. The teams meet daily, nearly always without a boss, to plan their part in that agenda. Longer meetings, called as necessary, take up topics such as vacation planning or recurring production problems. Once a quarter each team makes a formal presentation to management on what it has and hasn't accomplished. Overheads, with fancy charts, are de rigueur.

And the numbers are right where Sanko had hoped they would be. Since the advent of teams, XEL's cost of assembly has dropped 25%. Inventory has been cut by half; quality levels have risen 30%. The company's all-important cycle time has plummeted from eight weeks to four days and is still falling. Sales have swelled to an estimated $25 million this year, up from $17 million in 1992.

A success story? Sure. But XEL is also something more complex and interesting, which is to say a company that has learned lessons about teams not viewed in any video or taught in any text. The consultant did his job fine, years ago. But there is much that no consultant knows - and that XEL, from its experience, now does.

Tasks like adding new people get harder, not easier.

Face it: though CEOs love to complain, bringing on new hourly employees just isn't that tough in traditional companies. A manager or human-resources professional chooses candidates. A supervisor tells them what to do and helps them get started. Add teams, however, and the process gets messy. "Staffing up is probably five times harder with self-directed work teams," sighs Julie Rich, XEL's human-resources vice-president and one of Sanko's original partners.

Part of the problem is hiring itself: If you want people to work together well, you'd better involve the team in choosing candidates. In slack periods, that's no problem. But when a company is growing, who has time? Then too, traditional companies need look only for the requisite technical expertise and work habits, while teams need skills like the ability to handle confrontations. "We ask applicants, 'If you had a problem with someone, how would you deal with it?'" reports Ernie Gauna, an assembler with a process team called Catch the Wave. Some candidates handle such questions poorly. Others decide they don't really want to work for a company that poses them.

But getting people in the door is a picnic compared with bringing them up to speed. It isn't that teams don't want new members. It's that they have more immediate things on their minds, like output - for which they, not some supervisor, are held accountable. And since a production line is only as fast as its slowest member, they know output will suffer. "I feel sorry for new people," says Teri Mantooth, who operates the wave-solder machine. "Your first instinct is, Oh, no, we've got a new person and we're going to get throttled; we're not going to make our numbers."

The payoff, of course, is that once new people "bond" with the team, they're part of an intense social group. Turnover at XEL is low and loyalty strong, particularly among veterans such as Gauna and Mantooth. But getting there hasn't been half the fun. XEL tried staffing up with temporaries, hoping to avoid or at least postpone the difficulties of bonding. That backfired: the full-timers treated temps worse than they did regular newcomers and showed them the door at the first sign of a foul-up. The company also tried a training team designed especially for new hires. But trainees "freaked out" - Mantooth's words - when they graduated to a regular, faster team. Julie Rich's most recent experiment, implemented only a few months ago: a formal buddy system, which pairs new hires with veterans. She's optimistic, but the final verdict isn't yet in.

Supervisors are sorely missed - but not for the reasons you would expect.

Ultimately, a traditional supervisor's explicit tasks - even hiring - will be taken on by teams. Once that happens the frontline manager's input won't be missed. But supervisors have an implicit job as well, namely, keeping a lid on the messy underside of human relations.

Think about it. Everyday spats and skirmishes, the kind that arise in every group, don't fester long in conventional plants because a boss steps in to discipline or separate the warring parties. At XEL there's rarely a boss in sight, so disputes can snowball. "If one team is fighting, other teams will eat on it," says Mantooth.

XEL has evolved an informal way of dealing with such problems: get them off the floor and get them resolved, face-to-face. A team's scheduler (who often acts as a de facto leader) or a seasoned worker will jump in, ask the disputants into the conference room, and try to mediate. Not that it's easy. Mantooth, for example gripes that two women on her team have been harboring grudges toward each other for weeks now, and nothing she does seems to help. And when disputes rumble on, production suffers.

Because of that vulnerability, every team member at XEL seems acutely aware of the importance of individual personalities, of people's ability to work smoothly as a team. One or two uncooperative teammates can screw up the whole group.

Team building doesn't go neatly from one stage to the next.

To Puckett, that was the most surprising realization. "The books all say you start in this state of chaos and march through these various stages, and you end up in this state of ultimate self-direction, where everything is going just great." The manufacturing VP smiles, a little wanly. "They never tell you it can go back in the other direction, sometimes as quickly."

At XEL the fastest backslider in recent memory was the stockroom team. To all appearances, it was working well enough. Then cracks began appearing in its facade.

One day, for example, a team facilitator named Scott Tirone was working in a nearby area when he heard a dispute break out in the stockroom. An employee had come in 20 minutes late, unexcused, and was arguing vehemently with the team's attendance taker that she shouldn't be give an "occurrence" on the board, as company policy required. "She had a pen in her hand and was actually going to go change it," Tirone remembers. He intervened.

