

The Core Group: An inquiry into organizational purpose

By Art Kleiner

Email: art@well.com

Or visit my website at: <http://www.well.com/user/art>

All contents copyright © 2001 by Art Kleiner and Random House/Doubleday publishers.

Version 8.35 • November 12, 2001

Why do organizations exist?

To make goods? To serve customers? To return investment to shareholders? To employ people? Or simply to survive and perpetuate themselves?

Or are all these goals merely the means to some other end?

My next book, *The Core Group*, will show how all organizations, large and small—*Fortune* 500 corporations, entrepreneurial startups, “do-good” non-profits, mom-and-pop businesses, government agencies, military units and even street gangs—are working for the same three primary purposes:

- To serve a “Core Group” of privileged people;
- To gain proficiency as creators; and
- To do the right thing (as they see it).

Each organization sees these three priorities in its own unique manner. Until you understand a particular organization's “core profile”—the makeup of its Core Group, the flavor of its creative proficiency, and its view of the best way to operate—you cannot deal with it effectively. Most attempts to control, influence, or pressure organizations fail precisely because they don't fit well with the company's core profile.

Employees who don't understand their workplace organizations this way are especially vulnerable. They

work hard, but they never seem to get the respect and opportunities they deserve. They propose vital creative acts that never quite get funded. They speak up about the outside pressures that will compel the organization to evolve, but no one listens.

The Core Group is a guide for understanding and playing the organizational game well; for beating even abusive Core Groups at their own game, without falling into their destructive patterns yourself.

Chapter 1. Why Organizations Exist

Why does any organization behave the way it does? When it launches factories or retail outlets, when it lays cable, hews forests, constructs vehicles, places advertising, employs people, or markets its wares, why does it make those particular decisions? Why does it act so responsive and aware sometimes, and so arrogant, belligerent, and self-defeating at other times? What is the organization as a whole really trying to do?

In many peoples' minds, the answer is obvious. Organizational purpose starts with the boss. Everyone does what the boss tells them to do. The boss, in turn, reports to a bigger boss, and so up the line, ultimately to a board of directors. That board, in turn, is responsible to the shareholders (if it's a corporation), or the elected officials (if it's a government agency or school), or the interest groups (if it's a non-profit) who put them there in the first place.

That's the prevailing theory. Corporate leaders give voice to it when they say, "We make our decisions on behalf of the shareholders." The theory seems, at first glance, to make sense. But it doesn't hold water when you look more closely. For the day-to-day practice of organizational power is peculiar and paradoxical. CEOs are all-powerful, except when they want to steer the organization in a new direction. Then, mysteriously, they lose their ability to get other people to act. Boards of directors often don't have much influence on day-to-day management. Shareholders seem to feel that most corporations *aren't* acting on their behalf, no matter what the rhetoric says. Companies which fervently espouse shareholder value (like Scott Paper under Al Dunlap) often seem to cripple themselves in the process. And most people involved with organizations tend to feel, most of the time, that everything around their own little bailiwick is mostly out of control. Things get done, but only by the skin of our collective teeth.

It's as if there is some other set of motives and values, unspoken and unnoticed, that drives most corporate acts.

Core Group Theory proposes that the basic building block of all organizations isn't the job, the team, the

project, the process, the share, or even the dollar: It's the *decision*. People in organizations make hundreds of thousands of decisions each day. These decisions add up, without anyone coordinating them, to an overall purpose: a collective imperative for the organization's every move.

Some decisions, made at the top of the hierarchy, are visible and obviously influential. The decision to close a plant or start a new product line affect many other decisions at many levels. But some decisions made by people lower in the hierarchy can also have great impact – for instance, the decision to join a union, to build a relationship with a particular customer, or to share more information with coworkers. Even the tiniest decisions, say about the design of storeroom closets or the choice of supplier for paper clips, contribute to the overall organizational direction. It's as if the organization were a computer operated by thousands of desktop mice and joysticks at once, with each person tugging the cursor in a different direction. In the end, the organization moves according to the aggregate sum of all these movements and pulls. The organization, in effect, is the sum of what its members decide.

People make their individual decisions for a variety of reasons: Keeping their jobs. Keeping the momentum going. Getting noticed for good work. Avoiding blame for mistakes. Reducing stress. Fitting in. Improving their position, status, or control. Cutting costs. Expanding opportunities. Winning perks. Accumulating more money. Improving performance (or appearing to do so). Doing the right thing. Getting the chance to do more interesting work. Feeling more fulfilled. Lending support to specific individuals. Being treated with more respect. And, more often than most of us admit, we make decisions for the sake of greater comfort.

These decisions often combine to lead an organization nowhere. One hundred people trying to improve their personal position, each in a different way, will cancel out each other's efforts.

But even the most stagnant organizations move somewhere eventually. According to Core Group Theory, there are three common motivations that compel people to transcend their own self-interest. These motivations, in turn, set the direction of the organization. To truly know the organization, therefore, you must ask three questions:

1: What is the Core Group? Who are the elite people at the center of the organization?

The makeup of the Core Group varies from one organization to the next. But there is always a group at the center, defined by the fact that others, throughout the organization, are continually acting to give the Core Group what they think it wants or needs. Some Core Groups are huge, including hundreds of people; others are limited to a pair of key partners. Some Core Groups are stable; others in constant flux. Some Core Groups are good for their organizations; others are highly dysfunctional. Whatever its particulars may be, the Core Group is the source of the organization's energy and drive.

2. What is the Creative Imperative? What do the people of the organization believe they need to make, build, design and do?

People come to organizations to “do stuff” at a scale larger than any individual could manage alone. Organizations amplify our power; most of us can't realize our creative goals without them. An organization's creative potential determines the quality of its actions and the capabilities of its people.

3. What is the Right Thing to Do? What do the organization's employees and executives tell themselves about the appropriate ways to operate amidst the complexities of money, the good life, fairness, quality, performance, society, and their relationship with the rest of the world?

For instance, some organizations maintain the prevailing belief that people are basically good and need to be nurtured to be developed; others, no matter what they espouse, hold the prevailing belief that most people must be tightly controlled to get anything good out of them. Either of these views suggests a “right” way to treat people, and the organization will attract people who concur.

No matter how craven or criminal an organization seems to outsiders, the people inside it are driven by their own conception of honor and service. We cannot influence any organization unless we understand how its people perceive their own noble purpose. Different people in an organization will hear this “calling” differently; some will be oblivious to it. More often than not, leaders

won't respond to it. But the organization will gradually go where the noble purpose leads it.

For any given organization, if you know these three characteristics, you know what it is being subtly propelled to do. If your ideas match these imperatives, or you can figure out how to influence them, then you can achieve remarkable results, even from a low point in the hierarchy or from outside the organization.

For example, at **Procter & Gamble**:

- 1. The Core Group** members are the elite marketing and R&D managers who came to work in Cincinnati directly from college and from whom the company's top executives are chosen.
- 2. The creative imperative** involves dominating the supermarket and drugstore shelf with P&G brands – and controlling the marketing and advertising of not just their own products but the categories (toothpaste, diapers, etc.) in which they compete. This is not just a strategic choice; it is an act that P&G people take part in with skill, verve and pleasure.
- 3. The right thing to do:** Procter & Gamble people see their company as a guardian of purity and cleanliness. A deeper noble purpose has surfaced, from time to time, in discussions within the company: P&G could take on a leadership role drawing the various members of the consumer products supply chain together to make it easy and effective to recycle and re-use waste packaging. But P&G, whose managers have little experience with alliances and joint ventures, is not ready to embrace this calling.

Chapter 2. The Nature of the Core Group

At his retirement dinner someone asked one of the most powerful executives of Royal Dutch/Shell what he would miss most. “The people who come to meet me at the plane,” he said, “and take care of everything.”

Welcome to the Core Group. There is no formal initiation, not even a celebratory lunch; there are no forms to fill out and probably no change in your official job description. But everything is different now. The organization has suddenly become devoted to you. From now on, it will automatically pivot and twist to give you what it thinks you want.

