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CHAPTER 1

MANAGEMENT? WHY REENGINEER MANAGEMENT?

The results are in: Reengineering works—up to a point.
The obstacle is management.
The only way we're going to deliver on the full promise of reengineering is to start reengineering management—by reengineering ourselves.

inside-out
personal
level
is first

Reengineering is in trouble. It's not easy for me to make this admission. I was one of the two people who introduced the concept.

Reengineering the Corporation has sold nearly two million copies worldwide since it was published in 1993, an astonishing success for a business book. But it's *your* bottom line, not ours, that ought to measure the success of any set of management ideas. And by that measure, there's much more reengineering to do.

Reengineering the Corporation was written to improve business performance by showing managers how to revolutionize their key operational processes—product development, for example, or order fulfillment. And it has worked. I have the evidence of my own eyes and ears, from visits to scores of companies that practice reengineering. I have the testimony of more than 150 managers, gathered over 18 months' worth of interviews for this book. I have the evidence, too, of the first thorough study of the effects of the would-be revolution.

That study, "The State of Reengineering Report," was conducted in early 1994 by CSC Index, the strategic management consulting arm of the firm I head. Six hundred and twenty-one companies, representing a sample of 6,000 of the largest corporations in North America and Europe, completed an extensive questionnaire. The sample showed that fully 69 percent of the 497 American companies responding, and 75 percent of the 124 European, were already engaged in one or more reengineering projects, and that half of the remaining companies were thinking about such projects.

In North America, projects tended to be driven by competition and customer pressure, and focused therefore on processes with direct customer contact—e.g., customer service (25 percent), order fulfillment (16 percent), and customer acquisition (11 percent). In Europe, the focus was on cost-cutting initiatives in manufacturing and its service-industry equivalents (23 percent). On both continents there were a smattering of projects across the full range of operational processes: 9 percent on links in the inbound supply chain, 6 percent on corporate information systems, 4 percent on product development, and so on.

Many companies reported big changes and reaped big rewards. An American mining company, for example, saw its revenues increase by 30 percent and its market share by 20 percent, while its costs went down 12 percent and its cycle time 25 percent. A European retail group gained a 50 percent improvement in cycle time and a 15 percent improvement in productivity. After reengineering its inventory-replenishment process, a U.S. clothing manufacturer doubled sales, increased its market

share by 50 percent, and cut its cycle time by 25 percent. A North American chemical company cut its order-delivery time by more than 50 percent and its costs by more than $300 million.

There have been many equally dramatic success stories. On the whole, however, even substantial reengineering payoffs appear to have fallen well short of their potential. *Reengineering the Corporation* set big goals: 70 percent decreases in cycle time and 40 percent decreases in costs; 40 percent increases in customer satisfaction, quality, and revenue; and 25 percent growth in market share. Although the jury is still out on 71 percent of the ongoing North American reengineering efforts in our sample, overall, the study shows, participants failed to attain these benchmarks by as much as 30 percent.

political skillful spin-doctor ¶?

This partial revolution is not the one I intended. If I've learned anything in the last 18 months, it is that the revolution we started has gone, at best, only halfway. I have also learned that half a revolution is not better than none. It may, in fact, be worse.

Read to Jim!

Our earlier book was largely about reengineering *work*—the operational processes performed by salespeople, clerks, factory and warehouse hands, repair people, engineers, technicians, customer-service folks, field representatives—anyone and everyone in the value-adding chain. Now, in this book, I must shift my focus. This book is not about operational processes. It is about managing, written for managers, and (it may be reassuring to note) by a manager. It is about *us*, about changing our managerial work, the way we think about, organize, inspire, deploy, enable, measure, and reward the value-adding operational work. It is about changing management itself.

What this book is about

But who, exactly, is a manager these days? How do we know one when we see one?