Puckett then began hearing complaints from the stockroom. Arguments were frequent. The stockroom's "customers" - the other teams - felt they weren't being well served. Soon he discovered something worse: a few people in the group were cheating on their time cards and covering up for one another.

The result: team-based management in the stockroom came to an abrupt halt. Puckett fired the abusers. He installed Tirone as stockroom supervisor, with full disciplinary authority. "My main purpose in going over to the stockroom was to do some housecleaning," says Tirone.

But his purpose now, he adds, is to work himself out of a job by retraining people in how to collaborate as a team. His model? The Red Team, which a couple of years ago was mired in discontent almost as deep as the stockrooms and was given a facilitator to oversee its operation. That move annoyed the group - which, however, decided that the way to get rid of its facilitator was to get its act together.

"I think we just stepped up and started doing more of what we were supposed to be doing, instead of having one person controlling what was going on," says Fred Arent, a Red Team member. Today the team is one of XEL's more productive.

Managers need skills no traditional company can ever teach them.

One is assessing each team's "maturity," as everyone at XEL calls it, and establishing the boundaries of self-management accordingly. Teams doing well get less managerial oversight; teams doing poorly get more. "We may have to say, You guys don't have the authority to determine your own overtime, because you're misusing it, and here are the indicators," says Puckett.

But there are at least three other skills, all delicate, that Puckett has had to learn - and that he's now teaching his two lieutenants, each of whom oversees the operation of several teams. Call them diplomacy, monkey managing and innovation triage.

Diplomacy refers to the job of managing relations among teams. That can be as simple as encouraging one team to lend a few workers to another or as difficult as untangling an interteam dispute.

Untangling is ticklish because managers seldom have firsthand knowledge of what happened. Disputes aren't usually resolved until all managers, like United Nations negotiators, sit down with people from the teams and work it through.

Monkey managing is the fine art of, as Puckett puts it, not allowing someone else's monkey, or problem, to jump onto your back.

One team can't find anybody to be its scheduler. Another team can't get enough volunteers to work nights. A manager's problem? Not at XEL. "You need to make them responsible for solving the problem," says Puckett. "Because as soon as you say, OK, I'll do something about that, they no longer have any responsibility at all." That, of course, turns the conventional managerial mind-set upside down: bosses usually figure their job is to take on other people's monkeys. But so long as a problem stays within a team - and so long as the team has the resources it needs to solve it - an XEL manager learns to stay away.

Innovation triage may be the trickiest of all, because it ties directly into a key strength - and key weakness - of team-based management.

The strength is just what CEO Sanko had sought when he instituted teams: a lot of people thinking actively about such matters as quality and cost. The Red Team's Arent, for example, noticed that one model of board didn't need certain pieces called for in the engineering diagram. Rather than hollering for Puckett, he went directly to the engineer involved and got the specification changed.

And the weakness? Not to put too fine a point on it, but teams may assume they know more than they do. One team, says Puckett, identified a parts problem on a particular board and worked with engineering to get the part replaced. So far so good. Then the team noticed a similar problem on another board and made the same change without consulting anybody. Soon those boards were coming back to the factory: they had failed in the field.

A manager's job: encourage and reward good ideas and innovations - but make sure teams don't take too much into their own hands.

Employees, too, need skills they never had before.

Some of those new skills are obvious. You can't chart defect trend levels unless you know some basic math and statistical process control. You can't take an active part in meetings unless you speak conversational English.

Recognizing an acute need for training in such subjects, XEL set up in-house classes taught by its own employees, and designed an extensive adult-education program in conjunction with nearby Community College of Aurora. Some 60 of the 80 employees then in the shop took at least one class, in subjects ranging from English and math to stress management and cost accounting. The program attracted national attention. "America's best hope for maintaining its status as an economic powerhouse may reside in quiet efforts like those under way at XEL," the *Denver Post* editorialized.

The other skill employees need is less obvious but no less important. Call it assertiveness or ambition or simply an expansive attitude toward work life. Whatever the name, it's the opposite of the conventional employee's mentality. Traditional workers specialize; XEL's must learn a variety of skills and be willing to perform many tasks. Traditional workers do as they're told; XEL's have to set their own priorities.

Standard systems for managing people go out the window.

Compensation and performance review, in particular, have challenged XEL's creativity. Most companies have plenty of leeway in how they treat pay issues. Not companies with teams. "I don't think you can have effective team-based management with a traditional compensation system focused on individual performance," says Puckett. Workers can't be looking to shine on their own, he adds - they have to be thinking of the good of the team. And the compensation system must encourage them to do so.

XEL's system is still evolving, but right now it walks on three legs: Leg one is skill-based pay, an hourly wage determined by the number of skills a worker has mastered. The logic: successful teams require members who can perform a variety of tasks.

Leg two: merit increases, based on a combination of team performance and peer reviews. What better measure of effectiveness than your team's numbers? And who can judge your contribution better than the other members?