If you need work, it will find work for you. If you need money, it will boost your pay (as much as it can without endangering the promises it has made to other Core Group members). If your pay is already so high that you bridle at your taxes, it will manage your accounting and set you up with stock options. If you need childcare, it will watch your kids. If you do not want people to think of you as arrogant, it will give you opportunities to act humble (and training to help you be convincing). The more you ask of your organization, the more it will do for you—up to the very limits of its capability.

The organization does all this, according to Core Group Theory, not because of any formal policy. The phrase “Core Group” never appears in a mission statement. But people recognize that making life better for their bosses and other important individuals is a key legitimate goal of their day-to-day work. At every level of the hierarchy, people routinely ask themselves, often below the level of conscious awareness, “Would so-and-so be comfortable with this decision? Would that decision be good for so-and-so?”

The Core Group is the prevailing group of “so-and-so’s” whose names come up time and again. Everyone in the organization wordlessly conspires to give The Core Group not just what it asks for, but what he or she *thinks* it wants. When anyone slips, and accidentally overlooks or shortchanges the Core Group’s welfare, other people around them rush over with reminders of the Core Group’s importance.

Core Groups are not inherently bad or dysfunctional. Indeed, every organization needs a Core Group; otherwise, there is no way to set immediate priorities. Start-ups need entrepreneurial Core Groups who put themselves at risk for the company's future. Large, well-run companies need a Core Group of senior leaders who can permanently merge their identities with that of the organization. Government agencies and non-profits need Core Groups that can take a visible stand on behalf of the organization's principles. Even military units need Core Groups to maintain the level of mutual respect that soldiers need to feel if they are going to operate above and beyond the limits of their orders. Behind every great organization, there is a great Core Group.

But Core Groups can also be self-indulgent, and complacent. The result in many organizations is a culture of privilege and excess that no one has deliberately designed and that people privately deplore, but that everyone perpetuates. Mainstream corporations, for example, pay for cars and jets, first-class tickets, and club memberships for Core Group members. Apologists for this argue that the time and convenience of the Core Group is one of the organization's scarcest resources. Core Group salaries rise to exorbitant levels, even when the top executives *don't* demand it; the whole organization conspires to give them the salary people think they want. And stories like these abound:

- In the late 1980s, ITT President Rand Araskog published an autobiography that sold poorly. One of the firm's regular contractors, a public relations company, received a call soon afterward: "We don't want our executives to walk by a bookstore and see Rand's book remaindered. Can you help us out?" Without Araskog ever knowing, the publicist's company arranged to buy 25,000 remaindered copies, at one dollar apiece, and store them in a warehouse.
- When McCaw Communications introduced its cellular telephone technology in the United States, analysts could always tell where the service would be introduced next by tracking the vacation plans of

founder Craig McCaw. Wherever he was headed, that place was suddenly, miraculously, slated for excellent cellular phone coverage—even down to the ferry parking lots and island beaches.

- At the U.S. Treasury Department in 1998, a departing undersecretary gave a farewell toast to two Core Groups—the career bureaucrats and the political appointees -- who loathed and mistrusted each other. Both groups shared the same perquisite: the undersecretary himself. He and his staff members spent much of their time and budget ferrying comments back and forth between the groups so they didn't have to talk to each other directly.

- In the 1970s, William H. Whyte (the author of *The Organization Man*) studied corporations that had moved their headquarters from New York City to its suburbs. In *every* case, the new headquarters was located within eight miles of the CEO's home. Typically, the CEOs gave no direct command about this. Few said, "I want the headquarters near my house." But managers in charge of relocation made it their priority to give the CEO a short commute, even when it meant placing the building far from the homes of most other people who worked there.

In the end, the most valued benefits for Core Group members are intangible. They are taken seriously and invited to solve problems, even when they don't have any special knowledge or skill. Their virtues are publicly recognized and their mistakes forgiven. They attend workshops, salons, and gatherings with "remarkable people" at a pace that stretches them comfortably. Everything they do is a peak experience.

Gail Bentley, the CEO of a failed internet startup called Working Weekly.com, wrote on a confessional web page that during her time as CEO, "I was happier than I've ever been in my life. I was living the life I was born to live, and I knew it.... And once you've felt that, once

you've been fully and completely alive, being anything else is as good as being dead."

Even small businesses do their best to fulfill the needs and demands of the Core Group. Several years ago I co-founded a small consulting firm called Reflection Learning Associates. We wanted only to take on work that intrinsically interested us, and yet we wanted to make a decent living. Therefore, we did little marketing, and turned down most opportunities that came our way. We didn't want to commute to an office or pay the overhead of a permanent staff, so it became a virtual corporation. Had we lost our other sources of income, RLA would have immediately started a high-powered marketing drive; when we were occupied elsewhere, the firm instantly put itself into a state of suspended animation. I have long-term associations with many other organizations, large and small, and many of them have been gracious to me – but none of the others has ever made that sort of responsive, fine-grained commitment to my welfare, in front of all other considerations, including the survival of the firm itself.

At most large, mainstream corporations, the Core Group members are the people at the top of the hierarchy. But there are many variations. Sometimes the Core Group consists of everyone above a certain rank. Other organizations are looser; their Core Groups include people at every level who—because of personality, connections, money, talent, or luck—command the loyalty and respect of people throughout the organization. Many large organizations have networks of interlocking Core Groups, each influencing the decisions of different departments or business units. Some Core Groups are fluid; their membership shifts continually as people move in and out of perceived favor. Other Core Groups, like the Rothschild family members, can remain fixed for generations. Often, upheavals within the professional makeup of an industry are targeted at changing the Core Group: Advertising's creative revolution in the 1960s, for instance, lifted copywriters and art directors up from the status of hired hands into the Core Groups of Madison Avenue agencies.

A typical corporate Core Group might include high-profile shareholders, critical technology specialists, key suppliers, major customers, and members of the company's founding family. At Ford, the head of a division once chastised an external consultant by saying:

“You have to remember, the fundamental purpose of this company is to preserve wealth – the wealth of the Ford family.” They may also include union members, which explains why so many mid-level managers have a visceral, disproportionate hatred for organized labor. The union has collectively-bargained its way into the Core Group while the managers have not.

The Core Group also often includes key "bottlenecks," people who control or manage some essential part of operations. Thus, at many publications (including the *Whole Earth Catalog*, where I once worked), the graphic design and production staff gradually overtakes the Core Group; everyone else becomes preoccupied with following their lead. In some American school districts, the school bus administrator (who has organized the district's schedule for years) is in the Core Group, while the superintendent (who has typically been on the job for less than three years) is not.

The smaller the Core Group, the more privilege it enjoys – and the more efficient the organization becomes. Some “new economy” and Internet businesses perished precisely because they tried to use Core Group status to attract employees. They distributed so many stock options and other perquisites that they created an enormous de facto Core Group that the cash flow of the business could not support.

By contrast, General Electric CEO Jack Welch saw how much power can be gained by keeping the Core Group small. In 1981, when he assumed the chief executive's role, the Core Group at GE consisted of all the permanent managers and union members. Most GE employees had implicit guarantees of lifelong employment. The businesses where they worked were protected from harm, and the variety of businesses shielded the company from the business cycle.

Welch realized that the company could no longer afford this luxury. The Core Group was too big and unwieldy. GE, a highly diversified company that made everything from turbines to jet engines to alarm clocks to medical sensors to plastics, would have to change its portfolio. Henceforth, he announced, GE would only support businesses that were first or second in their industries. Everything else would be “fixed, sold or closed.” Managers who crossed the threshold to a #1 or #2 market position would reap disproportionate rewards. Everyone else was expendable. The “#1 or #2” dictum

was, in effect, an open announcement of the new Core Group and the fact that people could only enter it through extraordinary performance.

It took Welch about five years to reduce GE's old Core Group from thousands of people to several dozen. In the process he changed GE from a paternalistic, stultifying institution to a company which deliberately threw its "losers" out in the cold—and made its "winners" rich. Welch became a living symbol of the frustration that so many top executives feel about the large, bureaucratic Core Groups entrenched in their organizations. That's why other CEOs lionized him.