In the wholeheartedly reengineered corporation, responsibility and authority are so widely distributed throughout the organization that virtually everyone becomes a manager, if only of his or her own work. Still, there's no ignoring two facts. First, as our study shows, the thoroughly reengineered corporation is as yet a rarity. Second, even a reengineering revolution leaves some people with more general authority and responsibility than it

leaves others. The old pyramid may be flattened out, but the remnants are still discernible in these levels of managerial accountability:

4 types of managers

- Self-managers—people who may not think of themselves as managers because, in the last analysis, they answer only for the quality of their own work. Examples include customer-service representatives, researchers, salespeople, lawyers, and accountants—in short, just about everyone working individually or as a member of a team.
- Process and people managers—those who answer for the work of others, usually individuals, a team, or group of teams working closely with customers or on a specific process. An example would be a manager of a case team, a group of people who have among them all the skills needed to handle a specific process—the installation of a telephone, say, or the sale of an insurance policy, or the development of a new drug. In the reengineered workplace, employees often rotate in and out of this sort of managerial responsibility as the occasion demands.
- Expertise managers—people whose responsibility is the care and development of a company's intelligence (in all senses of the word). Examples are technology managers and managers of human resource development programs.
- Enterprise managers—CEOs, division heads, all those with profit-and-loss responsibility. "Senior management" we used to call them, when business authority was established by years of service.

This book is written for managers on all these levels. It is written out of the conviction, buttressed by solid evidence, that without their help the revolution we began with the 1993 book will remain painfully incomplete. We certainly knew back then that management was critical to reengineering's success. But not until we had some real experience of how these ideas worked in practice did we begin to understand how radically managers themselves would have to change their way of doing things for

reengineering to fulfill its promise. Anything less than a fundamental revolution in actual management *practice*, we discovered, is like a communist regime introducing free enterprise into a controlled economy while trying to hold on to power. It can be done for a while (look at China), but no one supposes that such an arrangement can last. Something's gotta give, and history shows that it's not going to be free enterprise. It has to be management. If management doesn't change, reengineering will be stopped in its tracks, and we can't afford to let that happen.

Look what takes place when work gets reengineered and management doesn't:

MMS- read to gen

- The three vice presidents (for sales, service, and order-fulfillment) at a major computer company were thrilled that reengineered work processes promised to cut product introduction time in half, raise customer retention rates by 20 percent, and slice 30 percent from administrative costs in their areas. They weren't thrilled enough, however, to willingly give up control of their fiefdoms and collaborate. Result: The reengineering effort died a year after its inception.

- A large European aerospace company, acknowledging that it was in trouble, encouraged the launch of multiple reengineering efforts. Redesign teams were authorized and fundamental changes to operations were proposed. Presentations were made to senior management, but no action was taken. Management was unable to move, frozen by the question of the company's future. Everything stopped. Result: demoralized workers. The best prospect for the company: acquisition.

- A large pharmaceutical company saw its customers growing more and more annoyed at having to deal with each of its business units separately. The reengineering solution was to integrate the sales and distribution operations of all the units. The unit heads protested, arguing that they had to retain control of these functions. The CEO and chairman refused to act on the necessary changes, afraid of reform's inevitable disruption. Busi-

ness was good before the current recession, they argued, and would rebound when it was over. Result: For this company, the recession goes on and on.

• Old management practices subverted an insurance company's ambitious reengineering effort to introduce teams to the process of new customer acquisition. The rub came with the news that team members would evaluate each others' performances. Such measures "never work," declared the human resources chief, adding that performances could be evaluated only by an "objective observer"—to wit, a manager. Result: end of teams, end of reengineering.

• And there are other strange phenomena I am observing broadly across many companies that are reengineering: Senior managers are angrily complaining that middle managers are entrenched, blocking the necessary changes; middle managers are bitterly complaining that senior managers have neither the vision nor fortitude to take the enterprise through the changes. As you already know, there may be some truth in both accusations.

"Reengineering" has proved to be an extraordinarily popular concept. The trouble is, popular concepts sometimes look like magic, and the more popular they become, the more powerful the magic seems. Some managers, misled by wishful thinking, believe that merely repeating the key words in *Reengineering the Corporation* is enough to bring the transformation, like the newsboy in the comic strip who yelled "Shazaam!" and became powerful Captain Marvel. Managers have been saying, "Fundamental!" "Dramatic!" "Radical!" "Processes!"—and, lo, that which they proclaim to be so *is* so . . . they hope.

Unfortunately, nothing is that simple. Reengineering prescribes *actions*, not words, and difficult, long-term actions at that, not just one-shot expedients like downsizing or outsourcing. Reengineering involves a voyage that will last years, possibly our entire management lifetime.

