

MANAGEMENT

Weapons of Managerial Destruction

by David K. Hurst

Power is such a loaded word that it is frequently absent from discussions of management, especially today when such (presumably antithetical-to-power) concepts as “collaboration” and “cooperation” are the reigning principles. Yet every competent manager must have a solid grasp of the effective use of power, and any organization can be crippled, not only by the abuse of power, but also by imbalances in its distribution. In addition, the role and legitimacy of managerial power lie at the heart of any analysis of capitalism’s future.

George Orwell, whose centenary birth is being celebrated this year, understood this latter issue particularly well. Best known for his two novels *Animal Farm* and *1984*, Orwell is widely regarded as having been “right” about Communism and Fascism, the two ideological scourges of the 20th century. But his writings also have a lot to say about the future of capitalism, for what is less well known is that Orwell’s inspiration for *1984* came in part from his deep antipathy to the central message of James Burnham’s massive wartime bestseller, *The Managerial Revolution: What Is Happening in the World*, published in 1941 by the John Day Company.

The Orwell–Burnham discordance defined the battle lines between the opponents and supporters of managerial power, creating a field that continues to be fought over to this day. Six highly regarded new management books provide insight into the current state of the debate. *The Company: A Short History of a Revolutionary Idea* (Modern Library, 2003), by John Micklethwait and Adrian Wooldridge, tracks the evolution of the corporation from 3000 B.C. to modern times.

In *Who Really Matters: The Core Group Theory of Power, Privilege, and Success* (Currency Doubleday, 2003), Art Kleiner examines the nature of power within organizations. *False Prophets: The Gurus Who Created Modern Management and Why Their Ideas Are Bad for Business Today* (Perseus Publishing, 2003), by James Hoopes, takes the management gurus of the past to task for failing to deal squarely with the issue of managerial power.

In *Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap* (Harvard Business School Press, 2003), Jeremy Hope and Robin Fraser propose a new management model that leads to a radical decentralization of managerial power. And two more books investigate the negative effects of exercising power: *When You Say Yes But Mean No: How Silencing Conflict Wrecks Relationships and Companies...and What You Can Do About It* (Crown Business, 2003), by Leslie A. Perlow, and *Toxic Emotions at Work: How Compassionate Managers Handle Pain and Conflict* (Harvard Business School Press, 2003), by Peter J. Frost.

Framing the Debate

It is useful, however, to begin back in 1941. Contravening a favored notion of the left — that capitalism would turn into socialism — Burnham, in *The Managerial*

Revolution, contended that both dynamics were changing into

what he called managerialism — the de facto control of the factors of production and the exercise of power by managers rather than shareholders or workers. Thus, although the rhetorical justifications for the use of this power might have differed across societies, the result was always the same — the managers won.

Orwell concluded that Burnham rather approved of this development and accused him of both cowardice and power worship, charges that seemed bolstered by Burnham's next book, *The Machiavellians*, published in 1943 by the John Day Company. In it, Burnham argued that, when one looked at the evidence through the eyes of Machiavelli and his "followers," like sociologists Robert Michels and Vilfredo Pareto, democratic self-government was an unattainable ideal: All societies and social movements were inherently stratified and all power was of necessity based on force and fraud. Although the masses might need to believe in the myths, their leaders and other members of the elite, who studied the evidence scientifically, could not believe — although they had to pretend that they did. "The leaders must profess, indeed foster, belief in the myths or the fabric of society will crack and they will be overthrown," wrote Burnham. "The leaders, if they themselves are scientific, must lie."

It is but a short step from this chilling thought to Orwell's notion of *doublethink*: "To know and not to know, to be conscious of complete truthfulness while telling carefully constructed lies, to hold simultaneously two opinions which cancelled out, knowing them to be contradictory and believing in both of them." Indeed, the whole of *1984* can be read as a cautionary tale on what organizations look like if managerial power is unchecked.

