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Leading Change

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CHAPTER 11

The Organization of the Future

THE RATE OF CHANGE IN THE business world is not going to slow down anytime soon. If anything, competition in most industries will probably speed up over the next few decades. Enterprises everywhere will be presented with even more terrible hazards and wonderful opportunities, driven by the globalization of the economy along with related technological and social trends.

The typical twentieth-century organization has not operated well in a rapidly changing environment. Structure, systems, practices, and culture have often been more of a drag on change than a facilitator. If environmental volatility continues to increase, as most people now predict, the standard organization of the twentieth century will likely become a dinosaur.

So what will the winning

enterprise of the twenty-first century look like? Speculating on the future is always hazardous, but the discussion presented in this book has rather clear implications.

A PERSISTENT SENSE OF URGENCY

Major change is never successful unless the complacency level is low. A high urgency rate helps enormously in completing all the stages of a transformation process. If the rate of external change continues to climb, then the urgency rate of the winning twenty-first-century organization will have to be medium to high all the time. The twentieth-century model of lengthy periods of calm or complacency being punctuated by shorter periods of hectic activity will not work.

A higher rate of urgency does not imply ever present panic, anxiety, or fear. It means a state in which complacency is virtually absent, in which people are always looking for both problems and opportunities, and in which the norm is "do it now."

Keeping urgency up will require, first and foremost, performance information systems that are far superior to what we generally see today. The tradition of distributing financial accounting data to a small number of people on a monthly or quarterly basis will have to become a thing of the past. More people, more often, will need data on customers, competitors, employees, suppliers, shareholders, technological developments, and financial results. The systems that supply this information cannot be designed, as are some today, to make the organization or one of its units look good. They will need to be created to provide honest and unvarnished news, especially about performance.

In the past decade, a number of firms have taken important steps toward creating these new performance feedback systems. Information on customer satisfaction, in particular, is being collected more accurately, more often, and for more people. Likewise, managers are actually seeing customers, especially disgruntled ones, more often. All this is good, but we still have a long way to go. Typical employees in typical firms today still

receive little data on their performance, the performance of their group or department, and the performance of the firm.

To both create these systems and use their output productively, corporate cultures in the twenty-first century will have to value candid discussions far more than they do today. Norms associated with political politeness, with nonconformational diplomacies, and with killing-the-messenger-of-bad-news will have to change. The volume knob on the dishonest dialog channel will have to be turned way down.

For those readers who have lived in hopelessly political organizations most of their careers and who therefore think this goal is quixotic, I can only point out that these kinds of candid and honest cultures do exist today. I've seen them. Creating those norms can certainly be difficult, but the task is not impossible. Typically, the change begins with a single powerful person, spreads from him or her to a few others through example, produces some group benefit, and then spreads still more widely.

The combination of valid data from a number of external sources, broad communication of that information inside an organization, and a willingness to deal honestly with the feedback will go a long way toward squashing complacency. An increased sense of urgency, in turn, will help organizations change more easily and better deal with a rapidly changing environment.

TEAMWORK AT THE TOP

In a slow-moving world, all an organization needs is a good executive in charge. Teamwork at the top is not essential. In a moderately paced context, teamwork is necessary to deal with periodic transformations, but much of the time the old model will still work. In a fast-moving world, teamwork is enormously helpful almost all the time.

In an environment of constant change, individuals, even if supremely talented, won't have enough time or expertise to absorb rapidly shifting competitor, customer, and technological

information. They won't have enough time to communicate all the important decisions to hundreds or thousands of others. They will rarely have the charisma or skills to singlehandedly gain commitments to change from large numbers of people.

I can imagine a day not long from now when succession at the top of firms may no longer be an exercise in picking one person to replace another. Succession could be a process of picking at least the core of a team. With the basic elements of a sensible team in place on day one, a new CEO would be in a much stronger position to build the kind of coalition needed to handle change. Team building that can take months, if not years, could be replaced with a much shorter process.

I can also imagine a day when big egos and snakes are eliminated from promotion lists, no matter how smart, clever, hard working, or well educated they are. Such people kill teamwork. They create problems today, but in a more rapidly changing future world, the consequences of their actions might well become completely unacceptable.

