

1 The Society of Organizations

2 An organization is a human group, composed of **specialists working together**
on a **common task**.

3 Unlike society, community, or family—the traditional social aggregates—organization is
purposefully designed and **grounded** neither in the psychological nature of
human beings nor in biological necessity.

4 Yet, while a human creation, it is **meant to endure**—not perhaps forever, but for a
considerable period of time. ¶¶¶

5 An organization is **always specialized**.

6 It is **defined by its task**.

7 Community and society, by contrast, are defined by a **bond** that holds
together human beings, whether language, culture, history or locality.

8 An organization is **effective** only if it **concentrates on one**
task.

9 The symphony orchestra does not attempt to cure the sick; it plays music.

10 The hospital takes care of the sick but does not attempt to play Beethoven.

11 A mountaineering club set up to climb Himalayan peaks does not look after the
homeless in Nepal no matter how great their plight.

12 The school concentrates on teaching and learning,

13 the business on producing and selling goods and services,

14 the church on converting sinners and saving souls,

15 the courts on settling conflicts,

16 the military on fighting wars,

17 the American Heart Association on research into, and prevention of, cardiac
degeneration and circulatory disease.

18 Society, community, family **are**; organizations **do**. ¶¶¶

19 "Organization" has become an everyday term.

20 Heads nod when somebody says: "In our organization, everything should revolve
around the customer";

21 or, "All that counts in our organization is meeting the budget";

22 or, "In this organization, they never forget a mistake you made."

23 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**:

24 the business enterprise and the labor union;

25 the armed services and the hospital;

26 schools and universities;

27 a host of community services some of them government agencies, many more
(especially in the U.S.) non-profit institutions of the "social sector" (see Chapter 9
below).

28 But there are also symphony orchestras—hundreds of them in the United States—
museums and foundations, trade associations and consumer advocates, and so on. ¶¶¶

29 Yet, no one in the United States—or anyplace else—talked of "organizations" until after
World War II.

30 Once again the Concise Oxford, England's authoritative dictionary, did not list the
term in its current meaning in its 1950 edition.

31 Political and social scientists talk of "government" and "business," of "society," "tribe,"
"community," and "family."

32 But "organization" still has to enter the political, economic, and sociological
vocabulary. ¶¶¶

33 This raises three related questions:

34 • What **function** do organizations perform?

35 **Why** are they needed?

36 • What explains their still being **ignored**, by and large, in social and political science
and in economics?

37 • Finally, **what**, precisely, is an organization?

38 **How** does it work?

39

40 The Function Of Organizations

41 The **function of organizations** is to **make knowledges productive**.

42 Organizations have become **central to society** in all developed countries because of the **shift** from knowledge to **knowledges**. ¶¶¶

43 The **more specialized** knowledges are, the **more effective** they will be.

44 The best radiologists are not the ones who know the most about medicine; they are the specialists who know how to obtain images of the body's inside through X-ray, ultrasound, body scanner, magnetic resonance.

45 The best market researchers are not those who know the most about business, but the ones who know the most about market research.

46 Yet neither radiologists nor market researchers **achieve results by themselves; their work is "input" only**.

47 It does not become **results** unless **put together** with the **work of other specialists**. ¶¶¶

48 **Knowledges by themselves are sterile**.

49 They **become productive only** if **welded together into a single, unified knowledge**.

50 To make this possible is the **task of organization, the reason for its existence, its function**. ¶¶¶

51 We surely **overdo specialization** these days, worst of all in Academia.

52 But **the cure** is not to try to give specialists a "liberal education" so as to make "generalists" out of them (as I used to advocate myself for many years).

53 This **does not work**, we have now learned.

54 Specialists are effective **only as specialists**—and knowledge workers **have to be effective**.

55 The most highly effective knowledge workers do not want to be anything but **narrow specialists**.

56 Neurosurgeons get better and better the more they practice their skill; French horn

players do not take up the violin, nor should they.

57 Specialists need **exposure to the universe of knowledge** (as will be argued in Chapter 12 below).

58 But they need to **work as specialists**, and to **concentrate on being specialists**.

59 And for this to produce results, **an organization is needed**.

60

61 Organization As A Distinct Species

62 Why has it taken so long for the scholars to [recognize](#) organization, even though it became **a predominant social reality** decades ago?

