Let's Rewrite the
Constitution
to Deal With
Organizations

continued ▶

by Art Kleiner

Since 2000, the news has been dominated by the isolated symptoms of a common problem facing the United States and elsewhere: the collapse of Enron and the sort of cronyism that led to Sarbanes-Oxley; the debate over campaign finance reform and the rise of "527s" as vehicles for campaign finance; the take-no-prisoners battle, not between "red" and "blue" state residents, but between the Republican and Democratic operatives who pretend to stand in for them; the institutional tensions between all the organizations sharing accountability for the U.S. invasion of Iraq and its aftermath; the peculiar dissociation that people seem to feel around organizations, as if they don't quite know how to understand or describe them.

The problem is that the world is different than it was 200 years ago. There's a species afoot, a form of living enterprise, that didn't exist then. Now it dominates everything in the political and economic sphere. And our governance structures don't know how to deal with it.

The species is called an "organization." It's been called many other names, including "trusts" in the 19th century, "multinational" and "imperialist" in the mid–20th, and "bureaucracy" as well. All of these names represent a misunderstanding of the nature of the creature that stands among us, and because it is misunderstood, governments and investors, managers and employees alike continue to make the same mistakes, again and again.

This little manifesto is a plea for us to stop. It's also a plea for us to begin to develop the kind of governance that will provide checks and balances, not among three branches of

government (legislative, executive, and judicial) but among the three hundred thousand or so influential organizations that, together, shape the future of the Earth. Governance, in short, should be an emergent, open system. There should be, for instance, open-source legislation in all states and in the federal government, where bills in progress are posted on the web and anyone can mark them up. Instead of making campaign contributions less and less legitimate, they should be made more and more legitimate — they should, in effect, be brought into the overground economy.

I began to realize all this while researching and writing a book called *Who Really Matters: The Core Group Theory of Power, Privilege, and Success*, which Doubleday published in 2003. I wrote the book because, watching organizations at work (and the struggles people had within them), I saw that most of the stated rhetoric about their purpose represents a set of lies:

→ **Corporations did not exist to return investment to shareholders. (If they did, they would be better at it.)**

→ **Non-profits do not exist to fulfill the requirements of their membership (except to the extent they need to do so to keep their membership).**

→ **Government agencies do not exist to fulfill the public interest (especially when it in the public interest for them to go out of existence).**

→ **Employees are not any organization's greatest asset (or at least they don't tend to act as if they are).**

→ **The customer does not come first.**

Who, then, does?

It varies, depending on the organization, but in every one of them, there is some Core Group of key people who matter more than anyone else when decisions are made. The Core Group

of any organization won't be named in a formal hierarchy chart, contract, or constitution. It exists in people's hearts and minds. Its power is derived not from authority, but from legitimacy. Its influence is not always conscious, or even visibly apparent, but it is always present in the implementation of actual decisions.

People start organizations in the first place precisely because they want to be in a Core Group.

Core Groups tend to be fluid. Members of the Core Group get in sometimes because of their position, their rank, or their ability to hire and fire others; sometimes because they control a key bottleneck, or belong to a particular subculture or subgroup with influence within the organization. Maybe their personal charisma or integrity gets them in, or maybe they look like the kind of people who belong. (In Dilbert's company, Core Group members tend to have executive-style hair.) In the end, it probably doesn't matter how they got in. What matters most is that they matter.

All organizations have Core Groups, whether they admit it or not. (Even cooperatives and collectives have Core Groups; if you don't believe me, try initiating a move against the perceived interests of the Core Group within one sometime.) That doesn't make organizations inherently bad; indeed, behind every great organization, there is a great Core Group.