Leg three: profit sharing, paid in cash every quarter, varying with the company's performance and each worker's quarterly earnings. Teams can be successful only as the company is successful.

The performance review system has evolved over time. The reviews are done by team members themselves. At first the company asked for narratives on each person. No go - workers had neither the time nor the skills to provide so much information. But an employee task force designed a check-a-box style of review, in which people rate one another on matters such as efficiency, meeting team goals, and punctuality.

SURRENDERING CONTROL - Peter Block

Now hear this
Now hear this
This is the captain speaking
This is the captain speaking
That is all
That is all

Old navy proverb

To live in an organizational pyramid is to pay great attention to control. At times it seems we value control above all else. Whole departments and whole levels of management are created simply for the purpose of keeping control. It is as though if we lose control, we've lost everything. As long as we are in control, who cares what else is happening.

Most current experiments in productivity improvement focus on giving employees more control over their work. The press is full of success stories about worker involvement, quality circles, autonomous work groups, flat organizations, all operating under the heading of participative management. Despite the positive publicity and real results of these approaches, they are by far the exception. Even when a major automobile manufacturer like Ford Motor Company commits itself to employee involvement right from the top, the transformation from autocratic to participative management takes years and years.

Why is this? Because we have learned to value control above all else. If you give someone the choice between low control/ high performance on the one hand and high control/ low performance on the other hand, the common response is "Thank you for the interesting information, but I will continue to take the high-control/ low performance alternative.

Another expression of our passion for control is our disdain for surprise. "You can do what makes sense to you, be master of your own fate, but whatever you do, don't surprise me." You can tell many managers that over the weekend the roof collapsed, the employees welded the doors shut, and the receptionist ran off with the security guard, and their response will be, "That doesn't surprise me." As long as we are not surprised, we create the illusion that we are in control. The desire for control through lack of surprises is in many ways a loss - to the person and to the organization. The case for surprise is quite straightforward:

- In research, surprise is essential to high performance. The essence of discovery is to be surprised. To not be surprised is to miss discoveries and inventions.
- All learning is preceded by a moment of ignorance, followed by a moment of surprise. When we avoid surprises, we avoid risks, which prevents us from finding new ways of doing business.
- Surprise also gives seasoning to the quality of our experience. Excitement, adventure, and the unknown are sources of motivation and energy. No surprises is a way of bleeding energy and motivation from our work lives.

Despite these rational arguments for surprise, which are arguments for loosening control, the machinery is deeply institutionalized for creating organizations of absolute predictability and control. Setting goals and measurable objectives and working according to plan are the lifeblood of most organizational cultures. The paradox is that while we value planning and prediction with religious zeal, we know in our hearts that they are not possible. The most common complaint for inadequate performance is lack of planning, lack of clear goals, lack of adequate controls. This yearning for control is a central theme of life in a pyramid and is also what helps create the bureaucratic style and negative political activities that we wish to change. If we wish to move our organizations in an entrepreneurial direction, we have no choice but to seriously confront our values and attitudes about maintaining control.

What we have working in our favor is that the wish for control is mostly an illusion anyway. If we think we have control over fifty or a thousand or twenty thousand people, we are kidding ourselves. The inmates do run the prison. The people at the bottom are the ones who decide every day what work gets done. If those at the bottom want to fight the organization, all they have to do is to enforce the rules and regulations. This is the bureaucratic form of revenge. If the police want to go on strike but are forbidden by law to do so, all they have to do to shut down the city is to enforce the law. The technical term for this is *corporate gridlock*. The people who work for us decide what gets done. We don't. We tell them what we want to get done, but they decide whether and how to do it. And the cruel trick is that the higher in the organization we go, the less contact we have with the touchable work of the organization.

The higher we are, the more dependent we are upon layers on layers of the organization to find out what is really going on. Top executives get so frustrated trying to discover the truth about what is happening beneath them that they bring in staff groups to act as their agents. This is why so many corporate staff groups grow so large. Top managers, frustrated with their lack of information and control, create staff auditors, planners, trainers to circumvent the normal channels. These groups are a wish on the part of executives to maintain control but also an acknowledgment that they don't have the control.

Those at the top do have the power to give direction and focus, to hire and fire, to make decisions about dollars, people, technology. But the actual control to make those decisions work is, in reality, out of their grasp.

In order to create an entrepreneurial culture, where people are political in the best sense, we must give up some of our control. We can take comfort in the fact that we are only giving up something that we never really had in the first place. We can't lose something that we don't have. Deemphasizing control and keeping it in its proper perspective is not giving up something real; it is only giving up the illusion, which isn't such a bad thing.

Manipulative Tactics

We can now focus on traditional political behavior. Politics as we know it can be characterized by:

- maneuvering situations and, at times, people,
- managing information and plans carefully to our own advantage,
- being strategic and instrumental in our relationships,
- seeking approval of those above us,
- being cautious in telling the truth.