Neither of these ideas—promoting teams instead of individuals and eliminating gigantic egos and snakes—will ever be accepted without considerable controversy. Succession as a team choice is a radical thought, especially in the United States, with its lone-cowboy tradition. Not promoting smart and talented people is less radical, but the snakes and big egos will not go down without a fight. Imagine the dialogue:

"This is ridiculous. Nick is brilliant and dynamic. What kind of a signal will we be sending to the young people around here if we don't promote him?"

"We are trying to send a signal that caring much more about yourself than the company is unacceptable."

"How can you say that he doesn't care about the company? OK, he's a little self-centered, but most talented people are."

"How come so many people seem to dislike him?"

"Jealousy. All great talents suffer . . ."

I think I can make the argument that succession decisions will be simpler with this new approach because we will no longer be hunting for the elusive single individual who can turn tail

buildings in a single bound. I also think some trends (such as 360-degree performance appraisals) are already taking a toll on snakes and big egos. Still, these changes are controversial, and they won't come about easily.

PEOPLE WHO CAN CREATE AND COMMUNICATE VISION

In the twentieth century, the development of business professionals in the classroom and on the job focused on management—that is, people were taught how to plan, budget, organize, staff, control, and problem solve. Only in the last decade or so has much thought gone into developing leaders—people who can create and communicate visions and strategies. Because management deals mostly with the status quo and leadership deals mostly with change, in the next century we will have to become much more skilled at creating leaders. Without enough leaders, the vision, communication, and empowerment that are at the heart of transformation will simply not happen well enough or fast enough to satisfy our needs and expectations.

Some people believe the task of developing many leaders is hopeless. You're either born with it or you're not, they say; and most people aren't. Even if we accept this pessimistic assumption and say that only one person in a hundred has much leadership potential, with a worldwide population of 5.7 billion, that leaves close to 60 million people with leadership possibilities. Sixty million is a lot of people! If we can help develop that potential, we will have plenty of leadership to guide organizations in a more rapidly changing twenty-first century.

Development of leadership potential doesn't happen in a two-week course or even a four-year college program, although both can help. Most complex skills emerge over decades, which is why we increasingly talk about "lifelong learning." Because we spend so many of our waking hours at work, most of our development takes place—or doesn't take place—on the job. This simple fact has enormous implications. If our time at work encourages and helps us to develop leadership skills, we will eventually realize whatever potential we have. Conversely, if time at work does lit-

tle or nothing to develop those skills, we will probably never live up to our potential.

Highly controlling organizations often destroy leadership by not allowing people to blossom, test themselves, and grow. In stiff bureaucracies, young men and women with potential typically see few good role models, are not encouraged to lead, and may even be punished if they go out of bounds, challenge the status quo, and take risks. These kinds of organizations tend either to repel people with leadership potential or to take those individuals and teach them only about bureaucratic management.

Successful organizations in the twenty-first century will have to become more like incubators of leadership. Wasting talent will become increasingly costly in a world of rapid change. Developing that leadership will, in turn, demand flatter and leaner structures along with less controlling and more risk-taking cultures. The negative consequences of putting people with potential into small boxes and micromanaging them will only increase. People need to be encouraged to attempt to lead, at first on a small scale, both to help the organization adapt to changing circumstances and to help themselves to grow. In this way, through thousands of hours of trial and error, coaching, and encouragement, they will achieve their potential.

In the last ten years alone, we have come a long way toward creating this kind of organization. Anyone pessimistic about our capacity to build leadership-incubating structures should look carefully at what already has happened. But we still have a long way to go. Narrowly defined jobs, risk-averse cultures, and micromanaging bosses are the norm in far too many places—especially in big companies and many government organizations.

BROAD-BASED EMPOWERMENT

The hearts and minds of all members of the workforce are needed to cope with the fast-shifting realities of the business climate. Without sufficient empowerment, critical information about

quality sits unused in workers' minds and energy to implement changes lies dormant.

Many of the same kinds of organizational attributes required to develop leadership are also needed to empower employees. Those facilitating factors would include flatter hierarchies, less bureaucracy, and a greater willingness to take risks. In addition, constant empowerment for a constantly changing world works best in organizations in which senior managers focus on leadership and in which they delegate most managerial responsibilities to lower levels.