Startups need entrepreneurial Core Groups who put themselves at risk for the company's future. (People start organizations in the first place precisely because they want to be in a Core Group, if only to see what it would be like.) Large, well-run companies need a Core Group of senior leaders who can permanently merge their identities with that of the organization. Government agencies and non-profits need Core Groups that can take a visible stand

on behalf of the organization's principles. Organizations take their vitality from the fact that employees have some human referent, a source of direction to follow. Indeed, to be a great organizational leader, one either needs to already be in the Core Group, or to have the kind of presence and integrity that naturally drives people to make decisions on their behalf and thus to confer Core Group status.

That's why the political system of the U.S. is so dispiriting. It's not a political system at all, really; it's driven by the conflicting Core Groups of two embattled organizations.

But Core Groups aren't as great as they need to be, and there are a lot of dysfunctional, weak, divided, bipolar, and counterproductive Core Groups out there. Since everyone else in an organization takes their cues from the Core Group (consciously or not), the havoc wrought by dysfunctional Core Groups is very real. **The damage attributed to capitalism and to statism is actually caused by people who are trying to fulfill the flawed priorities and needs that they perceive for the Core Groups of the organizations they work for.**

Take political parties, for instance. In an election, political parties seem like vehicles for gathering together like-minded people of similar ideological intent to represent their views through the selection of a slate of elected officials. But first and foremost, political parties are autonomous organizations. Their primary function is to provide good jobs for their Core Group members through any means possible.

Hence the importance of lobbying and campaign fundraising. One of the primary jobs of lobbying groups is to provide jobs for out–of–work employees of the losing party. That's why it was so significant when the Republican party began to demand that lobbyists only hire Republicans; it represented an effort to not just defeat, but to decimate the Democrats by de–nying them jobs. That's why some constituencies (like religious groups) are so significant to both parties: they can galvanize voters, but you don't have to get jobs for them afterwards.

If you want to change the world today, you have no choice but to do it through organizations.

And that's why the political system of the U.S. is so dispiriting. It's not a political system at all, really; it's driven by the conflicting Core Groups of two embattled organizations.

By the way, this is typical of most political and economic systems today. The autonomous modern organization (as corporate historian Alfred Chandler has documented, and as or–ganizational philosopher Peter Drucker has articulated) is a relatively recent phenomenon. It requires the kind of communication that is not possible without the telegraph and railroad, and it really only comes into its own with the automobile, telephone, and computer network. Organizations since 1840, whether they are government agencies, corporations, political parties, start–ups, or non–profits, are more like each other than like the organizations of centuries before, precisely because they are autonomous: independent of church, state, and family. They have independent managers who can move from one type of organization to another. They are powerful not just because of this facility for attracting people who fit, but because of the manifold financial and managerial techniques they've developed. They are vehicles for amplifying human activity. And they're immature: they're like giant, immensely powerful, invisible toddlers stomping around the planet. Their moves are based on the ag–

gregate, unconscious but powerful, of the hundreds of thousands of decisions made by people who work within them.

If you want to change the world today, you have no choice but to do it through organizations. And I think people are beginning to recognize this; that's one reason why the population of organizations has been growing at a far faster rate than the population of people. The number of people is leveling off worldwide; the number of organizations is far smaller, but it's doubling every 25 years.

If you want to **change the world** today, you have **no choice** but to do it **through organizations**.

If we really care about the integrity of government, or the integrity of life in general, then new kinds of checks and balances must be created in order to rein in the various organizations through which our lives are governed. Old–style regulation, while often effective in the short term, is hardly effective in the long run; organizations outmaneuver regulations, and the effort to compensate by writing more regulations leads to a kind of complexity that hobbles the regulatory agencies themselves and makes everyone lose sight of the original purpose of the regulations. (It also leads to an immense anti–regulatory backlash.)

The same is true of efforts to constrain and control government agencies. They simply lose their way, as their Core Groups get overwhelmed by directives. As James Q. Wilson has written in his powerful book *Bureaucracy*, the best way to have a better government is to de–regulate the government.

I think the way to start is twofold: personal and political. On the personal side, people can benefit from starting organizations, being more explicit (carefully) with the Core Groups of

which they are members, and being honest with themselves about their role as employees of mutual consent. (I won't go into this in any more detail, because it covered in a great detail in *Who Really Matters*.)