These kinds of activities, which are the essence of bureaucratic behavior, are driven and if not created then supported by the nature of our contract with the organization plus the way we define our self-interest.

Given a patriarchal contract that places primary emphasis on control and a definition of self-interest that gives primary attention to safety and winning the approval of those above us, the unavoidable consequence is that we manage through manipulation. Manipulation is so ingrained in the way we operate that we often don't even know we are engaging in it. Manipulation is the act of trying to control other people without their knowing it. There is a difference between control and manipulation. Control occurs when we guide other people's behavior and let them know that we are doing so. Manipulation occurs when we try to influence others and act as if we are not.

Manipulation is an emotion-laden word. Most of us would reject the more blatant forms of using other people to our own advantage. Machiavelli, the master manipulator, would probably have difficulty finding a job in most modern organizations. Bureaucratic political acts are not so clear as outright lying, using others and then discarding them, destroying our enemies or befriending falsely those we have contempt for.

The politics we are most likely to be part of are more subtle and have evolved as coping strategies rather than acts of aggression. We reluctantly become manipulative because we are bouncing back and forth between (1) knowing what is needed to get our job done and becoming advocates for our own unit and (2) living in a high-control, approval-seeking culture in which people's own upward mobility is constantly at the center of their consciousness. Being indirect, clever, and closed is an adaptive response to our predicament and not really our first choice in how we would like to operate. We become manipulative at first because it works and seems so well accepted. After a while, we become part of and carriers of a culture that initially we viewed with puzzlement.

What follows are some of the more subtle ways in which negative politics is enacted. Seeing these clearly makes it easier for us to choose an alternative, more positive path.

Saying What We Don't Mean

Essentially, manipulation is saying yes when we mean no. People come to us with ideas and proposals and our response is "It's a very interesting idea." *Interesting* is the word we most commonly use to express either our indifference or our objection while acting as if we want to be supportive. It's what your mother-in-law says about where you place the sofa in your living room when she can't stand the choice you've made. She walks in and says, "It's very interesting where you have placed the sofa and how you have rearranged the room." This is her code for saying the place looks awful!

When we make proposals to people and their response is "We need to study it more," or "We need to refer it to a task force," or "We need to set up a committee," or "We need to check with other people to see how they feel about it," they are, in essence, saying that our idea is not one that they can support, but they can't tell us that they can't support it. The response "The timing isn't right; I think this would better be done in the third quarter next year" is organizational code for saying no but acting like the answer might at some future time be yes. All of these are subtle forms of manipulation.

God Is My Ally. Another form of manipulation is name-dropping. People come to you trying to persuade you to do something, and in the course of the conversation, they happen to mention that one of the top executives supports the idea. If the top executive's name is Jack, they will, as an aside, mention that they were talking with Jack about this the other day and Jack thought it was a good idea. In fact when they tell you that they and Jack were together last week, one evening, on vacation, at the summer home that they own jointly, celebrating the anniversary of the marriage of their children - and Jack happened to mention that this was a good idea - they are letting you know that you're facing into gale-force pressure. To communicate the implied or expressed support of people not in the room is an indirect way of trying to control other people's actions. It's common, and it works.

Understating The Downside. Another form of manipulation is to express one side of the story or to shade our own doubts. We make proposals expressing the benefits to the organization and all the reasons that it will work, and we understate the risk and the doubts that we have about it. Too often we act as if we have no doubts and try to control the outcome by withholding the fact that there's a risk to any action taken. To not express the reasons against our own proposal is a way to maneuver the other person into supporting us.

Communication Devices. A more subtle form of manipulation is the use of interpersonal techniques to try to get our way. All of us have been to workshops on listening skills and how to manage interviews. We've all learned to make eye contact, lean forward with our elbow on our knee, and show interest. We've learned to restate other people's positions in ways that are acceptable to them. These techniques are useful if they're actually used for listening or maintaining contact. Often, though, they're misused as influence strategies. When I use an indirect influence strategy on you as a way of helping you feel understood and to win your support, I'm just engaging in a more sophisticated form of manipulation.

Padding. Another common form of manipulation is padding our demands, knowing that we'll get less than we ask for. This is what budgeting is all about. We are constantly trying to present the case and project future figures in a way that expresses optimism and in a way that if ever we get less than what we ask for, we'll get closer to what we think we really need.

Language That Masks Reality. The most powerful form of manipulation is the attempt to use language that masks reality. Meetings are constantly being held to try to figure out how to communicate bad news in a way that people will find acceptable. The executives of a large bank decided to cut the corporate staff by 40 percent. Their feeling was if they told people their intentions, it would be demoralizing to the organization. So, instead, they called the process the Delta Project, and it was positioned as a project to "engage people in the process of reexamining their function and their mission and their real purpose for existing." Those involved knew that the intent was to cut back on home office staff because the executives introduced the project by stating explicitly that their intent was not just to cut back on home office staff.