Many people who worked at GE through the Welch transition still feel betrayed. They continued to draw their salaries; but they could see that GE no longer held their best interests at heart. It is no coincidence that the nickname "Neutron Jack," which Welch personally hated ("He took out the people and left the buildings in place"), was kept alive not by those who left GE, but by many of those who stayed.

What must the Core Group members do for the organization? That, too, varies from place to place. Generally, Core Group members are expected to put the well-being of the organization foremost in their minds and hearts. But there is no way to hold them to this pledge. While some fulfill it admirably, others are either not capable or not interested. Sometimes they are mystified; in many organizations nobody understands the nature of the boundary between the Core Group and the rest of the organization. That boundary is the subject of the next chapter.

Chapter 3: Living With the Core Group

On a December evening several years ago, some 350 people gathered in a hotel ballroom to celebrate the fifth anniversary of a well-known management institute. The institute had gone through some changes recently, and two of the leaders of the group stood up and retold the story – making a point of singling out, by name, everyone who had been involved in the “in-crowd” of the institute.

Except for one person. Standing at the back of the room was a tall man in his late thirties with sandy hair and pointed, elfin features. Randolph was the director of research. When he walked into the ballroom that evening, he was confident of his central importance to the organization. Most people tended to ask his opinion before they made a major move; his job in the future had been assured, and the institute was slated to fund an expanded research position for him next year at a local university. He already had an agenda in mind for the next few years of creative, satisfying work.

But then came the speeches. As he listened, Randolph’s lips tightened and his posture grew stiff. Neither of the two speakers mentioned his name or the research agenda he stood for. Yet he considered both of them to be good friends. When the speeches finished, and the informal cocktail party began, Randolph slipped out amidst the lingering laughter and went home. Someone else finally cornered the two speakers to ask why they hadn’t mentioned him. Their faces fell in embarrassment and chagrin. They hadn’t *meant* to ignore him; they had simply forgotten.

But this was not just an individual memory lapse. It was an unconscious response to an imperative in the air. Randolph was about to be dropped from the institute’s Core Group; he would be leaving its inner circle. Given his convictions and background, he simply could not retain his old place at the its heart.

During the next few years, most key people in the institute continued to regard Randolph as a personal friend. He regularly met many of them for lunch; he felt no sense of personal rejection. But that didn’t help his relationship with the institute as a whole. At the last

possible moment, he learned that the institute could not subsidize his position; he had to scramble to find another job. Worse still, he was forced to recognize that this organization which had once been central to his identity, was no longer looking out for him. He was on his own.

That's what it feels like to fall out of a Core Group.

Most people, of course, never get to be Core Group members in the first place. If you have a job outside the Core Group, then you are a transactional employee -- your job is defined by an implicit transaction. You agree to show up for work, to comply with reasonable requirements, and to do a reasonably decent job, and the organization agrees to pay you a reasonable salary and benefits. You may negotiate an enviable arrangement. But you should harbor no illusion that the organization cares about you. It doesn't. You will have to bargain for every perquisite and promotion you get. If you leave, the organization will not miss you; it will fill the vacuum left by your absence. It's nothing personal, after all; just business. Only those in the Core Group get to have a personal relationship with the organization.

Even if you accept this reality intellectually, it's easy to feel betrayed -- especially if you're the kind of people who wants to invest yourself wholeheartedly in anything you do, and be rewarded commensurate with that investment. If you're not careful, you can slide into the trap of "enabling" an abusive Core Group: working beyond your limits, continually hoping to be treated with respect but continually taken for granted. With no tangible rewards available, you may interpret dozens of random signals -- from promises of more responsibility to opportunities to speak at public conferences to performance evaluations—as evidence that, someday, you too might be important to the organization. That's enough to keep you hanging on.

Writer Betty Lehan Harragan, author of the influential 1970s classic *Games Mother Never Taught You*, discovered the essential pain of the Core Group enabler when she taught courses to women entering the corporate world.

"It was the recession of 1974," she later recalled. Women were routinely shunted into "nice little staff jobs that were a total dead end." In those jobs, she said, "You'd do all the work for someone else, who got all the credit. You'd see people hired at twice the money, and promoted

way ahead of you, who didn't know how to run the place. And if you knew how, you'd be told – 'Go help him.'"

Harragan counseled scores of underpaid women in staff positions who hadn't been given raises in years and were afraid to ask for them. They didn't realize that, *because they weren't in the Core Group*, the corporate game required them to bargain for every advantage. Like the character Lily Tomlin played in the movie *9 to 5*, people cast in this role can spend their working lives trying to prove how capable they are, waiting for the respect, recognition and pay that they know they deserve and never quite attaining it. When they come up against the "glass ceiling" (which is actually the boundary between the Core Group and the rest of the organization), they think they can crack through sheer persistence. But the Core Group may be blocked off for any number of reasons: it may only be open to people with a certain background, appearance, gender, career path, or (most likely) way of thinking. (For instance, at Western State College in Colorado, only avid skiers enter the core group; non-skiers are shut out of tenure and promotions.) It may even be closed to some people simply because of chance; they come along at a moment when there is no room for a larger Core Group.

If you're caught in this trap, you may respond by curbing your natural drive and enthusiasm at work. You'll learn quickly that openness, engagement and curiosity make it easy for the organization to exploit you. So you shut yourself down; you learn to think of your job as something that must be endured. Your performance declines to the prevailing level of people around you. Your creativity and innovativeness diminish entirely. You give nothing of yourself, and the organization comes to think of you as a person with nothing special to give. What a waste of your time. What a waste, for the organization, of your potential.

That is why it is so important, both for employers and employees, to be aware of the hidden dynamics of Core Group membership: The implicit rules and customs that allow some people in and keep others out. This doesn't mean the implications are all bad. Indeed, for those who understand the rules, being a transactional member is far superior; it is a liberating way to work, and an opportunity to carve out a career path dedicated to your own aspirations.

Even Core Group members never get *exactly* what they want. They may, for instance, want to change the organization to be more profitable and powerful. But the organization will barely hear the request. It is trying too hard to give the Core Group members what it *thinks* they want – comfort and pleasantness – and what it thinks they need – quick results, optimistic reports, and ceremonial displays of support. A senior executive remarks, in passing, “Wouldn’t it be nice if we had more open office space, so we could be more flexible?” Suddenly, contractors appear to tear down walls. The same executive reappears and muses, “This looks awfully empty and intrusive. How do people get any work done?” The contractors are called back in; the walls go back up.

If you’re a Core Group member who really wants change, you must find a way to convince everyone else that you are genuinely willing to be shaken up and made uncomfortable. Some chief executives seem to intuitively grasp this; they endanger themselves in high-risk sports, or they drag their subordinates on arduous mountain-climbing trips and desert safaris, often in the name of team building. It’s as if they hope to shock themselves and their companies into transcending the commonplace. But it rarely works; it just drives people into more desperate efforts to give you what you want without endangering themselves.

After all, if you really want to put yourself in jeopardy, you don’t have to leave your office. Core Groups can become vicious snake pits in fractured or highly politicized organizations. Last year, rumors swept through the Ford Motor Company that that the two top executives—family scion William Clay Ford, who was CEO, and autocratic president Jacques Nasser—had come to blows at the 1999 Christmas party, and that security had to pull them apart. Whether or not the rumors were true, they aptly symbolized the Core Group tension that has been part of Ford’s history from the beginning. Ford’s family members have always comprised the heart of the Core Group, but the company has relied on charismatic outsiders like Lee Iacocca, who was best known in the 1960s for championing the Mustang. In the late 1970s, the tension grew between Iacocca (who wanted to produce high-quality small cars to compete with Japan) and then-CEO Henry Ford II (Bill Ford’s uncle, who emphatically resisted the idea). Iacocca had a loyal following within Ford, but he was never part of the company-wide Core

Group. He tried to force Ford out of the company, failed, and left. Since then, while non-family professionals like Red Poling, Donald Petersen and Jacques Nasser have run the company, the family dominates the Core Group, and the tension at the heart of the Core Group continues. (One reason that Ford used Firestone tires, even though they knew about the potential for danger, was because the Firestones and Fords had intermarried.)

