

(10) Society

From *Post-capitalist Society*: “The basic economic resource—the means of production,” to use the economist’s term—is no longer capital, nor natural resources (the economist’s “land”), nor “labor.” It is and will be **knowledge**.

The central wealth-creating activities will be neither the allocation of capital to productive uses, nor “labor”....

Value is now created by “productivity” and “innovation,” both applications of knowledge to work.

The leading social groups of the knowledge society will be “knowledge workers”—**knowledge executives** who know how to allocate knowledge to productive use just as the capitalists knew how to allocate capital to productive use; knowledge professionals; knowledge employees.

Practically all these knowledge people will be employed in organizations.

Yet, unlike the employees under Capitalism, they will own both the “means of production” and the “tools of production”—the former through their pension funds, which are rapidly emerging in all developed countries as the only real owners; the latter because knowledge workers own their knowledge and can take it with them wherever they go.

The economic challenge of the post-capitalist society will therefore be the productivity of knowledge work and the knowledge worker.”

Later on he states “the THE NEW CHALLENGE facing the post-capitalist society is the productivity of knowledge workers and service workers.”

“The social challenge of the post-capitalist society is the dignity of ... service workers”—the majority of the population.

o **The society of organizations**

s About organizations

- i An organization is a human group, composed of specialists working together on a common task.
- i Yet, while a human creation, it is meant to endure—not perhaps forever, but for a considerable period of time.

- i An organization is always specialized.
- i It is **defined by its task**.
- i An organization is **effective only if it concentrates on one task**.
- s Society in all developed countries has become a society of organizations in which most, if not all, social tasks are being done in and by an organization
- s What function do organizations perform? Why are they needed?
 - i The function of organizations is to make **knowledges** productive.
 - i **The more specialized knowledges are, the more effective they will be.**
 - i **They become productive only if welded together into a single, unified knowledge.**
 - i To make this possible is the task of organization, the reason for its existence, its function.
- s Characteristics of organizations (what is an organization? How does it work?)
 - i Organizations are special-purpose institutions.
 - i And in an organization, diversification means splintering.
 - i It destroys the performance capacity of any organization
 - i Organization is a tool.
 - H **As with any tool, the more specialized its given task, the greater its performance capacity.**
 - i Because the organization is composed of specialists, each with his or her own narrow knowledge area, its mission must be crystal clear.
 - H The organization must be single-minded, otherwise its members become confused.
 - H **They will follow their specialty rather than applying it to the common task.**
 - H **They will each define “results” in terms of that specialty, imposing their own values on the organization.**
 - i Only a clear, focused, and common mission can hold the organization together and enable it to produce results.
 - H Without such a focused mission, the organization soon loses credibility.