All of the phrases we use to introduce statements that deny what's to follow are subtle forms of manipulation. We say, "I don't mean to interrupt you"; we say, "I don't want you to be upset about what I'm trying to say".

All of these statements are designed to talk others out of their natural response to our actions and, in effect tip off the real intent. As managers, we spend a tremendous amount of time positioning the message we send to our employees. Many companies have communication departments whose whole purpose is to position the messages from top management. Any effort at positioning is really a desire to make people feel better about what we are about to communicate than they naturally would. It's an effort to seduce people out of their discouragement or resentment.

It is fun sometimes just to listen for the code that people talk in when they don't want the other person to know their true position. In cynical moments, I call them organizational lies; in moments of generosity, I see them as expressions of the caution we feel about being direct with one another.

"Thank you for the feedback." When people give us bad news or express their disappointment in our actions, we feel obligated to act interested and even grateful. We say, "Thank you for the feedback." This is a code for the fact that we hate what they just told us, it is upsetting to us, we disagree with them totally. It is giving the impression that we are interested in learning about our own mistakes - from them.

"I'm just here to be helpful." This is most often used by people from corporate staff when they are visiting a division. With this natural tension in mind, the corporate person - thinking "I know you don't want me to be here, and in fact I'm not too thrilled about being here either" - says, "I'm here to be helpful!"

"We're glad to have you here." This is said by people in the field or an operating unit to those from corporate/home offices. It is also said to consultants for the same reasons. They don't really want any help from outsiders. They figure they can minimize the damage done by the corporate people by feigning enthusiasm.

"People are our most important asset." Every organization claims that people are number one. If that is true, why in hard times are people the first to go? People, in fact, are not number one. Economics is. To keep proclaiming that people are number one when, for good reason, it is not true, is another form of deception.

"I'm offering you a development opportunity." When your boss offers you a "development opportunity," beware. It is a way of telling you that he or she is not happy with what you are doing and wants to move you somewhere else.

"I have confidence in you." When others tell you that they really have confidence in you, ask yourself why they are so concerned and doubtful about you. We only choose to communicate confidence to those people that we are concerned about. Our unquestioned belief that we have to control, shape, motivate, guide those around us (especially our subordinates) is an indication of how much manipulative acts have invaded the fabric of our relationships. It becomes a subtle way of treating others as if they were children, unable to handle the reality of events. The bind is that we cannot treat our subordinates like children and at the same time expect them to take responsibility for the success and future of our organizations.

The forms of manipulation described here are not in and of themselves cardinal sins. Rather, they are habitual ways we have learned to deal with each other in our attempt to adapt to the demands organizational life places on us. The price we pay for manipulative strategies is both personal and organizational. If we felt we had free choice, most of us would drop political behavior in favor of a more honest and direct approach. The fact that we feel it is necessary to be political and manipulative in order to succeed means that in the service of our ambition we have given away a part of ourselves, our integrity, in the name of practicality.

SYSTEMS AND STRUCTURES

Systems are the most powerful drivers of performance. Before I learned that lesson I tried many other "do it yourself" classics. Early on, I identified communications as an obstacle to great performance. I put everyone through an intensive communications course. Surprisingly, communication actually got worse. I worried about the lack of teamwork. So I took everyone on a white-water rafting experience. We had great fun out there, and we even all survived. Afterward very little improved back at the plant.

I assumed the people's attitudes needed to change first. If I could only change their attitudes, I believed that would improve bottomline performance. The more I worked on changing mind-sets, the worse the situation seemed to grow. For instance, I was an early believer in employee involvement. I assumed that involvement would trigger attitude change and that attitude change would improve the organization's bottomline performance.

A number of failed efforts convinced me that my assumption was flawed. I was attempting to change performance by changing attitudes directly. Of course, it never worked. Once I stopped pushing whatever I was pushing - quality or cost reduction or service improvement - the people stopped working on it. After many frustrating failures, I realized that what I was doing wasn't working. <u>Attitudes are shaped by the environment within which people function. The environment is made up of the systems and structures in the organization. Although I could not change attitudes directly, I could change them by changing the environment. I learned that incorrect attitudes are a symptom of incorrect systems, structures, and practices.</u>

Systems Send Powerful Messages

Unfortunately, systems usually reinforce the "don't change" mentality. The leader's job is to encourage people to question and challenge those systems that prevent them from delivering great performance for their customers.

For example, one high-tech manufacturing company I've worked with had a problem: bulging order books and serious delivery delays. Although the factory was months behind, because they couldn't get the engineering drawings in time, the engineering section was receiving bonuses for on-schedule performance. The bonus system was the villain. Engineering met its deadline, and earned its bonus, by issuing "white drawings" - blank sheets with the correct drawing numbers on them. The bonus system was the obstacle to achieving great performance.

