

# The Core Group

**An inquiry into organizational essence**

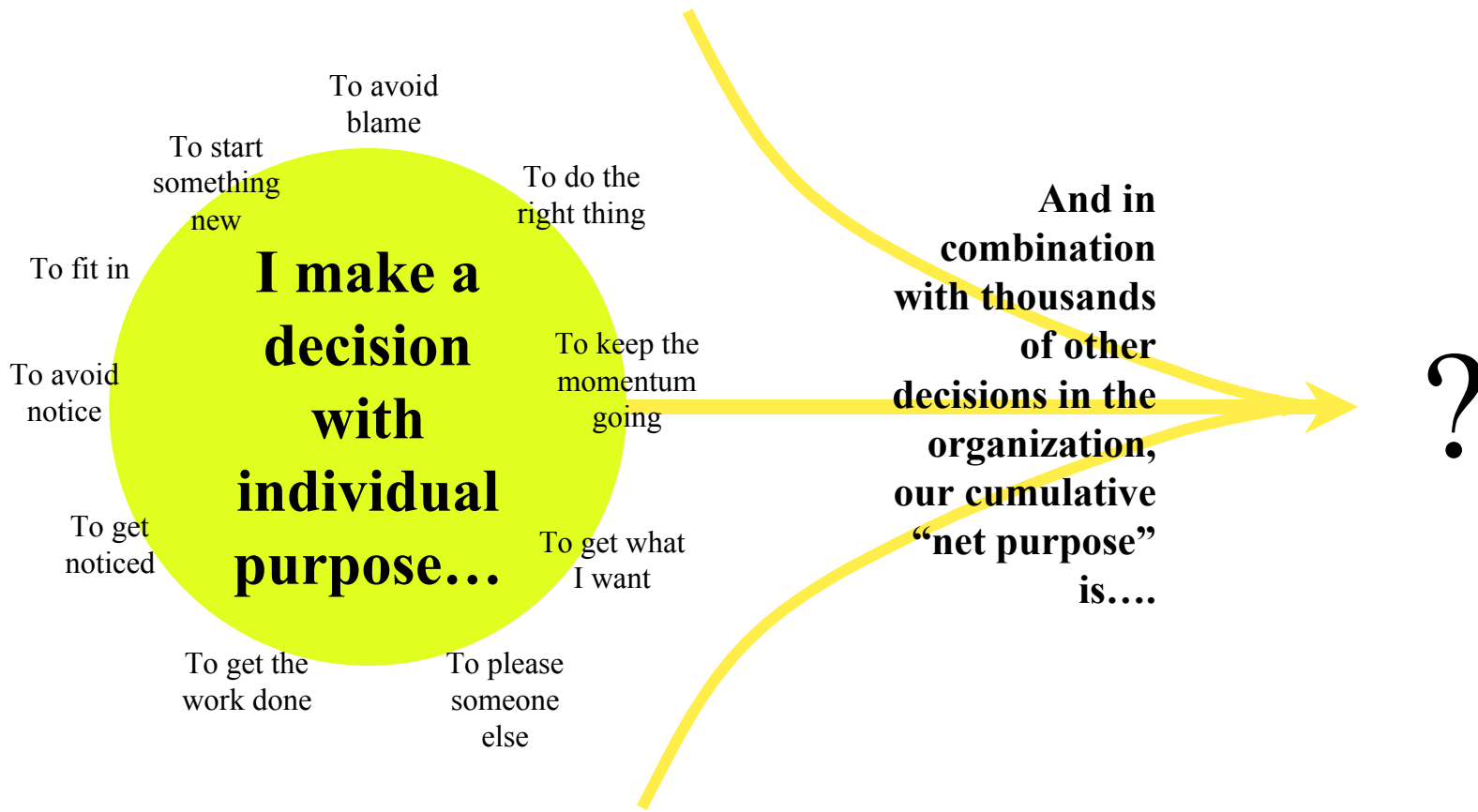
Excerpts from a work in progress

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## An organization's purpose:

IN PRACTICE, an organization's purpose represents the sum of the decisions made by all the people acting in its name.

People make hundreds of decisions a day about what they should do in an organization, for a variety of reasons, and those decisions add up, without a single conscious intent, to move the organization as a whole.