But rich countries also have an underground economy. It, too, is dysfunctionally and tragically powerful. We call it lobbying.

Politically, I think a change of attitude is in the wind. For industrialized countries like the U.S. and Europe, this is probably equivalent to the kind of change that economist Hernando de Soto has suggested for developing countries. In his book *The Mystery of Capital*, de Soto argues that poor countries stay poor not because their people are innately less capable, but because they lack the kinds of property rights that rich countries have. They live in houses that aren't legally registered, so they can't get mortgages; it takes 300 days and a year's pay to get a business license, to they start illegal businesses. This makes them vulnerable. They can borrow only from the underground economy; they can only hire family members (be-cause others would betray them to the police); and they can't move easily, start businesses visibly, get credit, travel easily, or do any of the things that citizens of rich countries take for granted. On a larger scale, says de Soto, these policies deprive undeveloped countries at large of a rich, untapped source of capital — the money stored (in effect) under mattresses by their own citizens. Research conducted by the de Soto organization (the Lima–based Institute for Liberty and Development) estimated that $248 billion was tied up this way — more than all the foreign investment in Egypt since the time of Napoleon.

De Soto, in other words, has identified the true cost of the underground economy in developing nations. Because the underground economy — the loansharks, notarios, bribed officials, gangs, and neighborhood bosses who thrive when the formal structures don't suffice — is in-

Lobbying is not a capitalist tool. It is not a corporate scheme to control government.

visible, it has disproportionate power. It has the strength to hold back the entire overground economy and thrive in its place, in a corrupt, dysfunctional and ultimately tragic way.

But rich countries also have an underground economy. It, too, is dysfunctionally and tragically powerful. We call it lobbying. Lobbying is not a capitalist tool. It is not a corporate scheme to control government. If it were, it would be more effective at controlling government.

I have been trying to find analyses of the cost-effectiveness of lobbying. One expert on government-corporate relations told me that no cost-benefit analysis has ever been done on lobbying. Some companies refuse to employ lobbyists, not out of principle, but because they consider it a waste of money and a form of extortion. I suspect that most companies feel about it the way department store owner John Wanamaker felt about advertising: they know that at least half their government affairs money is wasted, but they don't know which half. And some companies, like Microsoft, get drawn into lobbying because they're targets of a legal attack predicated on the fact that they have pretended to be immune.

Lobbying, in other words, is a system with its own rules and allegiances. It evolved, bit by bit, as a way to manage the relationship between business and government without having to formally recognize the importance of autonomous organizations. Powerful non-profits and

government agencies have also learned to lobby — in other words, to trade their money or other influential commodity for access to lawmakers.

But if we formally recognized the process of lobbying and the need for external entities to have a voice in writing pertinent legislation and regulations, then the process would happen in a much more open, egalitarian, and constructive way.

Open-source legislation would be one way to acknowledge the significance of organizations, because organizations would inevitably be the key participants in the marking-up process.

Imagine if every bill under discussion and every regulation was posted in its entirety on the Internet. Then anyone with an interest could comment and read each other's comments. The committees responsible for making decisions would have, in effect, access to anyone whose interests might be involved. This kind of open-source regulation would, like open-source software, allow for the political community as a whole to learn. Not incidentally, it would also showcase the talents of up-and-coming young legal stars, who could make a name for themselves by volunteering to reconcile the disparate interests who have commented on the bills.

Open-source legislation would be one way to acknowledge the significance of organizations, because organizations would inevitably be the key participants in the marking-up process, just as IBM and Red Hat and other organizations have been significant participants in developing Linux. Except now, as with open-source software, the contributions of organizations would be visible to those who care.