The subtitle of *The Machiavellians* is *Defenders of Freedom*, and Burnham's lack of concern for the ethical issues distressed not only Orwell but also Peter Drucker, who had begun his American writing career at about the same time as Burnham. In *The End of Economic Man: A Study of the New Totalitarianism* (John Day Company, 1939) and *The Future of Industrial Man* (John Day Company, 1942), Drucker underlined the need for the wielders of power to justify their behavior as benefiting

their subjects, indicating that the lack of such justification would lead inevitably to tyranny. Drucker suggested that, in a functioning, sustainable society, brute force was a last resort: In normal times power had to be exercised as authority, which he defined as "the rule of right over might."

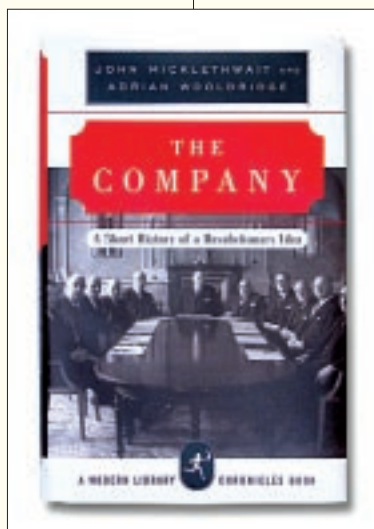
Managerial power did not meet this test, Drucker suggested: "In the modern corporation the decisive power, that of the managers, is derived from no one ... controlled by nobody and nothing and responsible to no one. It is in the most literal sense unfounded, unjustified, uncontrolled, and irresponsible power."

Corporate Power in Society

In their early writings, both James Burnham and Peter Drucker drew heavily upon *The Modern Corporation and Private Property* (Commerce Clearing House, 1932), by Adolf A. Berle and Gardiner C. Means. In this monumental classic, which is still in print, the duo offered extensive statistical data to document the decline of the individual owner/proprietor and the rise of the corporation. The separation of ownership from control, or the "agency problem," as it came to be known, was to have profound consequences that continue to play out to this day. In their new book, *The Company*, John Micklethwait and Adrian Wooldridge supply a broader perspective in a marvelously compact, well-written survey, framing Berle and Means's seminal work in the process.

The authors — writers for the U.K. weekly *The Economist* — show that from the beginning the corporation has been both an economic and a political animal: The economic benefits it has delivered are incontestable, but its political legitimacy has always been a problem.

Indeed, over the centuries there seem to have been several cycles of innovation, success, excess, and abuse, followed by political outrage and reform. These cycles were often catalyzed by either the exploitation of new resources (spices, slaves, and precious metals) or the emergence of new technologies (canals, railroads, and communications technologies). These cycles are most marked in the U.S. and the U.K., where the economic role of the corporation has been emphasized, in America almost to the exclusion of consideration of its political franchise. In contrast, these cycles seem less noticeable in



Germany and Japan, where corporations are far more embedded in the community and the political process. As the current economic and social pressures on Germany and Japan indicate, however, social stability may have been bought at the price of reduced economic benefits and a sluggish societal response to change.

From their high-level perspective, Micklethwait and Wooldridge are unfazed by the latest crop of corporate shenanigans. This is just part of the evolution of the corporation, and compared with the bloody excesses of England's East India Company and the brutalities of the *concessionaire* operations in what was to become the Belgian Congo, the misdeeds of Enron and WorldCom do seem trivial. But if executives can today extract millions of dollars from shareholders and employees without resorting to such mayhem, the question is, Why would they bother?

The Managerial Elites

The complexity and scale of most modern organizations

Group. Nevertheless, the Core Group is real: It is the embodiment of the organizational mind, and its wants and needs are amplified so that the organization will meet them. Kleiner has an eloquent way of describing what it feels like to become a member of such a Core Group: It is, he writes, as if the organization falls in love with the individual. This is no passing fancy but a deep, headlong passion — all of a sudden the organization is showering you with money and perks and giving you access to its innermost secrets. The individual is usually swept off his or her feet, helpless to resist such a powerful seduction.