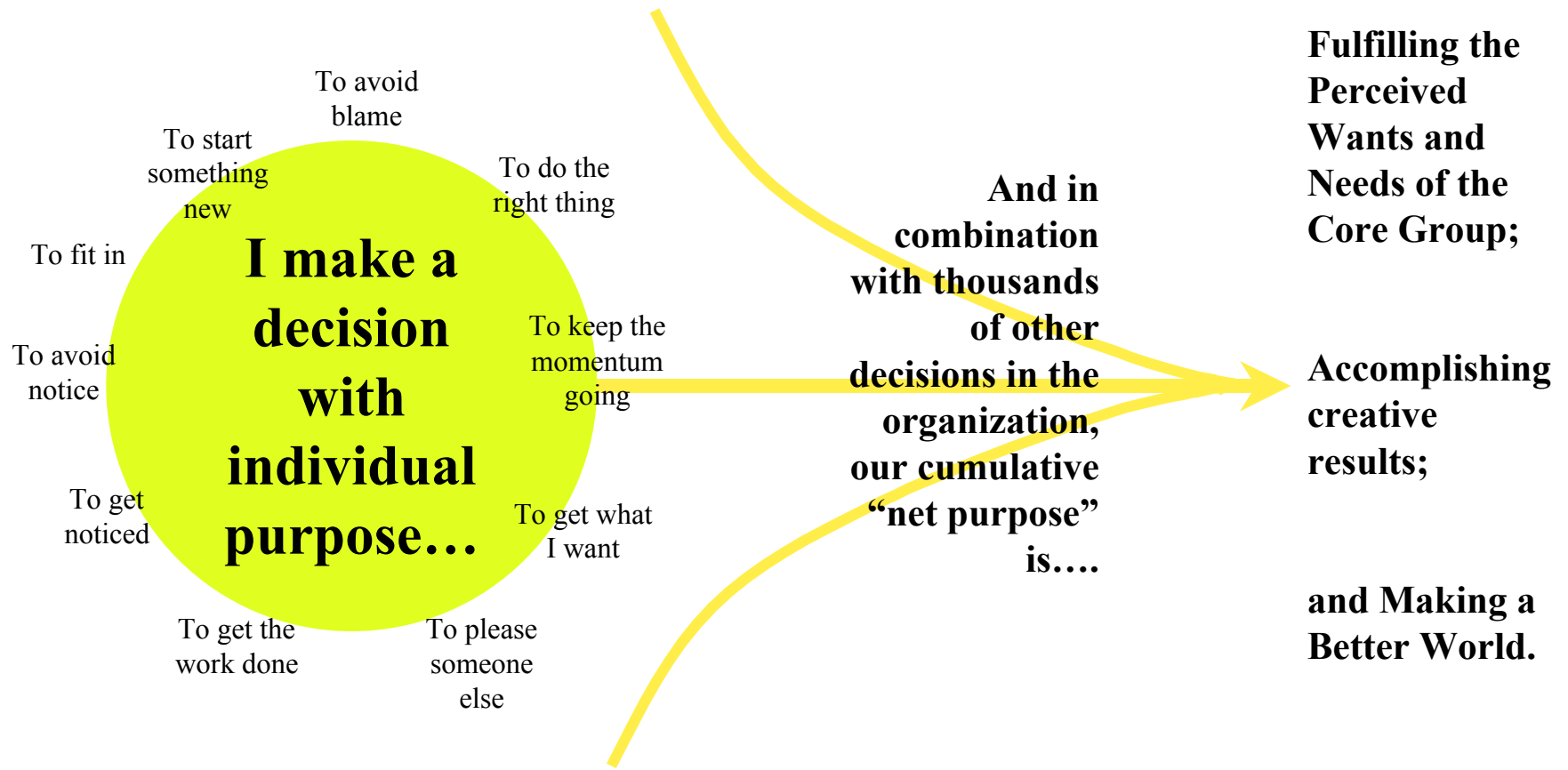
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- To what ends, in your view, does an organization really exist?
  - What is its “purpose-in-use” -- that an observer might deduce from the decisions of its managers and employees?

If the purpose is...

to return investment to shareholders...