PD's View of Developmental Directions

- ï The **prototype** of the modern organization is the **symphony orchestra**.
 - H Each of the two hundred fifty musicians in the orchestra is a specialist, and a high-grade one.
 - H Yet by itself the tuba doesn't make music; only the orchestra can do that.
 - H The orchestra performs only because all two hundred fifty musicians have the same score.
 - H They all subordinate their specialty to a common task.
 - H And they all play only one piece of music at any given time.
- ï Results in an organization exist only on the outside.
- ï This means that results in an organization are always pretty far away from what each member contributes.
- ï Results need to be defined clearly and unambiguously—and, if at all possible, measurably.
- ï This also requires that an organization appraise and judge itself and its performance against clear, known, impersonal objectives and goals.
- ï An organization is always in competition for its most essential resource: qualified, knowledgeable, dedicated people.
 - H This means that organizations have to market membership, fully as much as they market their products and services—and perhaps more.
 - H They have to attract people, have to hold people, have to recognize and reward people, have to motivate people, have to serve and satisfy people.
- ï Because modern organization is an organization of knowledge specialists, it has to be an organization of equals, of “colleagues,” of “associates.”
 - H No one knowledge “ranks” higher than another.
 - H The position of each is determined by its contribution to the common task rather than by any inherent superiority or inferiority.
- H The modern organization cannot be an organization of “boss” and “subordinate”; it must be organized as a team of “associates.”
- ï An organization is always managed.
 - H There have to be people who make decisions, or nothing will ever get done.
 - H There have to be people who are accountable for the organization's mission, its spirit, its performance, its results.
 - H There must be a “conductor” who controls the “score.”
 - H There have to be people who focus the organization on its mission, set the strategy to carry it out, and define what the results are.
 - H This management has to have considerable authority.
 - H Yet its job in the knowledge organization is not to command; it is to direct.
- ï Finally, to be able to perform, an organization must be autonomous.
 - H Legally, it may be a government agency, as are Europe's railways, America's state universities, or Japan's leading radio and television network, NHK.
 - H Yet in actual operation these organizations must be able to “do their own thing.”
 - H If they are used to carry out “government policy,” they immediately stop performing.
- s Organization as a destabilizer
 - ï But the organization of the post-capitalist society of organizations is a destabilizer.
 - ï Because its function is to put knowledge to work—on tools, processes, and products; on work; on knowledge itself—it must be **organized for constant change**.
 - ï One implication: every organization of today has to build into its very structure **the management of change**.
 - H It has to build in organized **abandonment** of everything it does.
 - r It has to learn to ask every few years of every process, every

PD's View of Developmental Directions

- product, every procedure, every policy: “If we did not do this already, would we go into it now, knowing what we now know?”
- r And if the answer is no, the organization has to ask: “And what do we do now?”
- r It has to do something, not just make another study.
- r Increasingly, organizations will have to plan abandonment rather than try to prolong the life of a successful policy: practice, or product—something which so far only a few large Japanese companies have faced up to. {On this, see Chapter 24, “The New Japanese Business Strategies,” in *Managing for the Future* (1992)}
- H But the **ability to create the new** also has to be built into the organization.
 - r Specifically, each organization has to build into its very fabric three systematic practices.
 - 4 First, each organization requires **continuing improvement of everything it does**—the process the Japanese call Kaizen.
 -] The aim of Kaizen is to improve each product or service so that it becomes a truly different product or service in two or three years' time.
 - 4 Every organization will secondly have to learn to **exploit**, that is, to develop new applications from its own successes.
 - 4 Every organization, third, will have to learn how to **innovate** and to learn that innovation can and should be organized as a systematic process.
- H Then of course one comes back to abandonment and the whole process starts all over again.
- H Unless these tasks are systematically carried out, the knowledge-based post-capitalist organization will very soon find itself obsolescent.
 - r It soon will lose performance capacity, and with it the ability to attract and to hold the knowledge specialists on whom it depends.
- i There is a further implication: post-capitalist society has to be **decentralized**.
- H Its organizations must be able to make fast decisions, based on closeness to performance, closeness to the market, closeness to technology, closeness to the changes in society, environment, and demographics, all of which must be seen and utilized as opportunities for innovation.
- i It is the nature of the task that determines the culture of an organization, rather than the community in which that task is being performed.
- i In its culture, the organization thus always transcends the community.
- i If an organization's culture clashes with the values of its community, the organization's culture will prevail—or else the organization will not make its social contribution.
- i **But every knowledge organization is of necessity non-national, non-community.**
- s The employee society
 - i Just as post-capitalist society has become a society of organizations, it has also become a society of employees.
 - i These are only two different ways to describe the same phenomenon.
 - i In the employee society, the employee and the tools of production are interdependent.
 - i Knowledge employees cannot, in effect, be supervised.
 - H Unless they know more than anybody else in the organization,