Core Groups are inherently neither good nor bad, Kleiner suggests; they are a fact of organizational life and essential if an organization is to make sense of a complex world. Like the individuals in them, however, Core Groups have the potential for both good and evil. The better Core Groups, the author argues, are more expansive and inclusive in their spread, and membership in them is based on merit rather than on other characteris-

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requires that they be modular and hierarchical in structure. There will inevitably be an elite group of people who assume responsibility for the performance of the organization and through whom power will be applied. In *Who Really Matters* — a book that began as a series of articles in *strategy+business* — management consultant Art Kleiner writes for organizational insiders about this group, specimens of which are found in every institution. The elite, which he calls the Core Group, does not necessarily consist of managers alone, although they usually make up the majority of it. It's the care and feeding of this Core Group that is far and away the organization's first priority, or, as Kleiner puts it in the title of his opening chapter, "The Customer Comes Eighth."

Although the Core Group is present in every organization, its existence may be shadowy and even undiscussable, with managers reluctant to admit that anything beyond the formal structure actually exists. Kleiner suggests that up to 95 percent of the members of an organization have a purely contractual relationship with the establishment and are not members of the Core

tics, such as gender and race. He cites Springfield Remanufacturing Company (SRC) and its open-book style of management as an example of an Expanded-Core-Group organization where everyone has access to the numbers. This transparency, and the accessibility of the measures of performance and the webs of cause and effect that produce them, would seem essential to the acceptance of managerial power as legitimate.

In *False Prophets*, Distinguished Professor of History James Hoopes of Babson College examines the writings of eight management experts, from Frederick Taylor to Peter Drucker, and shows the various ways in which they either duck or finesse the question of managerial power. He makes a compelling case that these writers have been much happier expounding on integrative cultures that empower workers to go beyond the ordinary, and on the virtues of incentive plans that reward high performers, than talking about coercion and threat. Hoopes argues, less convincingly, that this bias has been "bad for business" because, through superficial talk about the possibility of

manipulating culture and by appealing to managers' moral vanity, writers may blind managers to the inherently undemocratic nature of managerial power and its fundamental contradiction of our social values of freedom and equality. What is needed, according to Hoopes, is more emphasis on the reality of managerial power in corporations and more self-awareness and moral humility — emotional intelligence — on the part of those who wield it.

Hoopes's yardstick for democracy is Thomas Jefferson's agrarian idealism, an unrealistically tough standard against which all political institutions, past and present, let alone corporations, would fail to measure up. However, he does make a strong case that attempts to endow managerial power with social legitimacy on the basis of the processes it uses — notably by Peter Drucker — are unlikely to succeed. If, as Hoopes suggests, we need democracy to make us free and managerial capitalism to make us rich, then the only legitimacy

consultant Robin Fraser show managers how to abandon budgeting and improve the whole performance management process.

As every critic of budgeting knows, the traditional approach confounds two incompatible organizational purposes — the forecasting of results and the management of performance. The contradiction between these two aims has been dramatized by the change in the business environment from one of relatively steady, continuous change, where financial capital dominated, to one of unpredictable, discontinuous change, where intellectual capital rules. Traditional budgeting, with its emphasis on lockstep incentives geared to fixed targets projected into the future, has led to bizarre payouts and increasingly aberrant behavior on the part of executives, ranging from widespread gaming of the performance management system to outright fraud.

The authors emphasize that their proposal is not about new metrics but about a whole new management model that leads, at a minimum, to more adaptive

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for managerial power can be its superior performance. Given the problems in measuring such performance, any such legitimacy must always be of the “show me” variety — retrospective and provisional. Hoopes has no suggestions to make, either on this issue or on the broader issue of corporate governance. Many would argue that only power can control power and that the appropriate checks and balances on the continuing global growth in corporate power remain to be discovered.