At Johnsonville the marketing department received all customer complaint letters. The marketing people sent out good answers. That wasn't the problem. In that system we could not achieve great performance because the people who made the sausage were insulated from knowing what customers thought of the products they made. Simply by changing the system, sending the letters directly to the people producing the sausage, they saw, for the first time, what turned customers on and off. Now Johnsonville people could work to change customer problems. The people on the line responded to complaint letters and did whatever was necessary, including sending coupons for free product. To prevent complaint letters, the line workers asked for, and received, responsibility for measuring product quality. They used those measurements to improve production processes. The simple systems change, connecting people with direct feedback, develop the ownership of responsibility.

Three systems hold the key to focus people in the "right" directions and allow them to own responsibility for their behaviors. Compare your current systems with these "model" systems. If your current systems do not have the same characteristics as these model systems, you have an obstacle to overcome. The sooner you begin the work on removing it, the sooner you can enjoy the success of the new leadership paradigm.

Performance Management System

How are the standards of performance determined in your organization? How does your current system compare to the following model?

1. *Manager determines the overall parameters/objectives.* Define the playing field. Are you playing American football? Canadian football? World football? All are called football, but the rules in each game are significantly different.

For example, one fine-dining dinner house company defined their great performance objectives as: (1) be the dinner house of choice for customers; (2) be the investment of choice for investors; and (3) be the employer of choice for people in the local labor market. These three great performance objectives became the parameters for all managers and employees in the organization. Everyone set objectives that contributed to one or more of these three.

You as the leader establish the parameters, the overall objective, the vision. You need to articulate great performance standards for the overall organization. You need to be certain that everyone's nose is pointed in the same direction.

2. *Set standards between performers and customers.* We need to ensure that standards are set between performers and their customers. Each performer must meet frequently (weekly) with his or her customers to agree on standards of great performance. Then the performer must meet with other performers to coordinate activities with them. The leadership job is to make certain that this standard setting and coordination take place on a regular basis.

3. *Reduce the expectation to a specific, measurable number.* What gets measured gets produced. For a long while I measured sales and wondered why

there was so little profit. Everyone's attention was focused on getting that order. Delivering it profitably, or selling it at a price that would make money, was always an afterthought.

People love to be measured. But measure the "right" stuff. The right stuff is that which creates great performance for customers. The right stuff is what helps you keep learning. The right stuff is what helps you continuously improve.

Do you have a performance management system where performers define, with *customers*, specific numeric standards of performance? Every machine operator, every janitor, every secretary, must know exactly what great performance is for their jobs. If your current system does not do that, you have a serious obstacle.

Information System

Does every person in your unit know how he or she is performing? At the end of every day? Every week? If people don't know how well they are doing relative to some target, you can't ever expect them to do it well. To back up your performance management system, you need an information system that tells every performer frequently how well he or she is doing in creating great performance for his/her customers. How does your information system compare to the following model?

1. *Makes performance visible to every employee*. Every designer, every secretary, every maintenance person, needs to see how he or she is doing in terms of the standards of performance agreed upon in the performance management system. That information should come directly to the performer - not through some third party like a supervisor.

2. *Real data in real time*. The data must be real data. Not sanitized accounting/financial data. And it needs to be in real time. Real time means "Now!" We need an information system similar to that in the game of golf. How long would a golfer wait to find out where his or her shot went? Seconds, probably. He or she certainly wouldn't wait six weeks, or six days, or six hours. Yet that's the usual lag time between performance and reporting in most information systems. People need to know as close to the actual performance as possible how well they hit the ball.

3. *Based on continuing conversations between performers and customers*. Customers are the best source of feedback on performance. The best information system structures-in continuing conversations between performers and customers. These two systems form a loop - the performance management system and the information system. Both rely upon a stream of performance-based conversations between customers and performers about the standards of great performance and feedback on actual performance.

Do you have an information system that structures-in continuing conversations about great performance between those who receive the work and those who deliver it? Do you have an information system where everyone in your unit knows his/her standards of great performance and exactly how well he/she is doing in meeting them? If you don't you have another serious obstacle.

Reward System

Unfortunately, I succumbed to the folly of rewarding "A" while hoping for "B." In the past, my reward system focused on attendance. I paid people to show up and then worried why they didn't perform. I learned that if I wanted quality, I had to reward quality. If I wanted service, I had to reward service.

<u>The performer is the best person to determine what needs to be rewarded, and what is an effective reward. Begin with the performer-customer established standards of great performance, the performer-customer established feedback mechanisms, and the performer involvement in the definition of the appropriate reward</u>. The reward system closes the performance standard/feedback/reward loop.

1. *Assure the consequences of behavior*. Performance must have consequences. Performance must matter. It must be clear that "them that does it, get it, and them that don't do it, don't get it" or get a significantly different and much less desirable outcome.