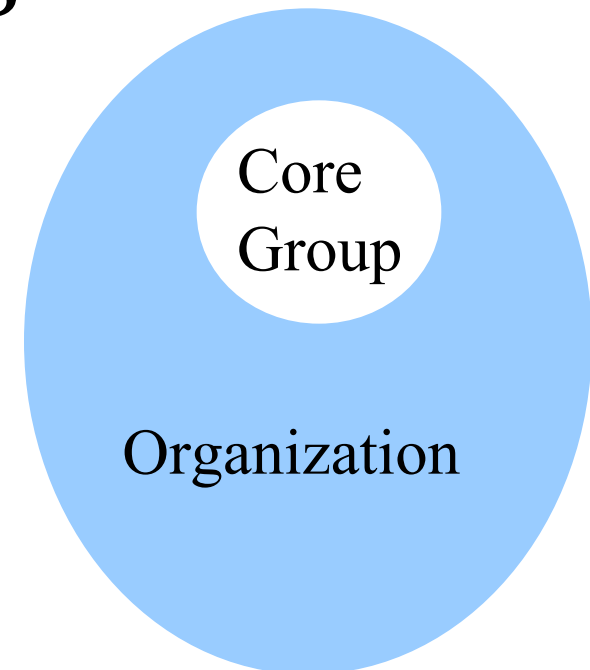
Why, then, are so many corporate activities destructive to shareholder value?

And why do people in non-profits and government agencies *also* feel the same kinds of pressures?



# 1. Organizations exist to make life better for a “core group” of privileged people.

In other words, organizations exist to fulfill the core group’s wishes and needs *as perceived by the rest of the organization.*



The makeup of the core group varies dramatically from one organization to the next.

They are not necessarily people in authority (though they usually are.) In some schools, the superintendent is not in the core group; the head of the bus drivers' group is.

Some organizations have one stable core group; others have many core groups in constant flux. Some core groups are good for their organizations; others are highly dysfunctional.

But there is no such thing as an organization without a core group. Nor should there be. An organization with a weak core group loses its drive.

Core groups are rarely talked about explicitly in democratic societies, but they are nonetheless familiar; they are innate artifacts of the way that human culture has organized and governed itself since the dawn of civilization.

The Core Group consists of the people who are treated as legitimate elites by the rest of the organization.

The organization indulges the core group without ever asking the core group what it wants. Instead, in a thousand small ways each day, the people of the organization wordlessly conspire to give the core group what they *think* it wants.

The core group members' perceived welfare thus represents a key part of the organization's purpose, at an almost unconscious level.

Most decisions in any organization are made to please the prevailing core group, because employees assume that this is the basis of their job evaluations.

But the core group members may not actually want (or may only partially want) what the members of the organization *think* they want.

There is no such thing as an organization without a core group.

Large organizations have multiple, interwoven, everchanging networks of core groups, each influencing the decisions of different parts of the company or agency.

Core groups are fluid and informal; any particular core group will hold its influence only as long as the people of an organization respect it.

The core group is not always limited to people in authority. It may include union members, production people, and family members of the people in charge.

Many managers spend their entire careers trying to figure out how to get into the core group – or, having gotten in, how to stay in or keep others out. Because its membership is rarely made explicit, many people in organizations feel vulnerable. They spend their careers with the feeling that something is missing for them, and that no matter how fast their track, they will never truly be valued by the organization as a whole.