When a Core Group is fractured and consumed with infighting, it can severely debilitate an organization. Pleasing *all* the members of the Core Group might be impossible in such cases, *but the organization's people will try to do it anyway*. They think their jobs depend on it. No wonder such organizations are stagnant; a divided Core Group places everyone in a perpetual double bind. The bitterest internal feuds – for example, between rival scions of the proprietor who started a family business – can raise so much core-group-related tension that it crowds out the productive work. That's what happened, for example, to the Bemis Manufacturing Company, a family-held toilet seat producer operating in Sheboygan Falls, Wisconsin since 1901 and currently controlled by two third-generation brothers who don't talk to each other. "There's a town full of dysfunctional enablers," says one close observer, "who won't speak up to the brothers and say, 'You're letting this company fall apart.'"

In many organizations senior leaders grow preoccupied with deciding whom to "bring along" into the Core Group (while trying to make it look as if promotions are based on merit.) This is why senior executives often seem so busy without actually doing anything. But in fact, the power of the Core Group comes not from its *authority*, but from its *legitimacy*. Authority is power granted by the hierarchy; legitimacy is power granted by the organization as a whole. As an employee, you may be accountable to your boss, but you choose the people whose interests you support. You may select them consciously because you respect or admire them, you may fear them enough to watch out for their interests, or you may simply favor them because you sense that everyone around you will approve. Whatever the reason you favor them, the act of favoring them promotes their membership in the Core Group. For instance, each time you select a supplier whom a particular executive has championed, you cast a "vote" for that executive's presence in the Core Group.

Core Group Theory offers its own definition of leadership: The ability to get people to make decisions on your behalf, and thus move you closer to the center of the Core Group. Core Group Theory also suggests that being a good follower can make a tremendous difference. When you go along with the prevailing winds, you reinforce the legitimacy of the existing Core Group and its attitudes. You may even come to accept the ideas and attitudes of the Core Group as your own. Conversely, when you heed someone new, like an innovator whose ideas are unfamiliar but compelling, you open up the Core Group to change.

Chapter 4: “Let’s See What This Baby Can Do” (The creative imperative)

“I’m watching Sis go pit-a-pat,” recalls a dancer in the musical *A Chorus Line*. The young boy’s flash of recognition – “Hell, I can do that!”—propels him into a theatrical career. The song *I Can Do That* could be the anthem, not just of people who are in love with their work, but of the organizations which hire them. When we recognize our potential ability to accomplish something worth doing, there is an innate human drive to try it. As we find out just how well we *can* “do that,” we also learn what else we might be able to accomplish along the way. Every organization thus exists, in part, to help its members and employees accomplish something together, at a scale larger than anyone could manage individually. This is the creative imperative. The exact flavor of creativity embodied by each organization has been encoded, in effect, into the organization’s DNA by its founders. Carried down from generation to generation of employees through training and on-the-job contact, it will often remain in place for the organization’s lifetime.

The creative imperative tends to surface as a challenge. Can this securities company create a really cool investment vehicle? Can this school help a group of inner-city children boost their test scores (or realize their ambitions)? Can this start-up last more than a year? Can this manufacturer build a car that people will want to drive? Can this package goods company corner the market on toothpaste? Can this utility reshape the energy industry? Can this beverage company beat Coke? Can this marketer invent a franchise that puts its name all over the world? The challenges of the moment shape everyone’s decisions. It’s as if each individual is saying to him- or herself, “Let’s take the organization out for a spin and see what this baby can do.”

Money is important to people (which is why the Core Group holds tight to the purse strings), but the organization’s creative imperative has a clear hold on employees and it has nothing to do with salaries or bonuses. Industrial psychologists have long known that rewards and recognition are far less of a motivating force than the innate “joy in work” (as quality pioneer Dr. W.

Edwards Deming called it) that comes from being caught up in a task, losing yourself in its flow, and seeing great results. “People don’t join organizations to make money,” says Peter Schwartz, founder of Global Business Network and author of *The Long Boom*. “They join because they want to *do stuff*.” Organizational learning consultant Fred Kofman says, “Organizations exist to demonstrate greatness.”

Big organizations are not typically seen as creative – the very word “bureaucracy” has come to mean the opposite of a creative enterprise – but in reality, civilization depends on the creativity of its large organizations. Not many people have the training, resources, wit and self-confidence to create powerful work on their own. There are, of course, always a few outstanding artists, scientists, and writers who pull it off; but the rest of us need partners, formats, perspectives, funds, distribution channels, collaborators, components and constraints. We get access to all this only through organizations. Only through large organizations can we make an impact on mainstream society and its infrastructure. If we learn how to harness an organization’s creativity effectively, then almost nothing is impossible for us.

Most celebrated inventors are keenly aware of this. Thomas Edison, known as the “Wizard of Menlo Park” after the “labs” he built in that New Jersey village, was just as preoccupied with the design of his fledgling electric company (later to become General Electric) as he was with the design of the light bulb. Some of Henry Ford’s greatest innovations—the application of the assembly line to automobiles and the \$5 weekly paycheck—were innovations of management, not internal combustion. Computer industry pioneers such as Bill Gates, William Hewlett, David Packard and Michael Dell are known as much for the innovative organizations they created as for any particular software or hardware product.

Skilled inventors turn to organizations because they know that organizations amplify people. This “amplification” is not just the natural result of a bunch of creative people working together. Corporate practices, policies, and processes, including calculations of future financial potential like “net present value” systematically increase the worth of human activity in a variety of ways.

If organizations are so creative, then why do they stagnate so easily? Paradoxically, the more creative the

parts of the organization become, the easier it is for the whole to be blocked. Consider, for example, the fledgling aircraft designers who graduate from aeronautical engineering schools. They know from professors and peers that Boeing and Lockheed Martin are the best places to work, but not primarily for the salaries. At those two companies they will be able to learn from the existing masters of aircraft design. If they take the job and do well at it, they will gradually learn to play the company like an instrument – to make decisions that, bit by bit, lead to better research laboratories, more resources for prototypes, and a culture that is ever friendlier to engineering research.

However, aircraft engineers are not the only creative people at Boeing or Lockheed Martin. Finance people try to make the organization into a model of skillful and decisive cost reduction, an operation that they can regard with professional pride. Purchasing managers want to show how well they can procure goods and services; sales and marketing people want to show how much they can sell. Information technologists want to turn the organization into a showplace gateway to the noosphere; human resource people want to make it into a world-class nurturer—or regulator—of people. Nearly all these individuals make their decisions in ignorance of each other. The result is a multidimensional stalemate, in which people push hard in opposite directions and innocuous agendas prevail.

The creative imperative offers a challenge for organizational leaders: How can you foster creativity among all the competing professional interests, and create a whole that is more powerful than simply the sum of its parts? We return to this question in Chapter 7, "Strategies for Leaders."

Chapter 5: The Right Thing to Do (Nobility of purpose)

Note for version 8.42: This chapter is still “under construction.” In its current form, it reads like it is about a form of social responsibility. But I am revamping it – because I have come to believe that the sense of “noble purpose” is really a subset of an organization’s views of the essential nature of the world.

When a company asks itself, “How can we make a better world?” its people are really asking themselves, “What do we believe together about the needs people have? What do we believe about politics – not the choice of whom to vote for, but the reasons why one politician appeals to us and another doesn’t? How do we see our place in the world? How, in essence, should we behave?”

Some companies, like HP, codify this (in the “HP Way.”) For most, it is uncodified, but very very real. There is an “Exxon way” and a “Shell way,” and that distinction is probably the greatest single reason why different people choose to work at either company.

This is not just the corporate culture, but a particular subset of the corporate culture: The shared views of the best way to behave. It overlaps with ethics and social responsibility, but is not limited to them. One could call it the character of the company.

One recent prominent example is the White House schedule under Bill Clinton and George W. Bush. Under Clinton, the prevailing ethic of the White House was, “We take time to feel right about our understanding, no matter how long it takes, because that’s what people need. That conveys respect for them: Giving them time to think together.”