F for effort. A for accomplishment. Pay for results, not efforts. I learned the hard way that throwing water uphill for sixteen hours a day will only result in standing knee-deep in mud. Get clear on what great performance you want to accomplish. Then be certain that the performer has measures so that he/she knows when he/she does it. Only then can you reward those who achieve great performance. Too many people are rewarded for working hard, rather then getting the "right" things done.

2. *Blend monetary rewards* (such as gain sharing, profit sharing, onetime bonuses, merit increases) *and nonmonetary rewards* (such as recognition, promotion, job assignments, autonomy). We can find as many ways to reward people as there are people. We don't suffer from a lack of ways to reward. We suffer from a lack of imagination in identifying what turns people on, and in ways to distribute rewards fairly and equitably. Many leaders wrestle with "equity" issues: "Is this reward system fair?" They also struggle with "motivation" concerns "Will these rewards motivate the behavior we need?" Both of these concerns can be dealt with by involving performers in designing the reward system, they will also own the responsibility for making them "fair" and "motivational." When performers design and administer reward systems, it is both equitable and motivational.

More and more decentralization makes sense when an organization has to deal with an explosion of unknowns. But more corporate decentralization, even circa 1994, utterly fails to unleash the genuine and quirky independence that abides deep within subordinate units. Hence the idea here of moving beyond decentralization and toward **Disorganization - or self-Destruction**, as one corporate chief puts it.

The date was August 8, 1991. The hour was 8:00 a.m. The place was Copenhagen, Denmark. Lars Kolind, the president of Oticon, did something extraordinary. He changed his company into what he called a "spaghetti organization," a construct without a center.

Oticon, a world leader in hearing-aid manufacture founded in 1904, had been badly sagging. Market share had fallen by half in the past decade. Kolind razed walls, eliminated secretaries, and erased job descriptions and specialties to create a 100 percent project-directed entity in which employees invent the tasks that need to be done, then physically arrange themselves as they see fit to get them done.

To affirm the change, one month later, the company auctioned all its old office furniture to employees. It was a calculated move aimed at certifying the irreversibility of the reorganization. Now people stow their effects in caddies, or personal carts, moving them to appropriate spots in the completely open space as their work with various colleagues requires.

After suprisingly few hiccups, Oticon began to make record profits and regain lost market share. Faced with tougher-than-ever competition from giants such as Philips, it introduced a world-beating new product in half the normal time. When asked if he attributed the miracle (speed and creativity) to his wild and woolly new configuration, Kolind said, "Absolutely. We decided simply to get rid of the former structure. We took away all departments. We took away all managers' titles. And with them went the red tape. There were no secretaries to protect us. We removed the entire formal organization. We have a tremendous competitive advantage, because we don't care about formalities. We only care about performance and results."

What Kolind did at Oticon goes miles beyond decentralization, even as practiced by progressive firms. Kolind has done a lot more than cede some precious authority to the hinterlands. He has put the hinterlands in charge and told them to create, organize, reorganize, and run their own show.

Management consultants Charles Handy and Jim O'Toole call this idea of organization "federal," as opposed to "decentralized." In the latter, the center yields some power to the outlying units. In the former, the outlying units (reluctantly) yield power to the center. If that sounds too far beyond the pale, you and your company are right to be nervous about the future.

The Value Destroyers

Let's go back for a moment. The year is 1986. A track inspector at the Union Pacific Railroad discovers a problem at a customer-owned rail siding. What does he do? He bucks the news up to his boss, the Yardmaster, who passes it up to the Assistant Trainmaster, who lobs it up to his chief, the Trainmaster, who passes it up to the Division Superintendent of Transportation, who passes it on to the Division Superintendent. The Division Superintendent sends this hot potato to the Regional Transportation Superintendent, who hoists it one more level to the Assistant General Manager, who gives it its final kick up to the General Manager. The siding problem has finally reached the apex of the massive Union Pacific operations hierarchy.

Next it heads across the great chasm to sales and marketing, where it likely lands on the desk of the Assistant Vice President for sales. He sends it down to the Regional Sales Manager, who passes it further down to the District Sales Manager, who informs the sales representative about the problem. And if, actuarially speaking, the customer is still alive, he or she then learns about the rail-siding problem.

Honest! This absurd procedure was described to my colleague Marcia Wilkof by one of the front-line track inspectors and confirmed by a boss. The wonder isn't that Union Pacific was in disarray in 1986, but that it was functioning at all.

The railroad appointed a new CEO, Mike Walsh, and in 1987 he undertook a lightning-fast reorganization. Today, if a track inspector discovers a problem at a customer-owned rail siding, he informs the customer directly. If the customer disagrees with the track inspector (a rare occurrence, I'm told), then the customer can call the track inspector's boss, the Superintendent for Transportation Services. But the super will say in effect, "Look, I don't know anything about track. I'm just a boss. Keep talking to the track inspector."