# Some core group examples

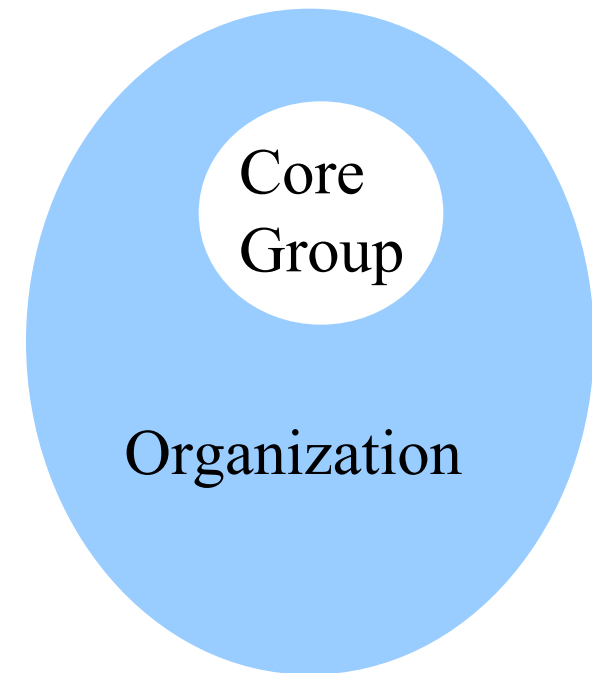
- Most magazines and publications: The production staff
- Most Fortune 500 manufacturers: Members of the founding family, the CEO and direct reports, executives in two or three key functions, a few board members, and sometimes key suppliers .
- Microsoft: "Of the 34,000 employees [here], there are 5,000 who really count." -- spokesperson in *The New York Times*
- Royal Dutch/Shell global: Managing Directors (and senior executives who report to them), carefully appointed to balance British, Dutch, and Americans in proportion.
- Many industrial companies: The AFL-CIO unions (who collectively bargained their way in), but not the managers who supervise them.
- Most universities: The longstanding faculty.
- Old-line companies: Those with stock options.
- New-economy companies: Those who can cash in their options.

# Some core group stories

In a thousand small ways each day, people wordlessly conspire to give the core group what they *think* it wants:

1. Corporations leaving New York for the suburbs in the 1960s -- 100% of them moved their headquarters to within eight miles of the CEO's house.
2. ITT President Rand Araskog never knew that a public relations firm purchased 10,000 copies of the book he wrote, so he would never have to see it remaindered at the strand.
3. Cell phone service was always top-notch wherever Craig McCaw was travelling.
4. At the U.S. Treasury Department, an undersecretary's job was ferrying information back and forth between two rival core groups, so they wouldn't have to talk to each other directly.

....and many more...



## **From a core group perspective....**

Diversity training: Exists to distract people from the ethnic and gender makeup of the core group.

Venture capital: Exists so outsiders can invest their way into the core groups of organizations that will be successful.

Political parties: Exist to produce jobs and influence for core group members, their families, and their protégés.

Universities: Exist to maintain their faculty's reputation.

Labor unions: Exist to collective-bargain their way into the core group.

Management fads: Exist to help the core group members tell the organization what they think it needs to hear.

## General Electric under Jack Welch (a Core Group perspective)....

In 1981, when Jack Welch 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.

## **2. Organizations exist to become proficient as creators (at a larger scale than we can manage alone).**

We come to organizations, says Fred Kofman, “to demonstrate greatness.” We work there, says Peter Schwartz, “because we want to *do stuff.*”

Love of craft inspires people to do remarkable things. When that same ardor expands to a collective level, it provides the greatest peak experience that industrial society has to offer.

This organizational imperative is simply an amplification of the inborn and compelling human drive to learn (the same drive, for instance, that propels children to learn to walk, talk, climb, and build on their own).

People come to organizations to “do stuff” at a scale larger than any individual could manage alone, and then to experience the results.

In the process of gaining proficiency, we develop ourselves and each other; and we try as hard as we can to reshape the organization in our own professional image. Hence:  
Gridlock.

Founders are keenly aware of the creative imperative:

Thomas Edison, the “Wizard of Menlo Park,” was often preoccupied with designing, rebuilding, and fighting to keep control of those labs of the General Electric Company.

Henry Ford’s greatest inventions -- the application of the assembly line to automobiles and the \$5 weekly paycheck – were highly creative.

Bill Hewlett and Dave Packard set an example for collegial creativity that never eroded at HP.

### **3. Organizations exist to make a better world.**

People in the organization perceive a “noble purpose” to their work, above and beyond making money or fulfilling responsibilities.

There may also be a deeper purpose that only a few within the organization perceive.

People in collective endeavors like to think that they are making decisions not just for their own self-interest, but for the long-term public good. Even criminal organizations are driven by their desire to do good, which they interpret as protecting their friends and supporters against the harsh world around them.