Even today, the best-performing firms I know that operate in highly competitive industries have executives who spend most of their time leading, not managing, and employees who are empowered with the authority to manage their work groups. I can't conceive of how the trend in this direction won't continue over the next few decades, despite some resistance from both managers and workers who are attached to the old model.

For readers who have difficulty imagining this degree of empowerment actually emerging in the workplace, I suggest you look at organizations that operate today in a sea of shifting conditions: high-tech companies generally and professional service firms that thrive in intensely competitive environments. What you will find are unusually flat hierarchies, little bureaucracy, a propensity for risk taking, workforces that largely manage themselves, and senior-level people who focus on providing leadership for client projects, technological development, or customer service. The model has already been tested. With proper leadership at the top, it works extremely well.

DELEGATED MANAGEMENT FOR EXCELLENT SHORT-TERM PERFORMANCE

Some business futurists write as if management as we know it will disappear in the twenty-first century. Everyone of importance will become visionary and inspiring. Those boring people who worry about whether inventories are on target will no longer be needed.

But this is unrealistic.

Even in a rapidly changing world, someone has to make the current system perform to expectations or those in power will lose the support of important constituencies. Shooting for a better future is terrific, but if short-term wins don't demonstrate that you're on the right path, you will rarely get the chance to fully implement your vision.

Since the kind of organization we are describing here delegates a great deal of authority to lower levels, excellence in management means that the empowered employees handle their responsibility well. That, in turn, means they must receive sufficient management training and be supported with the appropriate systems. Today, even when you find managerially empowered employees, they often have not been given sufficient educational and other assistance. Instead, both training and systems are still designed to serve the needs of a bloated middle management.

Changing this reality is usually more of an attitudinal challenge than a technical or economic issue. "No, this training is for managers," someone says, meaning that you have to have a certain minimum status in the hierarchy to deserve the educational perk. "We can't give this information out to all those people," someone else says in response to a proposal for shifting the control systems. "Why not?" you ask. They answer:

1. "Because of security." The real question is, whose security? If information on the poor performance of some department or some product is widely known, will this hurt the firm? Or will it embarrass a few executives and put pressure on certain people to do something?

2. "Because they won't know what to do with the information." They will if they've been trained.

3. "Because of the expense." Curious logic. By delegating management responsibility, we're getting people who typically make \$20,000 to \$50,000 a year to do work that used to be done by people making \$50,000 to \$200,000 per year. The

payroll savings will always outdistance any training or new system expenses, unless you retain unnecessary middle management jobs.

An organization with more delegation, which means a lean and flat hierarchy, is in a far superior position to maneuver than one with a big, change-resistant lump in the middle. This fact alone will force more delegation over the next few decades, despite all the excuses offered as to why that's a bad idea.

NO UNNECESSARY INTERDEPENDENCE

All organizations have unneeded internal interconnections between people and groups. The German subsidiary can't agree to anything without checking with corporate. The controller's department in the head office sends a hundred pounds of reports per week to the plants, where the paper is largely ignored. Because of some problem back in 1965, a routine was created in which engineers make certain presentations to marketing and manufacturing people, meetings that still go on today despite the existence of information technology that can communicate the same information more quickly and easily. In some firms, this useless interdependence is nearly overwhelming, making major change a hopelessly complicated affair. Although such situations may seem foolish on the outside, on the inside they can be accepted, perhaps grudgingly, and very hard to alter.

In the twenty-first century, a volatile business environment will force more organizations to coordinate their subunits quickly and inexpensively. Interdependencies left over from an earlier era that add no value will be less tolerable. In this sense, the twenty-first-century organization will probably be a lot cleaner than the one we typically see today. Fewer structural cobwebs and less procedural dust will make surfaces slicker and faster.

Furthermore, a process of continual cleaning will certainly be

encouraged in a faster-moving environment. Instead of waiting for interdependencies to reach unmanageable levels, the effective organization in the next century will reexamine linkages on a more regular basis and eliminate those that are no longer relevant.