This is one of many ways in which the role of organizations could be legitimized. With legitimacy, their power would be brought into the community, but not expanded. New laws governing labor unions (which are also organizations, with their own Core Groups) might also be a vehicle for this. New forms of legitimacy for political parties would also help to foster such innovations as an open method for drawing electoral precinct maps. Ultimately, people will probably cast votes for the House of Representatives (or its 2104 equivalent) not based on the precinct where they live, but on the organization or community that they choose to have represent them.

The world is significantly different than it was when this country was founded, largely because it is full of organizations. That doesn't mean that we need to revise our system of governance wholesale. But if we continue to operate on a political foundation that doesn't recognize organizations, except in a backhanded way, then organizations will continue to play the role in our society that gangsters play in developing nations.

And in such a world, it will be harder and harder to have great Core Groups emerge.

info
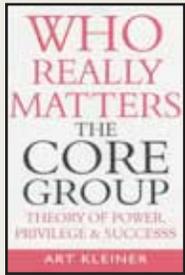
BUY THE BOOK

For more details or to buy a copy of Art Kleiner's latest book, *Who Really Matters, The Core Group Theory of Power, Privilege and Success,* click here.

GO

ABOUT THE AUTHOR

Art Kleiner is Editor–in–Chief of *strategy+business*, the quarterly business magazine sponsored by global consulting firm Booz Allen Hamilton. Kleiner, age 51, is a well–known business jour–nalist and the author of several critically lauded books on business history and organizations. He is also a speaker and consultant specializing in business management, interactive media, corporate environmentalism, scenario planning, and organizational learning.

His latest book, *Who Really Matters: The Core Group Theory of Power, Privilege and Success*, was named one of the best business books of the year by Soundview Executive Book Summaries and HR.com.

This manifesto was written in February 2005. Art Kleiner's personal website is http://www.artkleiner.com.

DOWNLOAD THIS
This manifesto is available from http://changethis.com/15.RewriteTheConstitution

SEND THIS
Click here to pass along a copy of this manifesto to others.
http://changethis.com/15.RewriteTheConstitution/email

SUBSCRIBE
Learn about our latest manifestos as soon as they are available. Sign up for our free newsletter and be notified by email. http://changethis.com/subscribe

info

WHAT YOU CAN DO

You are given the unlimited right to print this manifesto and to distribute it electronically (via email, your website, or any other means). You can print out pages and put them in your favorite coffee shop's windows or your doctor's waiting room. You can transcribe the author's words onto the sidewalk, or you can hand out copies to everyone you meet. You may not alter this manifesto in any way, though, and you may not charge for it.

NAVIGATION & USER TIPS

Move around this manifesto by using your keyboard arrow keys or click on the right arrow (→) for the next page and the left arrow (←). To send this by email, just click on ✉ .

HAVING PROBLEMS SAVING TO DISK?

First, make sure you have the latest version of Acrobat Reader 6 which you can download from http://www.adobe.com/products/acrobat/readstep2.html. If problems persist, it may be due to your Acrobat Reader settings. To correct the problem (for Windows), a reader, J. Hansen, suggests going to your Acrobat Reader Preferences > Options > Web browser Options. Check the "Display PDF in Browser" option. Then click on Save to Disk 🖫 .

KEYBOARD SHORTCUTS	PC	MAC
Zoom in (Larger view)	[CTL] [+]	[⌘] [+]
Zoom out	[CTL] [–]	[⌘] [–]
Full screen/Normal screen view	[CTL] [L]	[⌘] [L]

info

BORN ON DATE

This document was created on 1 July 2005 and is based on the best information available at that time. To check for updates, please visit http://changethis.com/15.RewriteTheConstitution

COPYRIGHT INFO

ABOUT CHANGETHIS

ChangeThis is a vehicle, not a publisher. We make it easy for big ideas to spread. While the authors we work with are responsible for their own work, they don't necessarily agree with everything available in ChangeThis format. But you knew that already.

ChangeThis is supported by the love and tender care of 800-CEO-READ. Visit us at main site www.800ceoread.com or at our daily blog blog.800ceoread.com.

↩ LAST PAGE READ