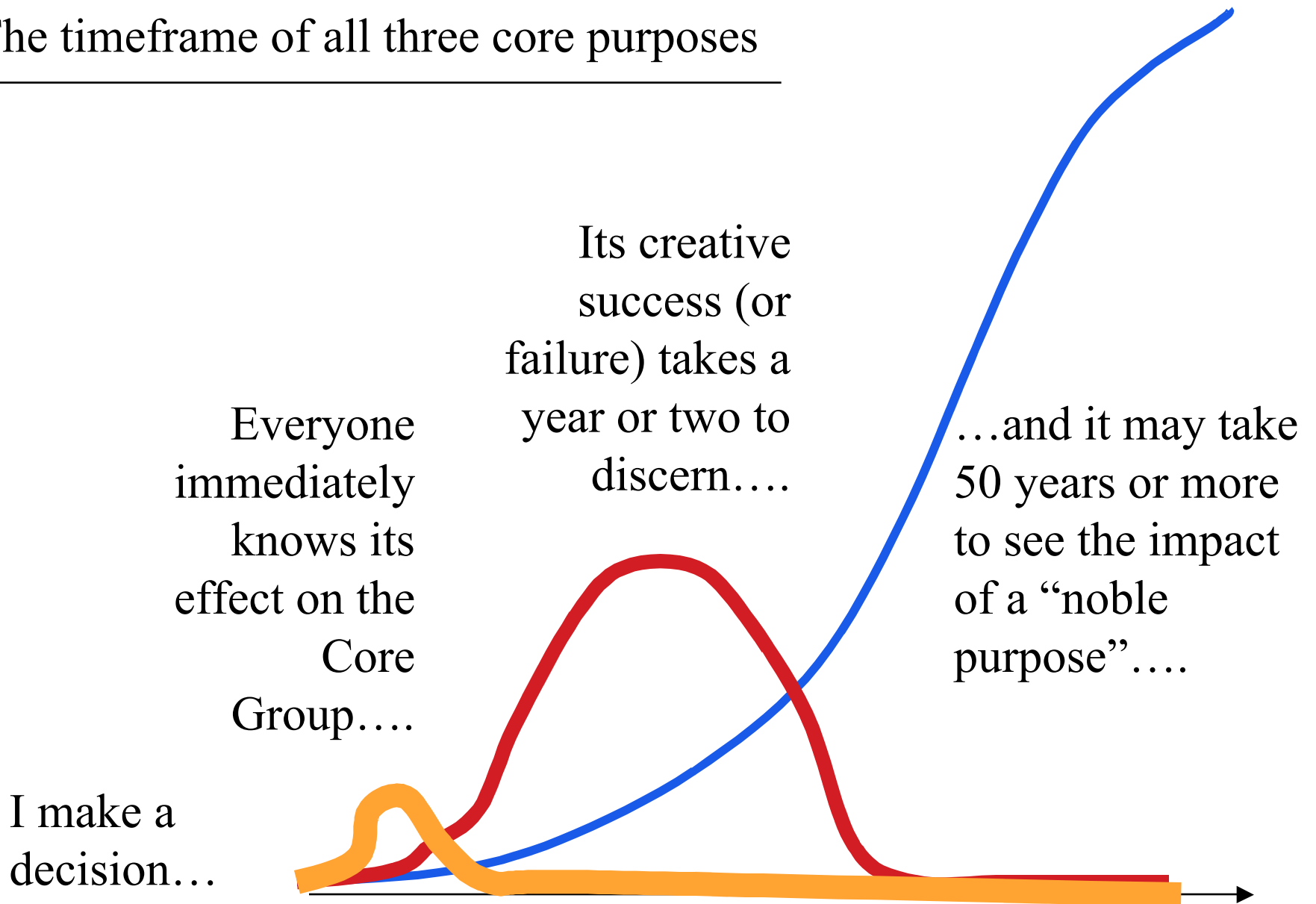
Thus, if you want to influence someone in an organization, find out what they believe their civic purpose is.

But for every organization, at any moment, there is also a genuine, ineffable civic purpose -- a true calling, something that the rest of humanity and the world is asking the organization to do.