63 The answer tells us a good deal about organization. ¶¶¶

64 It is not surprising that lawyers have not concerned themselves with this new phenomenon.

65 "Organization" is not a legal term any more than are "community" or "society."

66 Nor is "organization" an economic term.

67 Some organizations pursue economic objectives, influence the economy, and are in turn influenced by it, for example, businesses and labor unions.

68 Many others—the churches or the Boy Scouts—are not within the economist's purview.

69 But why have political scientists and sociologists largely ignored a phenomenon that so profoundly affects polity and society? ¶¶¶

70 There is no mention of organizations in the works of the founder of sociology, the Frenchman Auguste Comte (1798-1857).

71 But then there were none in his time.

72 Organization, however, also went unmentioned in the most influential non-Marxist critique of modern society, the 1888 *Gemeinschaft und Gesellschaft* (Community and Society), by the German Ferdinand Tönnies (1855-1936), and in the works of the patron saints of modern sociology, the German Max Weber (1864-1920) and the Swiss-Italian Vilfredo Pareto (1848-1923).

73 All three were highly conscious of—and highly critical of—the rise of big business and big unions, but quite oblivious to organization as a new phenomenon.

74 And it is still ignored in more recent social science books. ¶¶¶

75 The explanation is that organization is [ignored precisely](#) because **it profoundly affects both polity and society**.

76 Organization is incompatible with what both political and social scientists still assume to be the norm.

77 They still assume that a "normal" society is [unitary](#) rather than [pluralistic](#).

78 But the society of organizations is **profoundly pluralistic**.

79 For organization to be noticed at all by a political scientist or a sociologist, it has to be treated as an abnormality, indeed, a dangerous disease.

80 A good example is *The Legal Foundations of Capitalism* (1924) by the distinguished American labor economist John R. Commons (1862-1945). ¶¶¶

81 Commons argued that the emergence of organization in the form of the business corporation was a poison injected into the American body politic by a "conspiracy" on the part of the late-nineteenth-century Supreme Court, which willfully misinterpreted the Fourteenth Amendment to the Constitution.

82 That this was silly should have been obvious to any reader; every other developed country had accepted corporations without benefit of a Supreme Court or Fourteenth

Amendment—indeed, the United States was the last of all developed countries to do so (later even than Japan).

83 Yet Commons made sense to the reader of 1924.

84 Organization was such an aberration that it could only be explained by some sinister conspiracy.

85 The book became a bestseller and one of the bibles of the New Deal “business-bashers” a few years later. ¶¶¶

86 The emergence of organization has been a “paradigm shift,” to use a term coined by the American philosopher Thomas Kuhn in his *The Structure of Scientific Revolutions* (1962).

87 It contradicted what political and social scientists knew to be the reality.

88 And then, as Kuhn pointed out, it takes between **thirty and fifty years**—that is, until a new generation has grown up and taken over—before the [new reality](#) is [perceived](#), let alone accepted by the scholarly community. ¶¶¶

89 There is still another reason why so little attention has so far been paid to organizations.

90 Armies, churches, universities, hospitals, businesses, labor unions have all been seen, studied, analyzed for a long time and in great detail.

91 But each of them has been treated as unique and *sui generis*.

92 Even now, interviewers are surprised when I tell them that my consulting practice has included all these institutions for more than forty years.

93 Only very recently has it been realized that they **all belong to the same species**; they are **all “organizations.”**

94 They are the **man-made environment**, the **“social ecology”** of **post-capitalist society**.

95 They have far more in common with one another than they have differences.

96 As I said earlier, most people—and practically everybody outside the United States—still think of “business management” when they hear “management,” and **do not yet realize** that **management is a generic function pertaining to all organizations alike**. *1

97 Only the emergence of management since World War II has made us perceive that **organization is something distinct and discrete**.

98 It is neither “community” nor “society” nor “class” nor “family,” the modern integrators which social scientists understand; But it is also not “clan” or “tribe” or “kinship group,” nor any of the other **integrators** of traditional society **known and studied by** anthropologists, ethnographers, and sociologists.