Under Bush, the prevailing ethic was: “We start every meeting on time, no matter how strong the temptation to go over, because that’s what people need. That conveys respect for them: Managing our time effectively.”

Charles Hampden-Turner and Fons Trompenaars might argue that these two ethics represent two views of time. They are not just related to time in the abstract: They are willful views of “How we should operate in time.” People on either side of this continuum will feel

disrespected by people on the other, and conclude that they are basically untrustworthy and wrong-headed people.

Some people believe it's right to express anger and emotion and clear the air; others, to keep it discreet and well-managed. Some companies believe that they are responsible for everyone in their communities; others believe that social responsibility is a form of blackmail.

I am still looking for ways to describe this "purpose," but I didn't want to hold up distributing this précis. So please bear with the vagueness of this chapter, and I'd be grateful for any perspective or insights you have.

Several years ago, the forty top executives of a large oil industry consulting firm held a retreat to set their direction. They realized, as they talked, that there was a dynamic goal ahead of them. It was more than a mission; they called it their "noble purpose." With their expertise about high-technology computer systems, and their in-depth awareness of the needs of oil companies, their company could "revolutionize the energy industry." They could help develop technological frontiers that might make oil companies far more capable than they had been.

Excited and thrilled by this statement, they put out the word through the company. Managers met with their teams to discuss what this "noble purpose" might mean for them. After a month of this, they held a closed-circuit videoconference for all their 1800 employees. The company president summed up the new "noble purpose" from the stage; various executives gave their impressions of what it might mean. And then they asked for questions.

From a remote site in rural Ohio, a young computer engineer signaled that he wanted to ask a question. He was ushered into a soundproof booth. "I appreciate the openness that you're showing," he said into the microphone. "But I don't really see the nobility in this noble purpose. What does the word 'noble' really mean?"

The engineer had come to this opinion during his team workshop. Revolutionizing the energy industry, while it seemed like a highly creative endeavor, wasn't really "noble" to him. It just represented a more innovative way of operating a profitable business. "In my view," he said, "a truly noble purpose would address concerns larger than profits. It would allow me, as an individual, to know deep in my heart that nothing like

the Exxon Valdez would ever happen to us. And if it did, we wouldn't respond in the same way that Exxon did."

The president listened and said, simply, "I'm going to have to be honest with you. We just haven't thought much about it that way."

The president's response boosted his reputation significantly. Before this, he had been regarded as an intolerant man with a hair-trigger temper. Now he was seen as the sort of leader who would genuinely listen to his people. The engineer's life also changed. He had given voice to a feeling held by many of the employees of that company—that nobility meant more than merely making money. Even people who disagreed with him appreciated that he had raised the question. He was invited onto task forces to help craft a more authentic environmental policy for the company – closer to the noble purpose which people felt the world was calling them to do.

Ultimately, this company never got to fully explore its noble purpose. The executives who led the consulting vision were either scattered or retired. But in another sense, the debate over noble purpose was extremely significant. People still remember it as a galvanizing moment of truth, in which it became clear that their work was not just oriented toward self-interest. There was a contribution they could make to the world outside themselves. Their long-term survival depended, in part, on fulfilling that promise. As a large, mainstream company, they had the power to do so. Their own habitual ways of thinking and conducting business would be the primary barriers to prevent them from getting there.

The concept of a "noble purpose" stems from feudal society, where lords and royalty needed to prove that they were responsible to God, who had (through their birthright) granted them a privileged place in society. When Napoleon created the Order of the Legion d'Honneur in 1802, it was the first modern recognition of nobility: Recipients did not need to be hereditary nobles to receive one. "The French are not changed by ten years of revolution," the Emperor said. "They care for only one thing: Honor. So this sentiment must be fed; they must be given distinctions."

The same is true for organizations in our time. Today, a noble purpose is one that compels people to work towards high ideals. Most observers underestimate the degree to which this noble purpose actually propels people in organizations. Ask people for the reasoning behind

their decisions and you will hear them talk about not just what would be good for the company's leaders (or the Core Group), and not just the work they want to produce, but also the benefits for humanity as they see it. They want to make a difference, and they don't fully understand why their "noble" efforts are so often self-defeating.

Every organization has a view of itself as making a better world: providing some essential service beyond its own self-interest. In some organizations, the purpose is easy to discern. Schools exist because people want some institution larger than themselves to play a major role in raising their children. Law enforcement organizations exist to provide stability; social welfare organizations to overcome intolerable disadvantages. Some corporations deliberately set themselves up to make as many of their employees as possible wealthy. Jack Stack, the founder of SRC Holdings Corporation of Springfield, Missouri (and the developer of the "Great Game of Business" approach to open-book management), says his sense of purpose came from his own lower-middle-class upbringing. His father worked three jobs at times, and there was always uncertainty about whether they'd have enough money to make it past the end of the month. By giving people "a sense of the brighter side of capitalism," Stack says "we show them how to get through life without fear."

Even organizations that many people hate have a noble purpose in mind, driving many of their decisions. Oil companies, as investigative reporter Seymour Hersh has noted, see themselves as keeping humanity safe from the cold and dark. "We make it warm, and we make it light," said an oil industry source to Hersh. Banks, as Robert Pirsig wrote in *Zen and the Art of Motorcycle Maintenance*, exist because people need safe storage of, access to, accounting for, and growth of their money -- not because a secret cabal of economists designed banks in a conspiracy to dominate the economy. Even organized criminal gangs believe that they must do what they do to protect their families or their people. We may find their sense of noble purpose horrible; but we cannot deal with them effectively unless we clearly understand it.

Because a noble purpose takes its shape from the ideals people hold and the stories they tell themselves, it is not nearly as simple as it seems at first glance. In fact, in most organizations, there are two different forms of noble

purpose available to decision makers, if they only know how to look for them.

The first is the *official story*. These are the ideals that the Core Group members espouse about the way that they will make a better world. At the energy consulting firm, "we can redefine the industry" was their official story.

The nature of this story will deeply influence the direction in which the organization travels. School systems, for example, wrestle continually with their official story: Do they exist to teach children to be good citizens? To prepare them to make a living? To show them how to read and do simple sums? Or to help them be "all that they can be?" The way they define their noble purpose determines all the other choices that educators in that school will make.

Most organizations do not fulfill their official stories completely. School districts, for example, generally espouse the idea that "all children can learn." In practice, however, they often cater to the highest performers and virtually ignore the rest. Telephone companies espouse the noble purpose of universal access; but then they systematically block competitors (for example, competing companies offering high-speed transmission). Core Group Theory suggests that, to make an organization improve, you need to help the Core Group see the gap between their official story of "noble purpose" and their actual day-to-day practice.

But in Core Group Theory, there is also a more fundamental form of noble purpose. It is the *deeper calling*: the mission that the company has not yet learned to embrace -- but that the world is asking it to fulfill. Chances are, the Core Group (and the rest of the organization) do not recognize this deeper purpose clearly; but they cannot afford to ignore it in the long run.

For example, at Dow Chemical during the last 40 years, there has been a fervent official story about environmentalism. Dow has led the industry in developing capable practices for making its chemicals safe and for reducing toxic emissions. At the same time, there have been chronic eruptions of rare forms of cancer in Dow's hometown of Midland, Michigan, and in other locales where their chemicals are produced or used. Like all chemical companies, Dow has tended to settle its toxic pollution and workplace hazard lawsuits out of court,

always with a non-disclosure clause that prevents claimants from talking publicly about their illnesses.

Several years ago, I asked Larry Fink, an Environmental Protection Agency official who had often tangled with Dow, what the company might do to convince him that it was truly an "environmental company." He replied by describing a particular deeper calling -- not just for Dow, but for any major chemical producer. The company could release all of its hidden information (without individuals' names) into epidemiological data banks. Researchers could use that information, in combination with independent statistics from, say, the National Cancer Society, to come up with a far more sophisticated understanding of the relationship between chemicals and health hazards. Though no company could be trusted to produce this data on its own, any toxicological compiled *without* Dow's full-hearted participation would be inconclusive.