Jim

For us managers, nothing seems sure anymore, neither our professional know-how nor our career paths—and certainly not

our job security. For failed CEOs, the consequences are partially mitigated by gold and platinum parachutes, but the parachutes themselves are a measure, by way of compensation, of the exponential increase in the pressures on top corporate officers. Management has joined the ranks of the dangerous professions.

I shall spell all this out in the pages that follow, a practical exploration of the key questions that the actual practice of reengineering (successful and otherwise) has kicked up, all of which must be addressed for reengineering to succeed. There are four broad issues:

• *Issues of purpose*. Insistently, persistently, relentlessly, the new manager must ask, "What for?" What is it that we're in business for? What is this process for? This product? This task? This team? This job? What are we doing here, anyway?

• *Issues of culture*. If successful reengineering requires a change in a company's whole culture, as seems to be the case in many instances, how is it to be accomplished by the same management that did so well in the old culture? If it is true (and it is) that reengineering is unlikely to succeed where the corporate atmosphere is charged with fear (and its twin, mistrust), how do we generate another, better environment—one, say, of willingness and mutual confidence?

Key is how, not what

• *Issues of process and performance*. How do we get the kind of processes we want? How do we get the performances we need from our people? How do we set norms and standards, or measure results—for worker performance, management performance, and the performance of the whole enterprise? Reengineering usually demands radical objectives, leadership, and political skills to realize. But how do we know whether we have the stuff? What does it take to be a good manager today?

• *Issues of people*. Who do we want to work with? How can we find them from both inside and outside the company? How do we get them to want to work with us? How do we know whether they're the kind of people we want?

Although these are hard questions to pose, they are harder to answer—and learning to live the answer is far harder still. As I look at the practice of business management today, I sometimes think of the exchange between Vladimir and Estragon in Beckett's *Waiting for Godot*. The two wretches have been shuffling along in silence, when suddenly Estragon groans, "I can't stand it anymore." To which Vladimir says, "Oh, yes, you can."

Fortunately, things are not as bad as that. For most of us, "Yes, you can" is not yet a curse. It is an opportunity for us to reinvent ourselves.

We must look to ourselves, and to each other, to find the personal resources we need to do our jobs—the courage and trust and smarts. That's where this book, I hope, can be especially useful. I can provide some ideas, even some encouragement. But managers cannot hope to carry out their responsibilities to employees and investors without first facing up to the tensions, problems, and conflicts of corporate leadership today.

This book is for people I know as heroes and heroines. They are the protagonists in the great central drama of our time—the creation of a better workplace and the production of wealth. But never before has this drama been so shot through with peril, conflict, and anxiety. Never before has it been so heightened by raw contingency. And never before have its opportunities—personal and corporate—been so vast, or so potentially rewarding. This book is for those who, in the face of these realities, are keen for the battle and determined to win.

CHAPTER 2

THE ORDEAL OF MANAGEMENT

We must dramatically improve business results, now, and do it while earning the hearts and minds of our people.
To make things still more difficult, "now" has no traditions, no precedents, no time-tested formulas.
Now has never been seen before.

Jem - MMS

Nothing is simple anymore. Nothing is stable. The business environment is changing before our eyes, rapidly, radically, perplexingly.

Now, whatever we do is not enough. Incremental change is what we're used to: the kind we could manage gradually, with careful planning, broad consensus-building, and controlled execution. Now we must not only manage change, we must create change—big change—and fast. If we stop for a leisurely consideration of the issues, the situation will alter in front of our eyes and our careful judgments will not apply.

Everything is in question. The old ways of managing no longer work. The organization charts, the compensation

of what we can ask of them, of ourselves as managers, and of our work.

People like to think that businesses are built of numbers (as in "the bottom line"), or forces (as in "market forces"), or power (as in "the power of the CEO"), or things ("the product"), or even flesh and blood ("our people"). But this is wrong. In the first instance, and most subsequent instances, businesses are made of ideas—ideas expressed as words. And there's not much question what word Ford would have chosen to describe his "great business." He would have called it a *machine*.