99 Organization is something **new** and **distinct**.

100 But what is it?

101

102 1 * As pointed out in my [Managing the Non-Profit Organization](#) (1990), a good many people in the nonprofit sector still see churches as churches, hospitals as hospitals, community services as community services, rather than realizing that they all belong to the same family, the non-profits, and the same species, the organization.

103

104 The Characteristics Of Organizations

105 Organizations are **special-purpose institutions**.

106 They are effective because they concentrate on one task. ¶¶¶

107 If you were to go to the American Lung Association and say: "Ninety percent of all adult Americans [it's always 90 percent, by the way] suffer from ingrown toenails; we need your expertise in research, health education, and prevention to stamp out this dreadful scourge," you'd get the answer: "We are interested only in what lies between the hips and the shoulders." ¶¶¶

108 That explains why the American Lung Association or the American Heart Association or any of the other organizations in the health field get results.

109 Society, community, family **have to deal with whatever problem arises**.

110 To do so in an organization is "**diversification**."

111 And in an organization, diversification means **splintering**.

112 It **destroys the performance capacity** of any organization—whether business, labor union, school; hospital, community service, or church.

113 Organization is a **tool**.

114 As with any **tool**, the more **specialized** its given task, the **greater its performance capacity**. ¶¶¶

115 Because the organization is composed of specialists, each with his or her own **narrow knowledge area**, its **mission must be crystal clear**.

116 The organization must be **single-minded**, otherwise its members become **confused**.

117 They will **follow their specialty rather than applying it to the common task**.

118 **They will each define "results" in terms of that specialty**, **imposing their own values on the organization**.

119 Only a **clear, focused, and common mission** can **hold the organization together** and **enable it to produce results**. About [missions](#).

120 **Without such a focused mission**, the organization soon **loses credibility**. ¶¶¶

121 A good **example** is what happened to American Protestantism in the post-World War II period.

122 Very few strategies have ever been as successful as that, of the American Protestant churches when around 1900 they focused their tremendous resources on the social needs of a rapidly industrializing urban society.

123 The doctrine of "Social Christianity" was a major reason why the churches in America did not become marginal, as the churches in Europe did.

124 Yet social action is not the mission of a Christian Church.

125 That is to save souls.
126 Because Social Christianity was so successful, the churches, especially since World War II, have dedicated themselves more and more wholeheartedly to social causes.
127 Ultimately, liberal Protestantism used the trappings of Christianity to further social reform and to promote actual social legislation.
128 Churches became social agencies.
129 They became politicized—and as a result they rapidly lost cohesion, appeal, and members. ¶¶¶

130 The **prototype** of the modern organization is the **symphony orchestra**.

131 Each of the two hundred fifty musicians in the orchestra is a specialist, and a high-grade one.

132 Yet by itself the tuba doesn't make music; only the orchestra can do that.

133 The orchestra **performs only because** all two hundred fifty musicians **have the same score**.

134 They all **subordinate their specialty** to a **common task**.

135 And they all play only one piece of music **at any given time**. ¶¶¶

136 **Results** in an organization exist **only on the outside**.

137 Society, community, family are **self-contained** and **self-sufficient**; they **exist for their own sake**.

138 But all organizations **exist to produce results On the outside**. ¶¶¶

139 Inside a business, there are only costs.

140 The term "profit center" (which, alas, I myself coined many years ago) is a misnomer.

141 Inside a business, there are only cost centers.

142 There are profits only when a customer has bought the product or the service and, has paid for it.

143 The result of the hospital is a cured patient, who can go back home (and who fervently hopes never to have to return to the hospital).

144 The results of the school or the university are graduates who put to work what they have learned in their own lives and work.

145 The results of an army are not maneuvers and promotions for generals; they are deterring a war or winning it.

146 The results of the Church are not even on this earth. ¶¶¶

147 This means that **results in an organization** are always pretty far away from what
each member **contributes**.

148 This is true even in the hospital, where individual contributions—those of the nurse or
the physical therapist—are closely related to the **result: a cured patient**.

149 But many specialists even in the hospital cannot identify their contribution to any
particular result.

150 What share in the recovery or rehabilitation of a patient does the X-ray technician
have?

151 Or the clinical laboratory technician?

152 Or the dietitian? ¶¶¶

153 In most institutions, the individual's contribution is totally swallowed up by the task
and disappears in it.

154 What use is the best engineering department if the company goes bankrupt?

155 And yet, unless the engineering department is first-class, dedicated, and
hardworking, the company is likely to go bankrupt.