Power and Performance

Managers usually say that they employ power only in the cause of improving organizational performance. The primary tool for performance management at most organizations is the budgeting process. And the control of this process, and through it the allocation of resources, are themselves potent sources of managerial power. Unfortunately, as many employees know, the preparation of budgets is often a dysfunctional ordeal — a performance trap and a tool for repression. In *Beyond Budgeting*, management researcher Jeremy Hope and

processes within the organization and, at a maximum, to a radical decentralization of managerial power. Every change agent knows that resistance to change escalates rapidly any time one talks about changing an organization's power structure, so we have been warned!

The authors make two key recommendations: The first is for firms to move from future-oriented, absolute performance contracts to arrangements whose payoff depends on a retrospective assessment of performance relative to benchmarked key performance indicators (KPI); the second is to take care of the need for solid numbers with rolling forecasts. Thus managers set stretch goals based on external comparisons — with industries or competitors, for example — rather than internally negotiated targets. These targets are not connected directly to incentives. Rewards are based on the relative success of the team or group and are decided after the fact, which discourages gaming and encourages managers to focus on continual value creation, cooperation across business units, and timely, open communication and feedback. In short, it creates the conditions

for learning within the business context.

Hope and Fraser make it clear that radical decentralization is essential if the full potential of their model is to be realized. They show how the centralist tendencies of the budget model can undermine tools, such as the balanced scorecard, benchmarking, and customer relationship management, that are designed to support the frontline troops. Such decentralization demands a new governance framework that has clear principles and boundaries to guide local decision making, a high-performance climate, freedom to decide at the local level, an open and ethical information culture, and so on.

Recommendations like these have been made before, but too often they have come across as “desirable outcomes” rather than as to-do items. The authors have given every manager who is serious about change a good place to start and an excellent process and rationale to go with it. Radical decentralization minimizes the accumulation of managerial power at the top of organizations and, through its transparency, avoids creating contexts in which power can be abused. The book’s organization is a model of clarity, and every chapter has helpful summaries.

Managing Power Plays

The exercise of power, both legitimate and illegitimate, can damage people and organizations in many ways. Some of these effects are documented in two recent management books. In *When You Say Yes But Mean No*, Leslie Perlow, an assistant professor at Harvard Business School, discusses the problem of silence and the suppression of conflict within organizations.

The use and abuse of power is not the only cause of organizational silence, but it is probably the leading one. Various contexts and cultures impose and encourage silence: Many egalitarian organizations, for example, develop norms of politeness, where members refrain from discussing issues that divide them. Such silence can perpetuate itself in a vicious spiral — silence begets silence. Whatever its causes, the result of organizational silence is the same — learning stops at both the individual and group levels, because people, cut off from timely feedback, are unable to take corrective measures to deal with identifiable problems.

The core of Perlow’s book is a compelling story

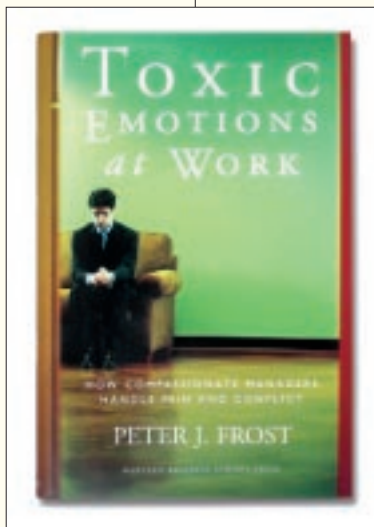
about a dot-com startup she observed in her capacity as an organizational ethnographer. With its entire life cycle compressed into a space of two years, the firm goes through the well-known stages of conception, birth, takeoff, maturity, decline, and death with bewildering speed. At each stage, decisions are made that do not have the commitment of the entire Core Group, but concerns are rarely voiced, let alone confronted: Indeed, the pressure to go fast seems to have exacerbated the problem. The company drifts, at first slowly and then suddenly, into bankruptcy.