This fateful figure of speech has been around for a long time. The Greeks had the notion that the human brain behaved like a catapult. Water mills were a favorite image until the seventeenth century, at which point Isaac Newton's discoveries made people think of clocks. Then the steam engine came along, then the electric generator, then the internal combustion engine, whereupon we had the organization that ran like a "well-oiled" machine. Nowadays, of course, we have the computer, with its software, which many people believe not only models the human brain, but *is* a human brain. Henry Ford, to judge from the vast museum of machinery he founded in Dearborn, Michigan, might have had in mind anything from a toaster to an airplane—although, his own favorite machines, of course, were the assembly line and the Model T.

Alfred P. Sloan, Jr., the business genius who shaped the General Motors we know today, was the other great car man of the early twentieth century. And it's safe to say that he, too, thought of a great business in terms of the machine metaphor. Sloan's ideas, like those of many managers of his generation, were influenced by Frederick S. Taylor, a proper Philadelphian who became a pioneer in the study of work. Taylor taught that there was one optimal way to accomplish every industrial task, and one method of discovering that way. You had only to subject the task to a time-and-motion analysis, breaking it down into discrete actions performed over specified lengths of time. Then you trained your workers to perform according to the norms established by the analysis.

A famous photograph of the 1940s tells where this led. A man who tightened bolts on an assembly line for 20 years has a right arm like Popeye's; the left is normal. The meaning is all too clear. The man has become part of the assembly-line machine.

But if we hold the focus on Popeye we will miss Sloan's most important contribution. Through Sloan, the influence of Taylor's ideas went well beyond the mechanization of human *labor*, to the mechanization of management. Sloan imagined, and in fact realized, a *management machine*, a way to build not just cars, but an entire company. Although Sloan wanted GM to be "decentralized," as he says in his autobiography, he also wanted to run it on "a principle of coordination"—the principle, it turned out, of central command-and-control. His words betray him. He believed that he had created something new, the "objective organization," as distinct from one that was dependent on the "subjectivity of personalities." But there is only one thing in the world that is both productive and nonsubjective. It isn't a human being, or even an organization of human beings. It is a machine.

Don't dismiss this notion too fast. It had, and continues to have, tremendous appeal to all of us. Why? Because it is an *ideal*, a vision of perfected human activity. Human beings are just fine; we wouldn't be anything else. But we are undependable: We get distracted, tired, angry, lusty, and ornery. We get depressed, we're drawn this way and that, grumbling about doing what's good for us. We scheme and battle. Organizational machines, or so the metaphor wants us to believe, do not suffer from any of these disabilities. Organizational machines normally rely on humans only at the most elementary level of their being, for raw energy that courses through the mechanism once it's been built and started, like steam, diesel fuel, or electricity through a great ship. These machines are basically organization charts brought to life in work slots and duty stations, all held together by "chains" of command and "lines" of authority. The more refined human qualities—imagination, say, or judgment, decisiveness, or adaptability—have their time and place in these structures. But the time is at the beginning of the enterprise, when the ship must be designed and constructed. And the place is at the top—on the bridge. Thereafter, with careful command

and control, sound navigation and maintenance, the ship should operate with perfect reliability and rationality (no "subjectivity," no "politics"). Sloan didn't depend on "car men" to obey his orders at the levers and buttons of GM. Instead, he chose "money men," manipulators and guardians of the one true universal, all-purpose instrument in the human tool kit—capital.

There's an additional appeal to the machine metaphor. It graphically rationalizes the major concerns of an earlier era's top (and wanna-be top) managers—concerns for efficiency, professionalism, power, and prestige. In short, the metaphor lies close to the heart of a managerial ideology. This is not to put it down. Like all ideologies, this one could never have survived without a heady mixture of reason and idealism. Nor could it have survived unless it met the needs and wants of the society that gave it birth. And this one did—as a model, the corporate "machine" was triumphant for 25 years.

THE ERA OF SMOOTH SAILING

If it was ever plausible to speak of an "American Century," in Henry Luce's proud phrase, it was during the quarter century after the defeat of Germany and Japan. No news from Saturn disturbed those years, just success after success. For those two-and-a-half decades, the Era of Smooth Sailing, as I think of it, the laurels belonged to America's top business managers, the captains of our ships of productivity.