156 Each member in an organization, in other words, makes a vital contribution (at least in
theory) without which there can be no results.

157 But none by himself or herself produces these results. ¶¶¶

158 This then **requires**, as an **absolute prerequisite of**
an organization's performance, that its **task** and
mission be crystal clear.

159 **Results need** to be **defined clearly and**
unambiguously—and, if at all possible, **measurably**. ¶¶¶

160 This **also requires** that an organization **appraise and judge itself**
and its performance against clear, known, impersonal
objectives and goals.

161 Neither society nor community nor family need to set such goals, nor could they.

162 Survival rather than performance is their test. ¶¶¶

163 Joining an organization is **always a decision**.

164 *De facto* there may be little choice.

165 But even where membership is all but compulsory—as membership in the
Christian Church was in Europe for many centuries for all but a handful of Jews
and Gypsies—the fiction of a decision to join is carefully maintained.

166 The godfather at the infant's baptism pledges the child's voluntary acceptance of membership in the Church. ¶¶¶

167 It may be difficult to leave an organization—the Mafia, for instance, or a Japanese big company, or the Jesuit Order.

168 But it is always possible.

169 And the more an organization becomes an organization of knowledge workers, the easier it is to leave it and move elsewhere (see "The Employee Society" later in this chapter). ¶¶¶

170 Unlike society, community, and family, an organization is therefore always in competition for its most essential resource: qualified, knowledgeable, dedicated people. ¶¶¶

171 This means that organizations have to market membership, fully as much as they market their products and services—and perhaps more.

172 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. ¶¶¶

173 Because modern organization is an organization of knowledge specialists, it has to be an organization of equals, of "colleagues," of "associates."

174 No one knowledge "ranks" higher than another.

175 The position of each is determined by its contribution to the common task rather than by any inherent superiority or inferiority.

176 "Philosophy is the queen of the sciences," says an old tag.

177 But to remove a kidney stone, you want a urologist rather than a logician.

178 The modern organization cannot be an organization of "boss" and "subordinate"; it must be organized as a team of "associates." ¶¶¶

179 An organization is always managed.

180 Society, community, family may have "leaders"—and so do organizations.

181 But organizations, and organizations alone, are managed.

182 The managing may be perfunctory and intermittent—as it is, for instance, in the Parent-Teachers Association at a suburban school in the United States, where the elected officers spend only a few hours each year on the organization's affairs.

183 Or management may be a full-time and demanding job for a fairly large group of people, as in the military, the business enterprise, the labor union, the university, and so on.

184 But there have to be people who make decisions, or nothing will ever get done.

185 There have to be people who are accountable for the organization's mission, its spirit, its performance, its results.

186 There must be a "conductor" who **controls the "score."**
187 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.**
188 This management has to have **considerable authority.**
189 Yet its job in the **knowledge organization** is not to command; it is **to direct.** ¶¶¶

190 Finally, to be **able to perform,** an organization **must be autonomous.**

191 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.

192 Yet in actual operation these organizations must be able to "do their own thing."

193 If they are used to carry out "government policy," they immediately stop performing.
¶¶¶

194 All this, it will be said, is obvious.

195 Yet every one of these characteristics is new, and indeed unique to that **new**
social phenomenon, the organization.

196

197 Organization As A Destabilizer

198 Society, community, family are all conserving institutions.

199 They try to maintain stability and to prevent, or at least to slow down, change.

200 But the organization of the post-capitalist society of organizations is a *destabilizer*.

201 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**.

202 It must be organized for innovation; and innovation, as the Austro-American economist Joseph Schumpeter (1883-1950) said, is “**creative destruction**.”

203 It must be organized for **systematic abandonment** of the established, the customary, the familiar, the comfortable—whether products, services, and processes, human and social relationships, skills, or organizations themselves.

204 It is the *very nature of knowledge* that it *changes fast* and that *today's certainties will be tomorrow's absurdities*. ¶¶¶

205 **Skills**, in contrast to knowledge, change *slowly* and *infrequently*.