The world is waiting for a chemical company with Dow's stature, reach, and influence to make such a move. In the long run, the benefits for that company could be immense, because breakthroughs in biochemistry, physics and genetic engineering have placed humanity (as Mehmet Sarikaya, professor at the University of Washington, puts it) "on the brink of a materials revolution that will be on a par with the Iron Age and the Industrial Revolution." The first company to develop an open epidemiology practice will learn before its competitors not just about which compounds are dangerous, but which compounds are safe and how to improve their safety and usefulness further. Arguably, our survival and health as a species (and the viability of many other species as well) depend on the chemical industry making this transition. That is a truly noble purpose. But no one in the chemical industry has so far heeded the call in any visible and influential way.

In the short run, it is far easier to ignore the still, small voices of the deeper calling than to heed it. It can take 50 years or more for the consequences of ignoring that voice to come home to roost.

Fifty years ago, for example, the rituals of smoking were a valued part of modern life. The tobacco industry had a persuasive official story: it produced a highly enjoyable product, the cigarette, that made people feel more convivial and civilized. ("Pipeweed" provided

much of the ambience of conviviality, for instance, J.R.R. Tolkien's fable *The Lord of the Rings*.)

But in 1953, when its own research began to definitively link cigarettes to addiction and lung cancer, the tobacco industry decided to close ranks and bury their findings. The entire industry worked overtime to discredit independent research, to make false health claims, and to cover up their own internal reports. In the short term, this was the winning solution, and it allowed the companies to maintain high profit levels and immunity from lawsuits through the 1980s.

But it also meant that, in the mid-1970s, when prototypes of safer cigarettes had been developed, the executives of all five major American tobacco companies decided separately not to produce or market them. For legal liability reasons, they could not allow their companies to admit, even tacitly, that they had knowingly produced a hazardous product in the past. They let those prototype products die.

Suppose, back in 1953, the executives had heeded their deeper calling? They might then have chosen to open up their research to the outside world and admit the addictive and carcinogenic nature of tobacco. That might have led to cigarettes being regulated as drugs – a unique form of tranquilizer which eased anxiety without deadening reflexes, and which created a mild but pervasive sense of well being. It might have led to new research on making cigarettes less addictive, and to ongoing work with physicians' groups to continually ease the product's impact on health. Some tobacco employees counseled this sort of path, but the industry as a whole never heard that calling, and it may be too late to recoup. Thirty years from now, because of those decisions made in the 1950s, cigarettes may be as rare as opium-based patent medicines like laudanum (which was popular in the 1890s) are today.

The ability to hear the deepest form of a noble purpose, to make a commitment to it, and to hold on to that commitment in the face of inevitable opposition or distraction, is a key to long-term success. This requires patience. The official story will be obvious and compelling to many people; but few will recognize the value of the deeper calling at first. It will be difficult to make decisions on its behalf, especially when they contradict the more immediate needs of the Core Group. The Core Group will always claim peoples' attention, if only because feedback

from the Core Group arrives much faster than feedback from the far-flung outside world.

For instance, if you propose the launch of a new product, you will learn almost immediately (through office gossip) about how well it meshes with the Core Group's priorities. It could take a year or two to learn about its creative impact (which depends in part, for instance, on how your product is received in the marketplace). And it may be fifty years or more before the impact of your decision on the larger world is fully understood.

Core Group Theory suggests that in a healthy organization, all purposes are relatively aligned: the needs of the Core Group, the creative imperative, and the noble purpose (including its deeper, somewhat hidden forms.) When people feel that they can serve all of these, without sacrificing any of them, then they can accomplish miracles.

Chapter 6: Building Equity: A Strategy For Individuals

Several years ago, a young electronics engineer named Frederick was assigned to lead a team to develop and launch a piece of high-tech medical equipment. This was a major promotion for Frederick; he was only in his fourth year as a staff engineer at a medium-sized manufacturing firm in New England. He was idealistic and thoughtful, and he saw the new job as a way to revolutionize product engineering at his company. Most new products came in after deadline and over budget, in a manic, round-the-clock final stretch accompanied by browbeating from senior management, and desperate pleading from key customers.

This time, Frederick decided, things could be different. His team would work collaboratively, setting their own goals and targets, and even inviting their key suppliers to link more closely with them. Frederick's bosses agreed, and the young team leader went to work, with his own enthusiasm echoed by the half-dozen other engineers on the team.

Then, a few months after the launch began, Frederick took a week's vacation with his wife. His boss stepped in and "tinkered a bit", changing the schedule and undoing a deal that the team had made with a supplier. By the time Frederick came back, the damage had been done. He immediately quit his role as team leader. His boss chided him for overreacting, but he felt he had no choice. Any promise he made, any relationship he built, could be reversed within a minute. "I'm not being treated like a person," he said. "They're treating me like a commodity." (In other words: "I'm not being treated like a member of the Core Group.")

Within a year, Frederick left the company, dropped out of the engineering profession, and became a sculptor. Three years later, he still speaks of the company with bitterness. The product team forged ahead without him, reverting to its conventional practices. Eventually, it produced its device—two years late and a million dollars over budget, amidst a grueling lawsuit with one of their suppliers.

There are many similar stories in the corporate world. I know a senior training executive, retired from Ford several years ago, who ultimately saw his efforts leave no permanent mark on the company. A friend recently noticed that he had two Volvos in his garage. The former company loyalist said about the Ford logo: "I don't want the blue oval in my house any more." That Ford executive fared better than a laid off computer analyst at a New Jersey chemical company who sabotaged company files, was caught, and was indicted with a prison sentence likely. Why had he snapped that way? After thirty years at that company, he had expected a senior executive to come and give him the news of the layoff personally. Instead, according to *The New York Times*, the company sent "the kitchen staff supervisor with guards to escort us off the premises like criminals."

These people are hurt because of the gap between the company's true nature and their expectations of it. They spend their careers as "Core Group enablers," fostering the success of the company without much reward or recognition. In their own minds, they have earned the right to be treated like members of the Core Group. But they don't get that treatment.

All three of these people could have found other ways to respond—less spiteful and more effective ways to get what they wanted.

This chapter is written for transactional employees who want a better way to build their careers -- without having to leave their professions, turn their backs on their old loyalties, or go to jail. Core Group Theory may seem at first glance to present a grim and cynical view of the working world, but it is highly liberating for people who take it to heart. It allows people at every level of an organization to act with integrity and pursue what they most want.

The secret is to build up equity.

You may think of equity as financial wealth—the fungible assets and resources that you can draw upon at will. But in Core Group Theory, *equity* is the accumulated wealth of any sort, including such intangible forms as relationships and reputation. All of these give you leverage in an organization. Some forms of equity are measurable, while others are not; but all of them have one key feature in common: They accrue exponentially. At first, it seems impossible to build up a nest egg in any of them (unless you are born with one.) But small savings

in early years lead to large gains in later years. Finally, the savings cross a threshold and become self-replenishing; the more you use them, the faster they grow.

The types of equity described in this chapter include:

- **Fungible financial equity:** Popular finance books like *Your Money or Your Life* and *The Millionaire Next Door* promote frugality not because living cheaply is inherently more worthy, but because capital is leverage. If you are not part of the Core Group of an organization then sooner or later you may need the ability to walk away intact, without financial worry. A savings cushion, particularly one large enough to let you live off the interest, allows you to make long-term decisions without putting your standard of living (or your family's) at risk. As Joe Dominguez and Vicki Robin showed in *Your Money or Your Life*, it is possible for anyone, no matter what their income, to build up such a nest egg.

- **Budget equity:** How much money can you raise within the company for projects important to you? This, too, is a form of equity: the more you can manage successfully, the more easily you can raise more. You do not need to be in the Core Group to have high budget equity; but if you are not in the Core Group, the respect you are given will depend, in large part, on your ability to raise and manage money. This is true even in non-profit organizations.

- **Equity of mutual commitment:** Stock options, ESOP plans, and most other forms of employee equity are not worth as much as the hype suggests. Often, they are designed so they can't be cashed in until retirement or exit; and their value depends on whether the company succeeds – which is generally beyond the power of any individual to determine. Nevertheless, options are a valuable form of equity, primarily as a tangible expression of the organization's commitment to you. If you are trying to find out whether you have Core Group potential, ask not for a salary or bonus, but for stock options. They also make it easier to act like a Core Group member, and thus reinforce the stake that you and the company have in each other.