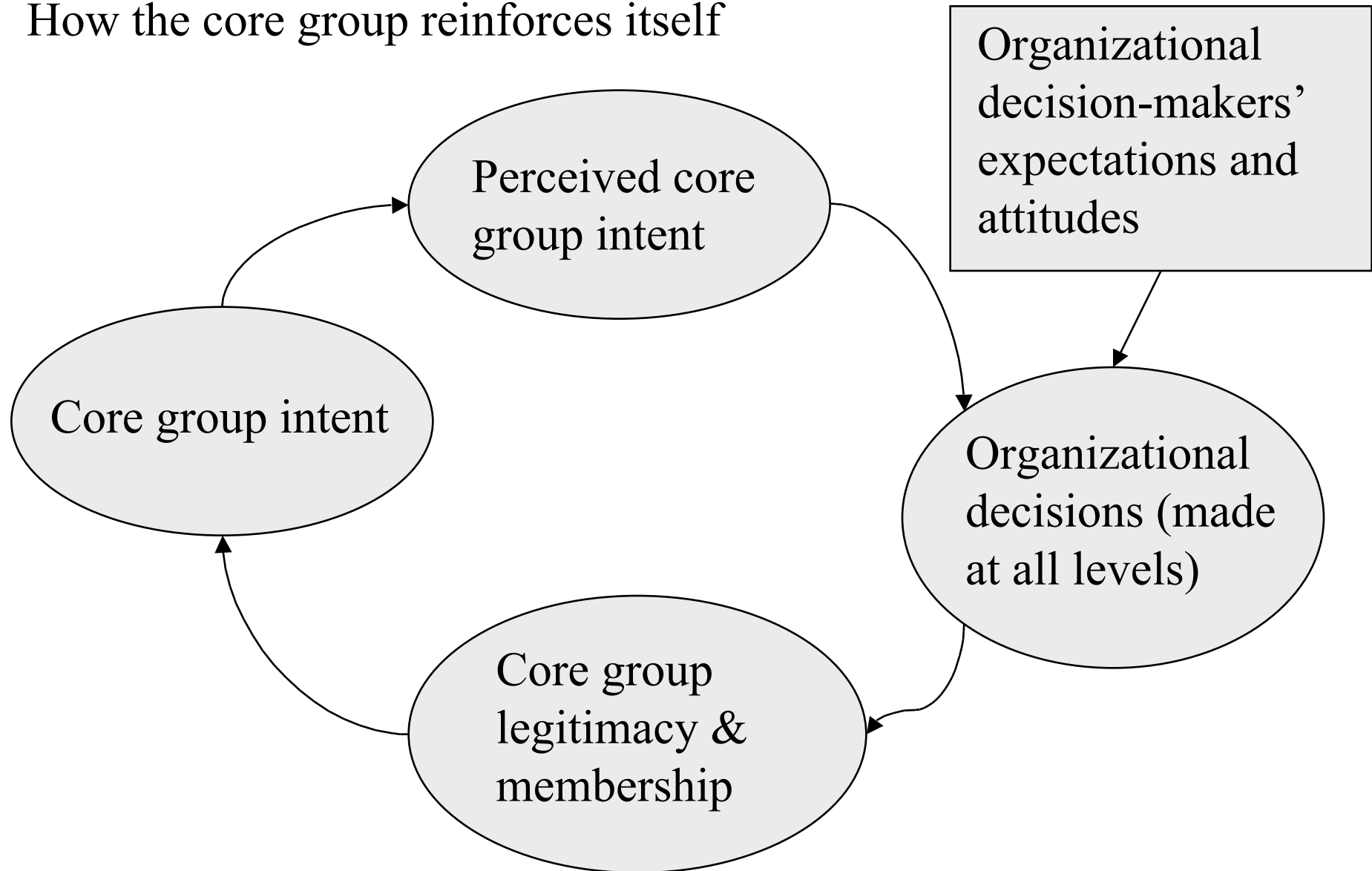
It's not easy to discern and heed this calling, because it often runs counter to the habits and values that have made the organization successful (*and the core group comfortable*) in the past. Some people will hear this calling clearly; others will be oblivious to it. More often than not, leaders won't respond to it. But they ignore it at their long-term peril.