206 If Socrates, the stonemason, came back to life today and went to work in a stonemason's yard, the only change of significance would be that he would have to turn out tombstones with a cross on them instead of steles with the symbol of Hermes.

207 The tools are the same even if they now have electric batteries in the handles.

208 (A small museum on the Spanish Costa Brava near the ancient city of Emporia exhibits the tools the craftsman of the second and third centuries A.D. used.

209 No craftsman today would have the slightest difficulty figuring out how to use them.

210 He would hardly notice that the tools are two thousand years old.)

211 For four hundred years after Gutenberg first used movable type, there was practically no change in the craft of printing—until the steam engine came in, and the discipline of engineering was applied to a technē.

212 Throughout history, crafts people who had learned a trade had acquired everything they would ever need to know during their lifetime after five or six years of apprenticeship, at age seventeen or eighteen.

213 In the **post-capitalist society**, it is safe to assume that *anyone with*

any knowledge will have to *acquire new knowledge every four or five years*, or else become obsolete. ¶¶¶

214 The **changes** that most profoundly affect a
knowledge **do not, as a rule**, come out of its **OWN** area, as the example of
printing shows.

215 The pharmaceutical industry is being profoundly changed today by knowledge that
comes out of genetics and biology, disciplines of which few people in a
pharmaceutical lab **had even heard** forty years ago.

216 The greatest **challenge** to the railroad came not from changes in railroading, but from
the automobile, the truck, and the airplane. ¶¶¶

217 **Social innovation** is as important as **new science** or **new technology** in **creating**
new knowledges and in **making old ones obsolete**.

218 Indeed, social innovation is often more important.

219 What **triggered** the **present worldwide crisis** of that proudest of nineteenth-
century institutions, the **commercial bank**, was not the computer or any
other technological change.

220 It was the realization that an old but hitherto rather obscure financial instrument,
commercial paper, could be used by non-banks **to finance companies**.

221 This speedily deprived the banks of the business on which they had a monopoly
for two hundred years and which gave them most of their income: the
commercial loan.

222 The greatest change most probably is that in the last forty years **purposeful** innovation—
both technical and social—has itself become an organized discipline, which is both
teachable and learnable.

223 (On this, see my [Innovation and Entrepreneurship](#).) ¶¶¶

224 Nor is **rapid, knowledge-based change** confined to business, as is still
widely believed.

225 It clearly is needed if the labor union (another of the “success stories” of capitalist
society) is to survive.

226 No organization in the fifty years since World War II has changed more than the
military, even though uniforms and titles of rank have remained the same.

227 Weapons have changed completely, as the Gulf war of 1991 dramatically
demonstrated.

228 Military doctrines and concepts have changed even more drastically.

229 And so have organization structures, command structures, relationships, and
responsibilities. ¶¶¶

230 One implication: every organization of today has to build into its very structure the
management of change. ¶¶¶

231 It has to **build in organized abandonment** of **everything**
it does.

232 It has to learn to ask every few years of every process, every product, every
procedure, every policy:

233 "If we did not **do** this already, would we go into it now, knowing what we now
know?"

234 And if the answer is no, the organization has to ask: "And what do we do now?"

235 It has to *do* something, **not just make another study**.

236 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**.

237 (On this, see Chapter 24, "The New Japanese Business Strategies," in
Managing for the Future (1992). ¶¶¶)

238 But the *ability to create the new* also has to be built into the organization.

239 Specifically, each organization has to build into its very fabric three **systematic**
practices.

240 First, each organization requires continuing improvement of everything it
does—the process the Japanese call *Kaizen*.

241 Every artist throughout history has practiced *Kaizen*, that is, organized,
continuous self-improvement.

242 But only the Japanese so far (perhaps because of their Zen tradition) have
embodied it in the daily life and work of their business organizations—
although not yet into their singularly change-resistant universities.

243 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. ¶¶¶

244 Every organization will secondly have to learn *to exploit*, that is, to develop
new applications from its own successes.

245 Again, Japanese businesses have done the best job in this so far, as
witness the way in which the Japanese consumer electronics
manufacturer has developed one new product after the other out of the
same American invention, the tape recorder.