Again, for those who can't quite imagine this scenario, I assure you it's already happening today, although not often. A number of firms I know that are still being run by founders or other entrepreneurs are almost obsessive about keeping interdependencies down to the bare minimum demanded by the market environment. Doing this well isn't easy. Linkages give power to some people who are then often reluctant to give it up. Linkages become habits. Deciding what is a relevant linkage and what is a historical artifact can occasionally be difficult, especially in the absence of a broader vision and strategy guiding the organization. Nevertheless, some people today succeed wonderfully here with obsessive attention to this issue.

AN ADAPTIVE CORPORATE CULTURE

In total, all of the practices I've been describing here will help an organization adapt to a rapidly changing environment. Creating those practices so they stick is an exercise in creating adaptive corporate cultures.

In the twentieth century, we have found group norms and shared values in organizations mostly to be barriers to change. They don't need to be. Cultures can facilitate adaptation if they value performing well for an organization's constituencies, if they really support competent leadership and management, if they encourage teamwork at the top, and if they demand a minimum of layers, bureaucracy, and interdependencies.

Creating such cultures is an exercise in transformation: increasing the urgency rate, creating the guiding coalition, and so on. In most industries today, the pressure to change cultures

is not intense, so it's easy to delay. "Let the next generation of executives do it." "Things aren't so bad; look at last quarter's net income."

Keep one fact in mind as you consider this: At least one player in your industry probably isn't thinking that way.

Truly adaptive firms with adaptive cultures are awesome competitive machines. They produce superb products and services faster and better. They run circles around bloated bureaucracies. Even when they have far fewer resources and patents or less market share, they compete and win again and again.

People who have been jerked around in marginally effective restructurings, quality programs, and the like often worry that this ever-changing, adaptive organization will be hell on earth. It's not. From what I've seen so far, this type of organization can be a far more fulfilling workplace than is today's norm. Remember, change doesn't happen in this kind of enterprise as a means of satisfying someone's ego or as a knee-jerk reaction to yesterday's events. Changes occur to help make better and better products or services that serve real human needs at lower and lower costs. Living and winning in that environment can be fun, because you feel like you're doing something worthwhile. The pace of change does require getting used to, especially if you have spent most of your work life in old-fashioned bureaucracies. But after a period of adjustment, most people seem to like the dynamic quality of the environment. It's challenging. It's never boring. Winning is fun. And for most of us, making a real contribution is pleasing to the soul.

GETTING FROM HERE TO THERE

I've summarized the discussion in this chapter in exhibit 1 on the following page. Just a glance at that information shows that we are talking about a great deal of rather fundamental change. That much change will not come quickly.

EXHIBIT 1
The Twentieth- and Twenty-first-Century Organization Compared

TWENTIETH CENTURY	TWENTY-FIRST CENTURY
<p>STRUCTURE</p> <ul style="list-style-type: none"> ➤ Bureaucratic ➤ Multileveled ➤ Organized with the expectation that senior management will manage <p>➤ Characterized by policies and procedures that create many complicated internal interdependencies</p>	<p>STRUCTURE</p> <ul style="list-style-type: none"> ➤ Nonbureaucratic, with fewer rules and employees ➤ Limited to fewer levels ➤ Organized with the expectation that management will lead, lower-level employees will manage <p>➤ Characterized by policies and procedures that produce the minimal internal interdependence needed to serve customers</p>
<p>SYSTEMS</p> <ul style="list-style-type: none"> ➤ Depend on few performance information systems ➤ Distribute performance data to executives only ➤ Offer management training and support systems to senior people only 	<p>SYSTEMS</p> <ul style="list-style-type: none"> ➤ Depend on many performance information systems, providing data on customers especially ➤ Distribute performance data widely ➤ Offer management training and support systems to many people
<p>CULTURE</p> <ul style="list-style-type: none"> ➤ Inwardly focused ➤ Centralized ➤ Slow to make decisions ➤ Political ➤ Risk averse 	<p>CULTURE</p> <ul style="list-style-type: none"> ➤ Externally oriented ➤ Empowering ➤ Quick to make decisions ➤ Open and candid ➤ More risk tolerant

The single biggest argument offered against the need for transformation is that organizations can succeed with incremental change. A 2 percent improvement here, a 5 percent cost reduction there, and you win. In the short run, in certain industries, this can be true. But look at the exhibit. How long do you think it will take to move incrementally from the twentieth-century model to the twenty-first?

And what do you think will be the consequences if you don't get there fast enough?