## The timeframe of all three core purposes

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# How the core group reinforces itself



## Core profile: Procter & Gamble

- The core group consists of the lifetime marketing and R&D managers who came to work in Cincinnati directly from college.
- Creative proficiency finds expression partly in creating new products and production systems, but also in dominating the structure of the consumer products industry. (When Advertising Age devoted an entire commemorative issue to P&G's 100<sup>th</sup> Anniversary, that was a creative apotheosis; when Wal-Mart successfully rebelled against the P&G coupon system, that was a creative nadir.)
- P&G's civic mission probably involves providing new levels of family comfort and health and reshaping of the industrial infrastructure needed for the reuse and recycling of plastics.

## Core profile: Palm (Palm Pilot)

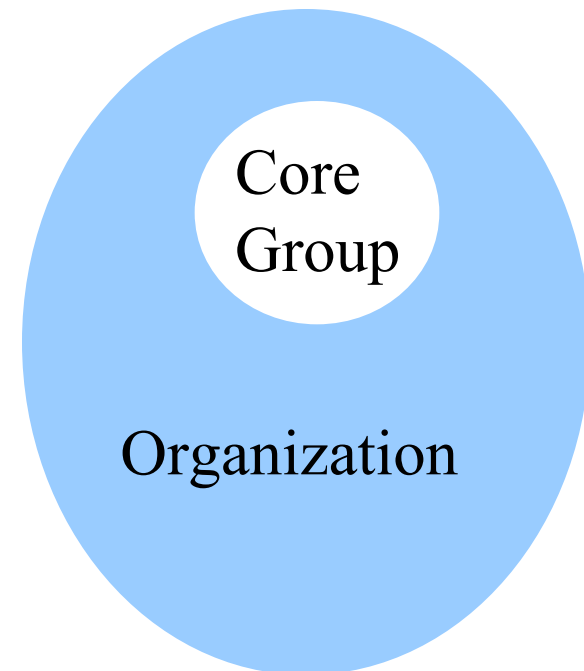
- The core group consists of a key handful of managers who founded or now direct the company -- and a few investors from 3Com who staked them.
- Creative proficiency is grounded in their operating system and their device -- two innovative, breakthrough technological feats (only now facing real competition). Can they move their platform to the next level of capability?
- The Palm civic mission involves connecting large parts of the world without electric power or wired telephony to the internet grid via satellite and other means. Are they willing to seed Africa with Palm pilots?

# Core profile:

Organization name

- 1) Who is the Core Group?
- 2) What is the organization's Creative Proficiency?
- 3) What is their Civic Purpose
  - as they see it?
  - as you see it?

# If this theory is true...



# Where *not* to seek leverage

(for sustainable organizational change):

“Suck up” to core group members.

Painstakingly build credentials in the hope that the core group will notice.

Descend into a state of resentful paralysis.

“Play with dynamite,” trying in various self-effacing but passive-aggressive ways to undermine the status and dignity of core group members, and throwing your lack of core group status up in their faces.

## Leverage for employees: 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.

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.

## Some valuable kinds of equity

**Fungible financial equity:** Liquid capital is leverage. 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.

**Budget equity:** How much money can you raise within the company for projects important to you?

**Equity of mutual commitment:** Stock options, ESOP plans, and most other forms of employee equity are primarily valuable as a tangible expression of the organization's commitment to you.

**Reputation equity:** 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.

(continued)

## More valuable kinds of equity

**Relationship equity.** 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:** 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.

**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. 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.

## **With the proper kinds of equity, you can:**

Unilaterally expand the core group.

(You can't put *yourself* into the core group, but you (and a group of compatriots) *can* put someone else in there, simply by treating them as significant when you make decisions, and explaining your rationale convincingly to others.)

Raise the question of success or failure at the start of new endeavors with one or more members of the core group.

Cultivate unlikely allies.

Raise explicit awareness of the company's core profile.

## **Leverage for Executive Leaders:**

Above all, “walk the talk” -- whatever it is.

Reward and recognize people, not achievements.

Foster skills for autonomy.

Establish cultural diversity in the core group.

Favor honesty and clear goals.

## **Leverage for people trying to influence from outside:**

Approach the organization with awareness of its core profile -- and how its members see themselves.

Swim with, not against, the core group's perceived intent.

Change perceptions of the core group's intent.