PD's View of Developmental Directions

- they are to all intents and purposes useless.
 - ï Collectively, the employees own the means of production.
 - H Collectively, however, whether through their pension funds, through mutual funds, through their retirement accounts, and so on, they own the means of production.
 - r The people who exercise the voting power for the employees are themselves employees; take, for example, the civil servants who manage the pension funds of state and local governments in the United States.
 - r These pension fund managers are the only true “capitalists” in the United States.
 - r The “capitalists” have thus themselves become employees in the post-capitalist knowledge society.
 - 4 They are paid as employees; they think as employees; they see themselves as employees.
 - 4 But they act as capitalists.
 - ï One implication is that capital now serves the employee, where under Capitalism the employee served capital.
 - ï **But a second implication is that we now have to redefine the role, power, and function of both capital and ownership.**
 - ï As we shall see in the next chapter, we have to **rethink the governance of corporations.**
- o **Labor, capital, and their future**
 - s If KNOWLEDGE is the resource of post-capitalist society, what then will be the future role and function of the two key resources of capitalist (and socialist) society, labor and capital?
 - s **We have moved already into an “employee society” where labor is no longer an asset.**
 - s How much labor is needed—and what kind?
- ï A developed country does indeed need a manufacturing base.
- ï Plenty of people Will always be needed who can bring **only muscle** to the job.
 - H With our present knowledge of training, they can quickly be made productive in traditional jobs.
- ï Even more people will be needed who can only bring **manual skills** to the job.
- ï But the greatest employment need of the next decades will be for **“technicians.”**
 - H Technicians not only need a high level of skill;
 - H they also need a high degree of formal knowledge, and
 - H above all a high capacity to learn and to acquire additional knowledge.
- ï If a country has the knowledge base, it will also manufacture.
 - H But this manufacturing work will not be competitive if carried out by traditional blue-collar workers who serve the machine.
 - H In competitive manufacturing, the work will largely be done by knowledge workers whom the machine serves—as computer consoles and computerized work stations serve the ninety-seven technicians in a steelmaking minimill.
- ï This will create **tremendous problems for developing countries.**
 - H They can no longer expect to be able to obtain large numbers of manufacturing jobs by training low-wage people.
- s Capitalism without capitalists
 - ï How to protect such enormous pools of money against looters is one big problem.
 - ï The pension fund and its owners
 - H To integrate the pension funds’ real owners, present employees and future pensioners, into the management of the pension fund is a challenge that has not so far been tackled in any country.
 - ï The governance of corporations
 - H **The most important question raised by the emergence of the**

PD's View of Developmental Directions

- pension funds (and of the other institutional investors) as the main suppliers of capital and the majority owners of the large businesses is their role and function in the economy.**
- H Their emergence makes obsolete all traditional ways of managing and controlling the large business.
 - H It forces us to think through and redefine the governance of corporations.
 - H Instead of being managed “in the best balanced interests of stakeholders,” corporations were now to be managed exclusively to “**maximize shareholder’s value.**”
 - r **This will not work, either.**
 - r It forces the corporation to be managed for the shortest term.
 - 4 But that means damaging, if not destroying, the wealth-producing capacity of the business.
 - 4 It means decline, and fairly swift decline.
 - H Long-term results cannot be achieved by piling short-term results on short-term results.
 - H They should be achieved by **balancing short-term and long-term needs and objectives.**
 - H Furthermore, managing a business exclusively for the shareholders **alienates** the very people on whose motivation and dedication the modern business depends: the knowledge workers.
 - H An engineer will not be motivated to work to make a speculator rich.
 - H In fact, we know in what areas to set objectives, and how to integrate the pursuit of goals in different areas into a focused strategy.
 - H We now know how to integrate business results and financial results.
 - H We now know that in a modern economy, an economy of change and innovation, there is no such thing as “profit.”
 - H There are only costs: costs of the past (which the accountant
- records) and costs of an uncertain future.
- H And the minimum financial return from the operations of the past that is adequate to the costs of the future is the cost of capital, By this measurement, incidentally, all but a handful of American companies have failed to cover their costs in the last thirty years.
 - i Making management accountable
 - H In other words, we now know what management should be accountable for.
 - H But to whom should it be accountable?
 - H Pension funds, in other words, can neither manage a business nor walk away from it.
 - H They have to make sure that the business is being managed.
 - H We therefore can predict with high probability that within the next twenty years we are going to develop what I have been calling a “**business audit.**”
 - H It will track the performance of a company and its management against a strategic plan and specific objectives.
 - o **Productivity of the new work forces (knowledge and service workers)**
 - s *Note the differences between this chapter and the chapter in Management Challenges for the 21st Century*
 - s Introduction
 - i THE NEW CHALLENGE facing the post-capitalist society is the productivity of knowledge workers and service workers.
 - i **To improve the Productivity of knowledge workers will in fact require drastic changes in the structure of the organizations of post-capitalist society, and in the structure of society itself.**
 - i Forty years ago, people doing knowledge work and service work formed still less than one third of the work force.
 - i Today, such people account for three quarters if not four fifths of the work