246 But building on their successes is also one of the strengths of the
American "pastoral" churches, whose fast growth is beginning to offset
the steady decline of both the traditional "Social Christianity" and the
traditional fundamentalist churches. ¶¶¶

247 Every organization, third, will have to learn *how to innovate* and to learn that
innovation can and should be **organized as a systematic process**. ¶¶¶

248 **Then** of course one comes back to abandonment and the **whole process**
starts all over again. ¶¶¶

249 Unless these **tasks** are **systematically carried out**, the *knowledge-*
based post-capitalist organization will **very soon find itself** **obsolescent**.

250 It soon will lose **performance capacity**, and **with it the ability** to attract and
to hold *the knowledge specialists* **on whom it depends.** ¶¶¶

251 There is a further implication: post-capitalist society has to be *decentralized*.

252 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. ¶¶¶

253 Organizations in the post-capitalist society **thus** constantly **upset**, **disorganize**, and
destabilize the community.

254 They must **change the demand for skills** and **knowledges.**

255 Just when every technical university is geared up to teach physics, geneticists are
what we need.

256 Just when the banks have organized credit analysis, they need investment people.

257 **Companies** on which **local communities depend for employment** **close** their factories, or
replace grizzled model makers who have spent years learning their craft with twenty-five-
year-old “whiz kids” who know computer simulation.

258 **Hospitals** move the delivery of babies into a freestanding “birthing center” when the
knowledge base and technology of obstetrics change.

259 We must be ready to close down a hospital completely when changes in medical
practice and technology make a center with fewer than two hundred beds
uneconomical and incapable of giving first-rate care.

260 Similarly, for the **school** or the **college** to **discharge its social function**, we must be able to
close down a school or a college—no matter how deeply rooted in the local community
and how much loved by it—if changes in demographics, technology, or knowledge make
a different size or a different philosophy a **prerequisite of good performance.** ¶¶¶

261 But **every one of such changes** **upsets** the community, **disrupts** it, **deprives** it of
continuity.

262 Every one is perceived as “unfair.”

Every one **destabilizes**. ¶¶¶

264 Modern organization creates yet another **tension for the community**.

265 It has to operate in a community.

266 Its members live in that community, speak its language, send their children to its schools, vote in it, pay taxes to it.

267 They have to feel at home in it—their results are in the community.

268 Yet the organization cannot submerge itself in the community or subordinate itself to that community.

269 Its “culture” has to **transcend** community. ¶¶¶

270 As the American anthropologist Edward T. Hall pointed out in *The Silent Language* (1959), the most important communications in every society are not verbal but cultural, perceived through the way people stand, the way they move, the way they act.

271 Hall showed that a German physician uses quite different signals to get a message across to a German patient from the signals the English, American, or Japanese physician uses.

272 American civil servants would be completely baffled in their own Washington if they were to sit in on the meeting of a local grocery chain discussing next week’s advertising promotion.

273 But they easily understand what a Chinese colleague tells them about bureaucratic intrigues in Beijing.

274 And, despite all we hear about differences in “management style,” a large Japanese company functions very much like a large American, German, or British company. ¶¶¶

275 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.

276 Each organization’s value system is determined by its task.

277 Every hospital in the world, every school in the world, every business in the world **has to believe** that what it is doing is an **essential**

contribution to its community and

society—the contribution on which all the others in the community depend in the last analysis.

278 To perform its task successfully, it has to be organized and managed the same way.

279 In its culture, the organization thus always transcends the community.

280 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. ¶¶¶

281 “Knowledge **knows no boundaries**,” says an old proverb.

282 There are as yet very few "transnational" organizations and not even a great many
"multinationals."

283 But every knowledge organization is of necessity non-national, non-community.

284 Even if totally embedded in the local community, it is a "rootless cosmopolitan," to
use one of Hitler's and Stalin's favorite epithets.

285

286 The Employee Society

287 Only fifty years ago, the word “employee” was rarely used in English or American, except as a legal term.

288 People then spoke of “capital and labor,” or of “management and the worker.”

289 The German equivalent, *Mitarbeiter*, was equally uncommon.

290 And when the term was used, it meant low-level clerical people much like the Spanish *empleado* or another German term, *Angestellter*.

291 “Employee” is also an awkward word; it has no clear meaning, and all the equivalents in other languages are equally recent in common usage and equally awkward.