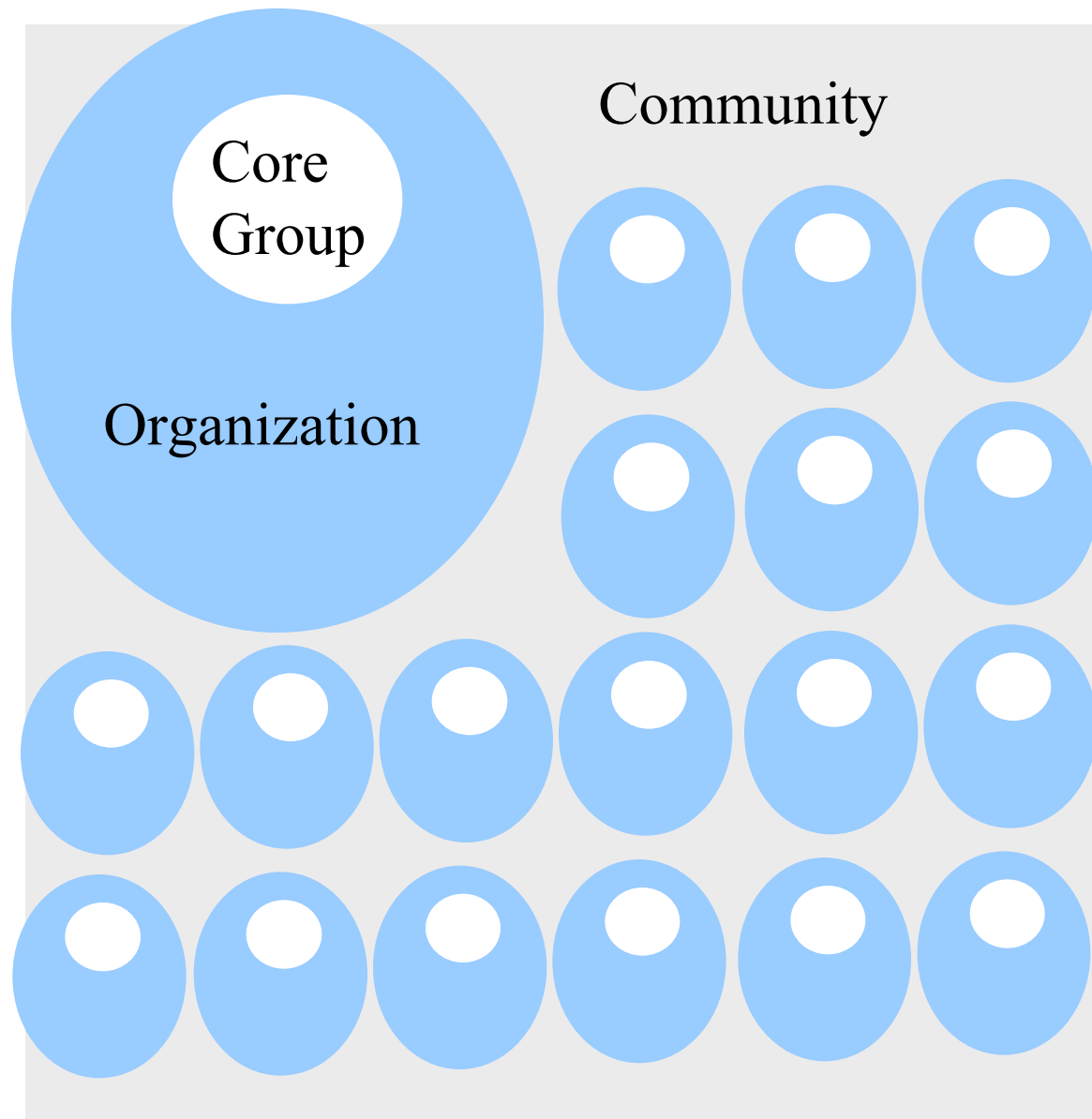
**Is it possible to maintain an organization  
where *everyone* is in the core group?**

...only when things are set up so that people take the welfare of everyone in the organization into account when they make decisions....

Would that be a better --

Or a worse --

Way to run an organization?



What's the relationship between organizations and communities?

An organization without an obvious core group is masking its true purpose.

But a community with a core group is inherently abusive.

Organizations exist within communities, as participants there.