PD's View of Developmental Directions

- force in all developed countries—and their share is still going up.
- H Their productivity, rather than the productivity of the people who make and move things, is the productivity of a developed economy.
- H It is abysmally low.
- ï Unless we can learn how to increase the productivity of knowledge workers and service workers, and increase it fast, the developed countries will face economic stagnation and severe social tension.
- ï People can only get paid in accordance with their productivity.
- s **What are the expected results from this work?** is the **key question** in making knowledge workers and service workers productive.
 - ï The task is not given; it has to be determined.
 - ï And it is a question that demands risky decisions.
 - ï There is usually no right answer; there are choices instead.
 - ï And results have to be clearly specified, if productivity is to be achieved.
- s What kind of team?
 - ï There is a second major difference between the productivity of making and moving things and the productivity of knowledge work and service work.
 - ï **In knowledge and service work, we have to decide how the work should be organized.**
 - ï **What kind of human team is appropriate for this kind of work and its flow?**
 - H Kinds of teams
 - r The first kind of team is exemplified by the baseball or cricket team; it is also the kind of team that operates on a patient in the hospital.
 - r The second type of team is the soccer team
 - r Finally, there is the doubles tennis team—the team also of the jazz combo or of the four or five senior executives who together constitute the “President’s Office”
- H These three types of teams cannot be mixed.
 - r One cannot play baseball and soccer with the same team on the same field at the same time.
 - r The three teams must also be “pure”; they cannot be hybrids.
- H **And to change from one team to another is exceedingly difficult and painful.**
 - r **Yet any major change in the nature of the work, its tools, its flow, and its end product may require changing the team.**
 - r This is particularly true with respect to any change in the flow of information.
- H Information sources for different teams
 - r In the baseball-type team, players get their information from the situation.
 - r In the symphony orchestra or the soccer team, the information comes largely from conductor or coach.
 - 4 They control the “score.”
 - r In the doubles tennis team, the players get their information largely from each other.
 - r This explains why the change in information technology, and the move to what I have called the “information-based organization” has made necessary massive “re-engineering.”* {See The New Realities, Chapter 14.}
- s The need to concentrate
 - ï **Concentration on job and task is the last prerequisite for productivity in knowledge and service work.**
 - ï In knowledge work and in most service work, where the machine (if any) is a servant to the worker, productivity requires the elimination of whatever activities do not contribute to performance.
 - ï **Defining performance; determining the appropriate work flow; setting up the right team; and concentrating**

