

From Hierarchy to Enterprise



To survive constant change, massive diversity, and intense competition, hierarchies must dissolve into entrepreneurial units.

AN INCIDENT AT MY UNIVERSITY highlights what I consider the biggest need in today's organizations. Our business school had a problem getting the copy center to work properly. We couldn't seem to get copies made in less than a week. We overused this free service, clogging the system. Attempts to get the copy center to improve its operations and the faculty to curb their excessive usage had little effect.

The problem was that we were relying on a hierarchical system for a complex task. We needed good service. We needed faculty accountability. We needed a copy center manager who was motivated to help us. We needed a choice of providers.

So, we asked the copy center manager if he would like to turn the operation into "his own business." He could still use the school's copiers and facilities to serve the faculty's needs, but his income would be based on a percentage of the profits. The departments would get his old budget and could use it to either patronize his or other copy centers. He had an entrepreneurial streak, so he welcomed the opportunity.

Well, everything changed within days. He got thinking about how to improve operations. And having to pay now, the faculty carefully considered whether they really needed 100 copies of their latest tome. Our copy center's service soon matched the best alternatives. The manager became a celebrated entrepreneur, and the problem was solved by an internal market.

This story illustrates that the most fundamental problem in management today is the bureaucracy that results almost invariably from hierarchies. The hierarchical model dominated the

Industrial Age because it was good at managing routine tasks performed by uneducated workers.

But the Information Age is releasing such revolutionary forces that the world is becoming an incomprehensible maze, thereby rendering today's hierarchies obsolete. Some hierarchy will always be needed, but the former management system in which decisions flowed from the top down is now history.

To survive a world of constant change, massive diversity, and intense competition, today's hierarchies are dissolving



into fluid collections of entrepreneurial units. This need to cope with a difficult era should bring the power of enterprise to fruition as organizations melt even further into a churning sea of "internal markets," connected by information networks into a near-perfect global economy. I call it the flowering of enterprise.

The move to democracy is equally apparent in the way managers now work closely with tough competitors, empowered employees, and discriminating clients. After a long history of authoritarian control, collaborative working relations have become one of the most powerful forces in economics.

Three Primary Principles

I see three primary principles moving into the heart of management.

1. Transform the hierarchy into internal enterprise units. Rather than departments, "internal enterprises" form the building blocks of an internal market system. All line and staff units are trans-

formed into enterprises by becoming accountable for performance but gaining control over their operations, as an external enterprise does. Alliances between internal enterprises link corporations together into a global economy.

2. Create an economic infrastructure to guide decisions. Executives design and regulate the infrastructure of this "organizational economy," just as governments manage national economies: establishing common systems for accounting, communications, incentives, governing policies, an entrepreneurial culture, and the like. Management may also encourage the formation of various business arrangements that exist in an economic system: venture capital firms, consultants, distributors, and so on.

3. Provide leadership to foster collaborative synergy. An internal economy is more than a laissez-faire market, but a community of entrepreneurs that fosters collaborative synergy: joint ventures, sharing of technology, solving common problems, and so on among internal and external partners. Corporate executives provide the leadership to guide this internal market by encouraging the development of various strategies because of the hard realization that cooperation is now efficient. Some progressive companies such as GM Saturn are uniting their stakeholders into vital "corporate communities." I think of it as "the extension of democracy."

If American managers take a fresh look at these rich trends from the perspective of our traditions, they should see a familiar pattern. This is the philosophical foundation that gave birth to the United States and that has been bringing down dictatorship after dictatorship in recent years. Free markets and democratic governance are the twin pillars supporting modern civilization, the social axes that orient our thoughts and behavior, our guiding vision of an effective and just social order.

If these trends hold, the foundation of a "New Management" built on democracy and enterprise will support far more powerful institutions that are entrepreneurial yet human-oriented, intensely competitive but also highly collaborative. Business and government are then likely to become serving enterprises that raise our quality of life, intelligent workplaces that advance knowledge, organizations that are ecologically benign, quick to adapt, good for the soul, and a civilizing local force in a global economy. **EE**

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