- **Reputation equity:** At any given moment you have a degree of public credibility that you can draw upon. Tom Peters refers to this as a “personal brand,” but the poet Ezra Pound said it better in 1934: “Any general statement is like a cheque drawn on a bank. Its value

depends on what is there to meet it. If Marconi says something about ultra-short waves it *means* something...” You build your reputation less through the accomplishments you stack up (what you *do*) than through the way you operate in life (who you *are*). Sooner or later, you may cross a threshold of reputability; after that, people will naturally provide you with venues – such as speaking, teaching, television appearance or writing opportunities – that further enhance your reputation. At that point, your reputation has become a form of self-generating equity.

- **Relationship equity.** In his popular book *The Tipping Point*, Malcolm Gladwell suggests that fads, fashions, and movements are propelled by networks of well-connected people (“connectors,” “mavens,” and “salesmen”) who champion ideas and refer people to each other. Frederick, the engineer who left to become a sculptor, had plenty of relationship equity downward in the company hierarchy. But his relationships *up* the hierarchy were stunted. He knew no one whom he could talk with candidly about his ideas and intentions. Those who develop good relationships know that the primary personal factors are attentiveness, flexibility, and the ability to talk without self-consciousness. The more relationships you build, the more attentive, flexible and gracious you become, and your web of connections grows (in both quantity and quality) at an accelerated pace until it becomes self-sustaining.

- **Credential equity:** Once you have held a position, or acquired a credential, it remains with you for a lifetime. Those who have been presidents of companies, even if the companies fail, can generally become presidents of companies again (unless, through criminal indictment, they lose their credential). Those with graduate degrees in engineering can get jobs teaching at engineering school, no matter what their caliber as teachers or engineers. Most corporations outside the Core Group are relatively stalwart meritocracies; credentials are an indispensable form of equity within them.

- **Capability equity:** One of the most effective ways to influence a Core Group is to become indispensable to them. You accomplish *that* by developing and applying unique skills and capabilities. The more tasks you can perform with unique verve and confidence, the more valuable you become. You also increase your ability to develop new kinds of capabilities.

- **Strategic equity:** Your ability to rise depends on your ability to strategize – not so much to plan as to anticipate a range of unexpected events, so you can respond to them more effectively. The best strategists cultivate trustworthy partners with whom they can strategize together. People with good strategic equity have a keen eye for priorities; they rarely seem to waste time. That's because they have spent time, ahead of time, considering their potential options. The writer Jim Collins, for instance, decided at age 13 that he would "escape my family with my brain." He went to his middle-school guidance counselor and said, "I want to go to Stanford. When do grades start to count towards college acceptance?" When his counselor told him 9th grade, he resolved that he would start earning straight A's then. If you can only develop one form of equity, this would be the one to develop, because it tends to lead you to develop all the others.

Building all these kinds of equity is important *whether or not you ever expect to be in the Core Group*. Indeed, if you are a transactional employee, then building up equity is the only vehicle you have for being taken seriously in most large organizations.

Consider, for example, Frederick's case and the kinds of equity that he had to work with:

Type of equity	Needed for this situation	Available to Frederick
Fungible financial	Frederick was not being asked to invest money in this project; he would only need financial equity as leverage, in case he decided to walk away from the company.	Ultimately, he <i>did</i> walk away. Had he not had enough financial equity to begin his sculpting career, he would have been truly stuck in an untenable situation.
Budget equity	The budget was set from above, so ostensibly there was no need for more; in reality, however, the ability to raise more money would have greatly increased Frederick's options (and the team's)	Frederick had almost no budget equity, and suffered accordingly.
Mutual commitment (stock options)	Stock options were not critical for Frederick's success. They would, however, have made it clear that he was potential Core Group material.	There was no plausible way for Frederick to win stock options in this company.
Reputation	Any new team leader, trying a massive experiment in new approaches, needs a highly competent and creative reputation.	Frederick lacked the reputation he needed. At minimum, a written presentation of the rationale for his approach would have made a difference. Even if people at the top didn't attend, the presentation would have made them aware of Frederick's contribution and foresight.
Relationship	Frederick's ability to pull this off would depend on the trust of his peers, his superiors, and his outside contacts (customers and suppliers).	Frederick's lack of good relationships up the hierarchy was a crippling factor.

Credentials	Once you are a team manager, you will always be a team manager.	This was Frederick's first time as team manager. He had only partially built the credentials he needed for credibility in this bold step.
Capability	Significant capabilities are needed to manage a team that must work together in new ways.	Frederick, despite the training he had undergone in "team dynamics," lacked the facilitation and project management skills that he needed. He was trying to build them through "on-the-job training," which meant that he had some capital, but had not yet crossed the threshold into equity.
Strategic	Frederick needed a great deal of strategic power to maneuver through the in-fighting among his various bosses, to get sponsorship for his new approach, and to provide "air cover" for his team so they would be let alone.	This was probably Frederick's greatest shortfall. There was no one he could go to for counsel or perspective, without raising eyebrows or concern about the project.

Generally, improving one or two types of equity is enough to make a difference in the short run. Frederick, for instance, could have focused on cultivating a senior mentor (to help him plan his direction) and to improve his communications and budgeting skills. But in the long run, a well-rounded life is one in which you accrue many forms of equity. You cannot tell, in advance, which will be most useful to you. If you are a millionaire with feeble relationships and a smarmy reputation, you will be far less effective than if you have only a month's salary in the bank, but a trustworthy, capable reputation and an extensive network of competent people who take your calls.

In the absence of equity people pursue "quick and dirty," low-leverage strategies for influencing the organizations they work for. Some "suck up" to Core Group members. Others cheat. Others painstakingly build up their credentials in the hope that people in authority

will notice. Others, like Frederick, descend into a state of resentful paralysis, giving the company as little as possible and ultimately choosing to leave. Or they “play with dynamite,” trying in various self-effacing but passive-aggressive ways to complain about the unfairness of the system.

There are better moves available for those who have developed several forms of equity:

Unilaterally expanding the Core Group. Core Group Theory says that people cannot put themselves into the Core Group; but we can insert other people into it, simply by making decisions on behalf of their welfare. For example, in one large company undergoing a significant transition, one of the key players was the newly appointed assistant to the executive council. She was a seasoned executive herself, close to retirement age, but now, partly because she was a woman herself, she was treated at first like an assistant herself. She was assigned to schedule meetings, plan logistics, and take minutes, without ever being invited to join the conversation. But several key people elsewhere in the organization looked up to her, and they continued to publicly ask her opinions, to broadcast her replies to others, and to include her in all budget requests. Within a year, she was the generally acknowledged chief spokesperson for the new transition, included in all deliberations, and in the newly emerging Core Group. She could never have done that for herself, but her friends throughout the company could do it on her behalf (and because she thought, correctly, that she would be good for the company).

- **Raising the question of success or failure** with members of the Core Group. “What will we have to do to be successful in your eyes?” If you have accrued enough relationship, reputation and budget equity, then you cannot be ignored. Simply by asking them the question, you may draw Core Group members into a role as sponsors of your endeavors.

- **Developing unlikely allies:** In *Games Mother Never Taught You*, Betty Harragan tells the story of a woman executive who discovered that her coveted office, next door to the President, was actually a liability. People treated her as a secretary and message-taker for the Great Man. One day she offered to swap offices with a man, her greatest rival on the executive team. This led the two of them to become allies.

A move like this can be powerful. It sends a signal that you are interested in the fulfillment of everyone in the organization, even your ostensible enemies. The more people whom you can support, in ways that may seem counterintuitive at first, the more “reputation equity” you will develop.

- **Raising explicit awareness of the company’s core profile.** Who *is* in the Core Group? How do people get into it? What are their real priorities (and how can we be sure we know)? What is the organization's true creative proficiency, and what creative skills is it lacking? Finally, what is the world calling on it to do?