PD's View of Developmental Directions

- on work and achievement are prerequisites for productivity in knowledge work and service work.**
 - ï Only when they have been done can we begin the work on making productive the individual job and the individual task.
- s Restructuring organizations
 - ï **Improving the productivity of knowledge workers and service workers will demand fundamental changes in the structure of organizations.**
 - ï **It may even require totally new organizations.**
 - ï Re-engineering the team so that work can flow properly will lead to the elimination of most “management layers.”
 - ï In fact, the word “rank” should disappear totally from the vocabulary of knowledge work and knowledge worker.
 - ï It should be replaced by “assignment.”
 - ï **This shift will raise tremendous problems of motivation, of reward, and of recognition.**
- s The case for outsourcing
 - ï **Even more drastic, indeed revolutionary, are the requirements for obtaining productivity from service workers.**
 - ï Service work in many cases will be contracted out of the organization to whom the service is being rendered.
 - ï This applies particularly to support work, such as maintenance, and to a good deal of clerical work.
 - ï “Outsourcing,” moreover, will be applied increasingly to such work as drafting for architects and to the technical or professional library.
 - ï One driving force behind outsourcing is the need to make service workers productive.
 - ï The greatest need for increased productivity is in activities which do not lead to promotion into senior management within the organization.
 - ï Outsourcing is necessary not just because of the economics involved.
 - H It is necessary because it provides opportunities, income, and dignity for service workers.
- ï **This means a radical change in structure for the organizations of tomorrow.**
 - H It means that the big business, the government agency, the large hospital, the large university will not necessarily be the one that employs a great many people.
 - H It will be the one that has substantial revenues and substantial results—achieved in large part because it itself does only work that is focused on its mission; work that is directly related to its results; work that it recognizes, values, and rewards appropriately.
- s Averting a new class conflict
 - ï Now, a rapid increase in the productivity of service workers is required to avert the danger of a new “class conflict” between the two new dominant groups in the post-capitalist society: knowledge workers and service workers.
 - ï To make service work productive is thus the first social priority of the post-capitalist society, in addition to being an economic priority.
 - ï But there is a danger that the post-capitalist society will become a class society unless service workers attain both income and dignity.
 - H This requires productivity.
 - H But it also requires opportunities for advancement and recognition.
 - ï The structure of the post-capitalist society will therefore be different from either the earlier capitalist or the socialist society.
 - H There, organizations tried to encompass the maximum of activities.
 - H **Organizations of the post-capitalist society, by contrast, will concentrate on their core tasks.**
 - r For the rest, they will work with other organizations in a bewildering variety of alliances and partnerships.
 - H Both capitalist and socialist societies were, to use a scientific metaphor, “crystalline” in their structure.

PD's View of Developmental Directions

- H Post-capitalist society is more likely to resemble a liquid.
- o **The responsibility-based organization**
 - s Introduction
 - i POLITICAL AND SOCIAL THEORY, since Plato and Aristotle, has focused on power.
 - i **But responsibility must be the principle which informs and organizes the post-capitalist society.**
 - i The society of organizations, the knowledge society, demands a responsibility-based organization.
 - H Organizations must take responsibility for the limit of their power, that is, for the point at which exercising their function ceases to be legitimate.
 - r What is legitimate power?
 - r What are its limits?
 - r What should they be?
 - H Organizations have to take “social responsibility.”
 - r There is no one else around in the society of organizations to take care of society itself.
 - r Yet they must do so responsibly, within the limits of their competence, and without endangering their performance capacity.
 - H Finally, organizations themselves must be built on responsibility from within, rather than on power or on command and control.
 - s What is social responsibility?
 - i The organizations of the society of organizations are special-purpose organs.
 - i Each is good at only one task; and this specialization alone gives them their capacity to perform.
 - i Organizations can only do damage to themselves and to society if they tackle tasks that are beyond their specialized competence, their specialized values, their specialized functions.
 - i And yet who else is there to take care of society, its problems and its ills?
 - i These organizations collectively are society.
 - i But economic performance is not the sole responsibility of a business.
 - i Nor is educational performance the sole responsibility of a school or health-care performance the sole responsibility of a hospital.
 - i The demand for the social responsibility of organizations will not go away.
 - i We do know, if only in rough outline, what the answer to the social responsibility problem has to be.
 - s Power and organizations
 - i There is a **further limit to the social action of organizations** within the society of organizations: They are social institutions.
 - H **They have neither legitimacy nor competence in politics.**
 - i **The first answer to this problem is that no organization must be allowed power unless it is absolutely necessary to the discharge of its function.**
 - H Anything beyond this must be viewed as usurpation.
 - i **A second answer is that the exercise of the organization's legitimate power must be safeguarded against the abuse of power.**
 - H There must be clear and public rules for its exercise, and there must be review and appeal to some person or some tribunal that is impartial and not part of the problem.
 - H There must be what lawyers call “due process.”
 - i **But the most important answer to the problem of the power of the organization is conversion from a power-based to a responsibility-based organization.**
 - i It is the only answer, moreover, that fits the knowledge organization.
 - s From command to information
 - i By 1970, information had begun to transform organizations.
 - i We soon learned that the introduction into organization of information as a structural and organic element means the elimination of many, if not most, layers of management.