292 The phenomenon itself is **so new**, we have no proper word for it as yet. ¶¶¶

293 An “employee” is, by definition, **somebody who gets paid for working**.

294 Yet in the United States, the largest single group of “employees” are people who **work without pay**.

295 Every second adult American—90 million people all told—works as an unpaid employee for a non-profit organization, most of them giving at least three hours a week of unpaid work.

296 (On this, see Chapter 9.)

297 They are clearly “staff,” and consider themselves as such.

298 Yet they are volunteers who receive no pay. ¶¶¶

299 Many people who in effect work as “employees” are not employed in any legal sense.

300 They are “self-employed.”

301 A **century ago**, people who were employed working for somebody else worked for a “master” rather than for an organization or a “boss.”

302 There were the factory workers; there were the domestic servants—until World War I vastly outnumbering factory workers in every developed country.

303 There were shop assistants, salespeople, and so on.

304 People with education worked as “independents,” by and large.

305 And the largest single group in the 1913 work force in any country (except Great Britain and Belgium) were farmers working for themselves on land they either owned or rented. ¶¶¶

306 Today, farmers are a tiny minority in every developed country; domestic servants have all but disappeared.

307 But the people who sixty or seventy years ago were “independent,” that is, the people of education and knowledge, **are now** employees or “self-employed.” ¶¶¶

308 We need a word to describe these people, and we do not have one.

309 In the meantime we may have to do with defining “employees,” in the post-capitalist society, as **people whose ability to make a contribution**

depends on their having access to an organization.

310 Whether they are paid is secondary.

311 If these people are “self-employed,” they function because they render services to or through organizations: the physician under the British National Health Service; his or her American counterpart working for an “Independent Providers” group; accountants and auditors.

312 These people may not receive a “wage”; they receive a “fee.”

313 But their **ability to function** depends fully as much on their **access to an organization as if they were on the payroll.** ¶¶¶

314 **The higher up we go** in terms of income, education, or social status, the more **ability to perform** and **function** depends on **access to the organization.**

315 Just as post-capitalist society has become a **society of organizations**, it has also become a **society of employees.**

316 These are only two different ways to describe the same phenomenon. ¶¶¶

317 As far as the employees who work in **subordinate and menial, service occupations** are concerned—the checkout clerk in the supermarket; the cleaning woman in the hospital; the driver of the delivery truck their position may not be too different from that of the wage earner, **the “worker” of yesterday**, whose direct descendants they are.

318 They account for one quarter of the work force, and already outnumber industrial workers.

319 Their **position**, their **productivity**, their **dignity** are **central social problems** of the post-capitalist society (as will be discussed in Chapter 4). ¶¶¶

320 But the **position** of the next group, the **knowledge workers**, is **radically different.** ¶¶¶

321 Knowledge workers can work only because there is an organization for them to work in.

322 In that respect, they are dependent.

323 But at the same time, they own the “means of production,” that is, their knowledge.

324 And knowledge workers account for almost one third of the total work force of a developed country (with skilled service workers accounting for another third or so). ¶¶¶

325 Marx believed that the greatest change in society resulting from the introduction of capitalism was the “alienation” of the worker.

326 The worker no longer owned, the tools of production.

327 He could produce only if somebody else, a “capitalist,” furnished the tools, especially the steadily more expensive machinery. ¶¶¶

328 The knowledge employee still needs the tools.

329 The **capital investment in his or her tools** may already be higher than the capital investment in the tools of the manufacturing worker ever was (and **the social investment**, e. g., in the knowledge worker's education, is of course many times the investment in a manual worker's education).

330 But this capital investment is unproductive **unless the knowledge employee brings to bear on it the knowledge which he or she owns** and **which cannot be taken away**. ¶¶¶

331 Machine operators in the factory did as they were told.

332 The machine decided not only what to do but how to do it.

333 The knowledge employee may need a machine, whether it be a computer, an ultrasound analyzer, or a radio telescope.

334 But neither the computer nor the ultrasound analyzer nor the telescope tells the knowledge employee **what to do**, let alone **how to do it**.

335 **Without this knowledge** which is the property of the employee, the machine is unproductive. ¶¶¶

336 The worker under capitalism was totally dependent on the machine.

337 In the employee society, the employee and the tools of production are **interdependent**.

338 One cannot function without the other.

339 And while the tools of production, such as the ultrasound analyzer, are fixed in place, the technician who knows how to run them and how to interpret their readings has mobility.