The antidotes to endemic silence suggested by Perlow are not rocket science. Someone has to break the organizational pattern, and only a person changing his or her own behavior can do this. This will require “deviant” actions — actions that challenge the organization’s norms, and obviously this is done more easily from a position of authority and by restricting one’s targets to the core issues. The objective of the pattern-breaker is to seek mutual understanding by turning around difficult situations and developing the support of others. There’s nothing new here, but Perlow does her readers a service by dramatizing the pervasiveness of organizational silence and the damage that it can do.

The second of the books dealing with managing conflict and the negative consequences of power is by Peter Frost, the Edgar F. Kaiser Professor of Organizational Behaviour on the

Faculty of Commerce at the University of British Columbia. He uses the powerful image of pollution to produce a far more visceral book about the damage created in organizations by the insensitivity to other people’s feelings that is the hallmark of the abuse of power. *Toxic Emotions at Work* is among the few management books able to convey to the reader the glandular experience of the emotional phenomena it describes.

The feelings this arouses are not pleasant: The book consists of series of vignettes of “poisoned” organizations, unrelieved by any lighter moments. Because he believes emotional pollution to be systemic in human organizations, Frost deals less with the causes of and cures for this pollution than with the handling of the symptoms of organizational toxicity, by people he calls toxin handlers. Reading the book is a bit like stepping into



the organizational equivalent of a hospital emergency room: The toxin handlers battle away bravely, like so many ER surgeons, sacrificing their health and well-being in the process. But unlike in the ER, there is little satisfaction in restoring sick and damaged organizations to health. The toxin handlers struggle while insensitive managers and flawed systems continue to drip poison.

If you are a toxin handler, or if your organization needs one (and every organization needs several), Frost has some excellent advice for you. As a toxin handler, he names your role and your pain and follows up with sound counsel on how to conduct your practice, some of it based on real toxin handlers in the physical world. Thus he says that toxin handlers should never work alone, and newcomers should be paired with more experienced partners; toxin handlers should be protected from harm by flexible schedules and deadlines that recognize their special role and the double duty they are doing; lastly, toxin handlers need regular breaks to recover from the rigors of their activities. Frost also emphasizes the necessity for effective toxin handlers, like top performers in any field, to continually build their physical, emotional, mental, and spiritual capacities.

The virtue of this book is that it highlights and analyzes an endemic organizational problem and formalizes the task of addressing it. However, the emphasis on symptomatic relief rather than on fundamental prevention and cure means that it is unlikely that we will see the job of “Chief Toxin Handler” appearing in organizations anytime soon.

Power and the American Creed

The respected political scientist Samuel Huntington has suggested that opposition to power and suspicion of government as the most dangerous embodiment of power are the central themes of American political thought. The American creed, with its absolute moral values of universalism, democracy, egalitarianism, and individualism, results in regular outbursts of what he calls creedal passion, when institutions and their officials are held to puritanical standards that they cannot possibly meet. Huntington suggests that because power is now seen as corporate rather than governmental, the next period of this passion could be directed against the corporate sector.

If Huntington is correct, the coming battle will make everything that has gone before look like mere skirmishes. No doubt there will be a good deal of sound

and fury, but perhaps the resulting debate will help us clarify the role of managerial power in organizations and make it easier for us to talk about it plainly and openly, alerting us to the occasions when its use is being concealed.

Power is needed in organizations at all times, but when the going gets really tough, there will always be the temptation for managers to use raw power to achieve at least part of their objective — personal reward — while cloaking its use with high-flown intellectual alibis. We have become all too familiar with this process in the aftermath of the collapse of firms like Enron and WorldCom, where elaborate rationalizations, together with the use of raw power, were used to intimidate critics and hide wrongdoing.

George Orwell would have understood this linguistic cover-up process completely: “A mass of ... words falls upon the facts like soft snow, blurring the outlines and covering up all the details. The great enemy of clear language is insincerity. When there is a gap between one’s real and one’s declared aims, one turns as it were instinctively to long words and exhausted idioms, like a cuttlefish squirting ink.” If management writers can help us strip away this veil of language that masks power, it will be progress indeed. +

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