PD's View of Developmental Directions

- ï In the traditional organization, most of the people called “managers” do not actually manage; they relay orders downward and information upward.
- ï When information becomes available, they become redundant.
- ï But today we have to go beyond the information-based organization to the responsibility-based organization.
- ï And in knowledge work, as we have seen, the organization is increasingly composed of specialists, each of whom knows more about his or her own specialty than anybody else in the organization.
- ï **The old-type organization assumed that the superior knew what the subordinate was doing for the superior, only a few years earlier, had occupied the subordinate’s position.**
- ï **The knowledge-based organization, by contrast, has to assume that superiors do not know the job of their subordinates.**
 - H They have never held it.
- ï **... in knowledge-based organizations, there is frequently no one who knows enough about the work of the specialist to appraise what that specialist actually contributes.**
- s From information to responsibility
 - ï **The knowledge-based organization therefore requires that everyone take responsibility for that organization’s objectives, contribution, and, indeed, for its behavior as well.**
 - ï This implies that all members of the organization must think through their objectives and their contributions, and then take responsibility for both.
 - ï It implies that there are no “subordinates”; there are only “associates.”
 - ï Furthermore, in the knowledge-based organization all members have to be able to control their own work by feedback from their results to their objectives.—What forty years ago, in *The Practice of Management* (1954), I called “Management by Objectives and Self-Control.”
- ï All members must ask themselves: “What is the one major contribution to this organization and its mission which I can make at this particular time?”
- ï It requires, in other words, that all members act as responsible decision makers.
- ï All members have to see themselves as “executives.”
- ï Next it is the responsibility of all members to communicate their objectives, their priorities, and their intended contributions to their fellow workers—up, down, and sideways.
- ï And it is the responsibility of all members to make sure that their own objectives fit in with the objectives of the entire group.
- ï Even organizations which at first glance do only low-skilled or unskilled work need to be restructured as responsibility-based organizations.
 - H A small number of companies—one in Denmark, one in the United States, one in Japan—have been successful in greatly increasing the productivity of people who do unskilled, indeed menial, work, such as maintenance workers in hospitals, factories, or office buildings.
 - H They have achieved these increases by demanding responsibility from the very lowliest of their employees, those who start with a pail and a broom to clean floors, or those who clean offices after hours—for objectives, for contribution, for the performance of the entire team.
 - r These people know more about their jobs than anybody else.
 - r And when they are held responsible, they act responsibly.
- s To make everybody a contributor
 - ï There is a great deal of talk today about “entitlement” and “empowerment.”
 - H These terms express the demise of the command and control-based organization.

PD's View of Developmental Directions

- H But they are just as much terms of power and rank as the old terms were.
- ï We should instead be talking about responsibility and contribution.
- ï Our aim should be to make people be more responsible.
- ï What we ought to be asking is not, "What should you be entitled to?" but, "What should you be responsible for?"
- ï The task of management in the knowledge-based organization is not to make everybody a boss.
- ï It is to make everybody a contributor.