Theoretically, this change in decision-making protocol could have been mandated within the Union Pacific's pre-1987 structure. Walsh could have huffed and puffed and issued a detailed executive order authorizing track inspectors to bypass the hierarchy if problems arise. But you and I know what such an order would have accomplished - zilch. Who's going to risk the boss's (and the boss's boss's boss's ..) wrath by pulling an end run?

So, to eliminate such convoluted processes, which were killing the company, Walsh trashed the old hierarchy. In just 120 days, he obliterated two-thirds, or six layers, of Union Pacific's operations organization.

This story isn't about railroads, however; it is about management. Many modern management techniques were invented by railroads, like the Union Pacific, which were our first complex transcontinental businesses. By the late 20th century, however, their cumbersome superstructures had made them, and many other U.S. companies, noncompetitive. The system that had been invented to coordinate the affairs of vast corporations had grown unwieldy and was smothering them.

Question: Who were the people in those six management layers Mike Walsh eliminated?

Answer: The railroad's (and the nation's) best and brightest. It's true that, in any company, office politics occasionally elevates a nincompoop to a position of authority and responsibility. But, on average, more or less the right person gets promoted to the right job. Those six excised layers at Union Pacific consisted of good, intelligent managers, not dingbats. And, in the unlikely event that similar jobs should ever open up in the future, the railroad presumably would rehire them happily.

But, dear reader, we want to know what value, precisely, did those perfectly competent people add to the gross domestic product of the United States? It's a question I always ask participants in my seminars. Some laugh. Others say, "Damn little." A few say, "Zero."

All are wrong.

The correct, quantitative answer is *negative* value.

I'm not exaggerating. Those extra six layers made it all but impossible for veteran frontline track inspectors to do their job - sorting out problems with track users - thus impeding, not aiding, the conduct of the company's business.

The unpleasant truth that we don't want to hear is that middle management - not the nice people, but their function - doesn't just slow our organizations down. It move them backward. Middle management clogs our corporate arteries. The effect of middle managers' doing their specified jobs and following the policy manual is to deduct value. Great gobs of it.

Letting Go

If garden-variety decentralization were the answer to the track inspector's problems and what ails companies in general today, IBM would be the model to emulate. IBM has reorganized, reorganized, and reorganized again, mostly to no avail. It has also divested itself of some dogs, pieces of the company that senior management decided didn't have a future. One of them, Lexmark, made the fabled IBM Selectric typewriter and now mostly makes printers. Lexmark was sold to its managers in early 1991. In the short space of the next 16 months, the following took place:

- Managerial ranks were chopped by 60 percent
- Line-manager autonomy was increased
- Autonomous strategic business units created
- Procedures were significantly simplified
- Central staff was decimated, hierarchy flattened
- Radical deintegration, activities outsourced
- Manufacturing totally reorganized

Net result: The formerly sagging business booked $100 million in pretax profits on $2 billion in sales in the first year away from Mom.

This tale sticks in my craw. Why couldn't these "obvious" changes have been made while Lexmark was still in the IBM fold? It bugs me, because I can't come up with a good answer. IBM "decentralized." Then decentralized again. And again. But it couldn't let go. Until the newly liberated Lexmark managers had a stake in the action (along with a healthy debt load), until the company was really theirs, until they weren't under IBM's cultural thumb, they didn't or couldn't, break loose.

Look again at the actions Lexmark took. Collectively, they are impressive, but are any of them surprising? Hardly. These are standard 1980s and 1990s strategies for coping with fast-paced competition. Still, they required a complete break from Mother IBM to happen.

The Hour of the Pygmy?

As essayist Lance Morrow put it in *Time* in March 1993, "The rise of the knowledge economy means a change in less than 20 years, from an overbuilt system of large, slow-moving economic units to an array of small, widely dispersed economic centers, some as small as the individual boss."

The Age of the Pygmies in the United States is a case in point. The job-creation machine slowed down in the late 1980s, but it didn't come to a complete halt. Our biggest corporations shed 2.3 million jobs between 1987 and 1992. Ouch! The offsetting news: Our not-so-big companies created 5.9 million jobs, for a new addition of 3.6 million. Moreover, and contrary to conventional wisdom, those middle-size and smaller winners added as many high-wage jobs as the giant corporations shed; also, most of the non-high-wage jobs the less sizable companies generated were average-wage jobs. The low-wage jobs created by mid-size and smaller enterprises were only 16 percent of the total (900,000 out of 5.9 million new jobs.)

Yet the notion of bigness-is-a-must dies hard. For example, new technologies call for big bucks to start anything. Right? Wrong. *Inc.* magazine's list of 500 top-growth companies contains a few hamburger flippers, but it's also loaded with express-delivery companies, biotech firms, and sophisticated computer and information-technology newcomers. The startling news: 34 percent of the *Inc.* 500 were launched with less than $10,000; 59 percent with less than $50,000; and 75 percent with less than $100,000.

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