340 The **machine is dependent on the employee**, not the other way around. ¶¶¶

341 Workers throughout history could be "supervised."

342 They could be told what to do, how to do it, how fast to do it, and so on.

343 Knowledge employees **cannot, in effect, be supervised**.

344 Unless they know more than anybody else in the organization, they are to all intents and purposes **useless**. ¶¶¶

345 The marketing manager may tell the market researcher what the company needs to know about the design of a new product and the market segment in which it should be positioned.

346 But it is the market researcher's job to tell the president of the company what market research is needed, how to set it up, and what the results mean.

347 The commanding general of an air base decides how many planes and of what kind are needed for a certain mission.

348 But it is the crew chief, though vastly inferior in rank (and usually not even a commissioned officer), who tells the general how many planes are airworthy and what repairs they need before they can be sent off on their mission.

349 Only a very foolish commanding general overrules his crew chief, despite the difference in rank—and such a commanding general, by the way, will not last very long. ¶¶¶

350 Employees in the employee society need access to an organization.

351 Without it, they cannot produce or perform.

352 And yet they hold **a crucial card** in **their mobility**.

353 They carry the **means of production**—their knowledge—with them. ¶¶¶

354 In the 1980s and 1990s, during the traumatic restructuring of American business, many thousands of knowledge employees lost their jobs.

355 Their company was acquired, merged, spun off, liquidated, and so on.

356 Yet within a very few months, the great majority found new jobs in which to put their knowledge to work.

357 The transition period was painful, and in about half the cases the new job did not pay quite as much as the old one and may not have been as enjoyable.

358 But laid-off technicians, professionals, and managers found that they had the “capital”—their knowledge; they owned the **means of production**.

359 Somebody else, the organization, had the **tools of production**.

360 The two **needed** each other.

361 By itself, neither was capable of producing.

362 Neither, in other words, is “dependent” or “independent.”

363 They are **interdependent**.

364 Japan officially still believes in lifetime commitment, especially for knowledge employees, professionals, managers, and technicians.

365 But the great scandal of Japan in 1989 was the “Recruit Affair,” in which a rapidly growing publisher, Recruit, bribed politicians by giving them free shares.

366 What made these Recruit shares so attractive?

367 What made Recruit so extraordinarily profitable?

368 The company publishes magazines for technicians, professionals, and middle managers who look for better jobs than they presently have.

369 These magazines contain nothing but job offers for such people.

370 When riding on the Tokyo subway, the foreigner is told, older people read adult comics; but younger people read the magazines which offer positions for knowledge employees already employed by other companies.

371 Even in Japan, the knowledge employee is **rapidly gaining mobility**, despite all the emphasis on “loyalty” and “lifetime commitment.”

372 "Loyalty" from now on cannot be obtained by the paycheck; it will have to be

earned by proving to knowledge
employees that the organization which presently employs them
can offer them exceptional opportunities to
be effective.

373 Not so long ago, we talked about "labor"; increasingly, now, we are talking of "human resources."

374 This implies that it is the individual knowledge employee who decides in large measure what he or she will contribute, and how great the yield from his or her knowledge can or should be. ¶¶¶

375 But in the knowledge society, even low-skilled service workers are not "proletarians."

376 Collectively, the employees own the means of production.

377 Individually, few of them are wealthy.

378 Even fewer of them are rich (though a good many are financially independent—what we now call "affluent").

379 Collectively, however, whether through their pension funds, through mutual funds, through their retirement accounts, and so on, they own the means of production.

380 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.

381 These pension fund managers are the only true "capitalists" in the United States.

382 The "capitalists" have thus themselves become employees in the post-capitalist knowledge society.

383 They are paid as employees; they think as employees; they see themselves as employees.

384 But they act as capitalists. ¶¶¶

385 One implication is that capital now serves the employee, where under Capitalism the employee served capital.

386 But a second implication is that we now have to redefine the role, power, and function of both capital and ownership.

387 As we shall see in the next chapter, we have to rethink the *governance of corporations*.

388 [From command and control to information-based to responsibility-based organizations](#)