Employees typically treat questions like these as “undiscussable” or taboo—but if you have enough equity to raise them and you are trusted by those above and below you in the hierarchy, you can use them to open up the organization for change, no matter what the level of your current position.

Chapter 7: Strategies for Leaders

"The goal of our company is to return investment to shareholders!" No, "The goal is to build a lasting enterprise!" No, "The goal is to cash out in a couple of years."

All of those are viable goals for any company. But which is yours? If you are the senior executive of a company (or a division) and your Core Group members have not thought explicitly about your intentions, then you cannot expect anyone else to guess them correctly.

This chapter is aimed at senior executives who seek to amplify the capabilities of their organizations and create a legacy they can be proud of. As an executive leader, you are accountable for the health and direction of the whole system.

A healthy organization has a strong Core Group, and the make-up of the Core Group is evident to all. Employees know who the Core Group is; they are aware of the values and goals of those on whose behalf they make decisions. They may not be members themselves, but they approve of the people in it. "We need them at the center," they say. They are not exploited by the Core Group, and they can speak openly and honestly to its members.

A healthy organization has a vibrant creative proficiency; it holds its own in the commercial marketplace, and its ideas, innovations, and even its slogans are respected. People at the top of their craft want join that organization because they know they can do good work there. Consumers are drawn to its products not just because of their needs, but because of the concepts that the product represents (for example, Virgin Airways and stylish freedom; McDonald's and reliable American comfort; Apple and human-oriented design).

A healthy organization is open to conversations about its noble purpose. Its leaders know that, while meeting current priorities is vital, their ability to meet short-term goals will eventually wither unless they continually think about the impact of their organization twenty, thirty, or fifty years hence.

Beyond this, you may be interested in creating an organization where everyone is a member of the core group – an organization that has dedicated itself to the

welfare and importance of the body of people who work there. In this chapter, we explore the ways in which some organizations have accomplished this.

Chapter 8: Conclusion

There is a movement afoot in management circles to regard corporations as communities. As a General Motors executive told me several years ago: "People come to this company and do the kind of work that makes them seem barely competent, certainly not capable of managing anything larger than their desks. Then we find out that, on weekends, they manage large businesses for their churches, or they have huge scout operations under their wings, or they have remarkably creative small businesses of their own. How can we tap that spirit and enthusiasm for our company?" How, in other words, can we get our employees to give to the company the same level of energy and dedication that they contribute as volunteers?

You can't. Nor should you.

Organizations are not communities. Organizations are structured around Core Groups -- if they have no clear Core Group, they fall apart. Corporations, for instance, attract the most investment and best-qualified people when they are clearly managed by a core group with decisive, creative goals and ideas.

Communities are not structured around Core Groups, and if they fall prey to dominance by a Core Group, they become abusive and unlivable. Democracies are powerful and persuasive only when they are obviously free from domination by a core group.

Communities depend upon volunteer spirit. But an organization can only require volunteer spirit from the members of its Core Group. From everyone else -- including those who are caught up by the creative imperative or the noble purpose -- the organization can legitimately ask for compliance, not commitment.

Organizations that ask their employees to be volunteers, without bringing them into the Core Group, are exploiting those employees. Employees who go along with this are enabling this exploitation to take place.

It is far better to cultivate one's community, which can contain a multitude of organizations. It is better for everyone -- yourself, everyone around you, and *the organizations as well*.

Many organizations are designed to exploit the energy and input of people who are not in the Core Group

-- and that is why they are such dismal places to work. But every once in a while, an organization emerges in which people are genuinely respected, as either Core Group members or employees (or as customers and suppliers); in which profit is seen as a vehicle for creativity, not for exploitation; and in which the ties between the corporation and community, even if it is a globe-spanning corporation, are clear.

Such organizations show that it is possible to create a capitalist system that is good for the people within it.

Over the next few years, in the wake of dramatic political and economic changes, we will hear a lot about the meaning of membership in organizations, communities, corporations and nations. Who governs? And how much power are they granted? These questions are up for grabs in a rapidly globalizing world, where fundamentalist, nationalist and market-based notions of appropriate governance are clashing ever more violently. The questions are also highly relevant to military and police organizations, where the loyalty to a noble purpose makes it difficult to recognize the influence that a Core Group has. In such a world, it will be easier than ever to portray capitalism and corporations as inherently corrupt.

Don't hate corporations. Hate the particular Core Group of an individual corporation, and the decisions it makes. Don't attack a corporation before you understand its Core Group. And then engage that organization in the arenas that will affect it most: Its Core Group's habits and attitudes, its creative desires (especially the products or services it hopes to offer next), and in its noble purpose.

Organizations are good when they live in good communities. If we can learn to distinguish between organizations and communities, and to orient our decisions to get the best from both, then we are truly on our way to making a better world.

Appendix: Some core profiles

These profiles were written, based on information from people who know the organizations well, or from published reports.

If you disagree with the profile of a particular organization you know, I invite your comment and will incorporate your view into the profile. See my website at: [\[website URL to come\]](#).

I also invite your profile of any particular organization.

1. What is the organization's name?
2. Who is the organization's Core Group?
3. What is its creative proficiency?
4. What does it mean by "the right thing to do?"

Coca-Cola

The Core Group: A small inner circle of senior executives, all extremely well dressed and courteous, but with steel-trap ability to keep their circle small; and part of the Board.

Creative proficiency: Building "throat share." They know they have done well when they start to replace tap water in a given country; they measure this by estimating per capita consumption of Coke. Managers and distributors focus on getting the "per caps" up. This is why it is so important to snub Pepsi; why they forbid contractors and consultants, in contracts, to drink Pepsi. They do everything possible to get the "per caps" up.

The right thing to do: They see themselves as bringing the all-American feeling of easy affluence, a cold drink in the picnic basket, to every part of the globe. But the world may be calling them to produce and market healthier drinks, especially for children.

Handspring

The Core Group: This company was a start-up by people who left Palm, just as Palm was a start-up by people who left Apple. The Core Group is the founders and friends.

Creative proficiency: The design of an operating system for a new kind of portable, internet-savvy device.

The right thing to do: Imagine if people in remote Africa all had solar-powered handsets, connecting them to the world-wide web, bypassing their corrupt governments and putting them in touch with the world.

Houghton Mifflin's College Division

The Core Group: People who started as sales reps (representing the company on campus to college professors) and are now editors (or, in some cases, in marketing.)

Creative proficiency: Taking an intangible idea and making it into an educational product.

The right thing to do: This company exists to help college students learn. Since college students are learning less and less from books, this company faces a significant challenge.

Microsoft

The Core Group: As one senior executive told the *New York Times*, out of more than 30,000 employees, there are "5,000 who really count." They all have programming backgrounds.

Creative proficiency: Microsoft prides itself most in taking on impossibly difficult software infrastructure jobs and continually improving their usability and design, even when nobody expects them to.

The right thing to do: They see themselves as the ultimate arbiters of quality in the computer-mediated world. They could have been (and perhaps could still be) the Medici of a vibrant, multi-faceted and highly inventive computer industry.

New York's Museum of Modern Art (MOMA)

The Core Group: Not curators and artists, but the wealthy trustees and the marketing staff. "As far as [museum head] Glenn Lowry's job is concerned," said the *New York Observer* in November 2000, "they are the only people that he really needs to keep happy."

Creative proficiency: Placement, discretion, taste, status and novelty.

The right thing to do: Just by existing they have opened up awareness.

The Republican and Democratic parties in the United States

The Core Group: Elected officials (as long as they're elected) and the "permanent gang" of decision and policy makers; the purpose of the political party is to find jobs for them. Only David Boies or Ted Olsen can be Solicitor General; not both. To serve its Core Group, the party must win, both locally and nationally.

Creative proficiency: Raising money. Winning. Slandering. Getting jobs for their people. Starting institutes and institutions. Ultimately, their creative proficiency is building networks of people. (Most of us, after all, don't vote because of what we believe in. We vote the way that the people we know vote.)

The right thing to do: The Democrats have an idea about supporting people. The Republicans have an idea about free enterprise. They both think they understand the best way to be a parent -- and, thus, the best way to run a government.