The last time we managers had looked so good was at the very beginning of the so-called Managerial Revolution. That was back around 1917, when the children and grandchildren of the great industry-builders of the nineteenth century handed over command of the businesses and capital they had inherited to a new breed of professional managers, like Sloan. But then came the Great Depression and the somewhat unfair humiliation of the professional managers' hero-president, Herbert Hoover. Management then lost a notch or two in the status stakes.

Our prestige began to revive during World War II, but our glory years were unquestionably bounded by those two forgettable dates—1948 to 1973. Never in history had a whole people flourished as we Americans did in those years—in education, affluence, and quality of life. From boardroom to executive suite, from salesroom to factory floor, from suburban split-level to exurban estate, it was morning in America, the dawn of a glorious day when everything seemed possible.

What had occurred in America was an astonishing democratization, not just of opportunity, but of a *sense* of opportunity. All Americans, with the shameful exception of some minority groups, now believed that they inherited a full deck of life's chances merely by being born American. *Everyone*, not just owners and managers, now believed in a great new secular faith of growth. And growth was not just economic, but personal, cultural, and spiritual as well.

At the same time, many Americans, business executives foremost among them, began to see the world in a new way—as an extension of America's internal market. American corporations and financial services, and the American dollar, dominated world trade as no country or currency had since Britain and the pound in the nineteenth century. J. J. Servan-Schreiber's famous book *The American Challenge*, published in 1967, went so far as to predict that European nations would become industrial satellites of the United States.

All this was a stupendous achievement for our society. Growth seemed to fulfill the promise of America; it looked effortless and endless. And much of the credit for shaping the workplace and creating the wealth that made it possible went to us business managers. On the basis of the growth rate established in the Smooth Sailing years, for example, the average American family could look backward to a doubling of family income in one generation; and it could look forward to at least the same in each future generation.

POWER SHIFT: THE CAPTAINS' NEW CAPTAINS

Today, of course, we know that that growth was finite. Today, as current rates of productivity increase, the average American

family can expect its descendants to double the current family income in about four centuries, or 16 generations. As a result, there's a new mood of loss and betrayal in our country these days, summed up by a bitter new article of faith: *For the first time in our history a generation of Americans is going to have a lower standard of living than its parents.*

For managers, this blow to the American Dream simply adds historical urgency to our age-old challenge—to go on shaping the workplaces and creating the wealth to improve the quality of human life and work. If we can claim much of the responsibility for the economic triumphs of 1948 to 1973, a period that began with its own difficulties, then we can't very well duck responsibility for taking on the grave problems we face at the beginning of the current era.

But what are those problems? Where do they come from? What on earth happened in 1973?

Well, it was around 1973 that oil prices shot up, Watergate hit the headlines, and Vietnam was finally perceived to be a lost cause. The idealism of the 1960s was going flat, and the conservatism of the 1950s was going sour. Meanwhile, all the indices of growth were going down, while inflation was going up, up, up. For us managers, specifically, the new era amounted to a change of climate: No more smooth sailing, only year after year of rough weather.

The root causes of this change remain controversial, but most fingers point to a fundamental power shift affecting virtually every business anywhere. The professional managers, like Alfred Sloan, who took command of the corporate economy around World War I, were losing control of their "machines." Power for some years now had been flowing outward toward customers and investors, the "elements," the winds and the waves, in which businesses must make their way. Three forces caused the power shift. First, the achievements of the Smooth Sailing years put money in people's pockets and investment accounts—especially American pockets and accounts—as never before in history. This great attraction encouraged companies and governments all over the world to organize themselves to produce goods and services for sale in America, then in Europe,

then wherever there was money to buy them. The second force was postwar America's magnificently self-confident openness to free trade, and its insistence on imposing free-trade policies on the world. Third was the so-called Digital Revolution in communications technology, which enabled capital and information (information about the ROI of capital, for one thing; information about the relative values of products and services, for another) to fly around the globe at the speed of light.

And so were born the "global economy" and "global competition," the phrases we use to describe what is essentially a fully liberated and empowered market of moneyed customers, with an entourage of rival businesses struggling for their favor, and colossal pools of capital betting on hopeful winners of the struggle.

From the manager's point of view, whether customers or investors ended up with more power is a good question. Growing wealth and declining restraints ("protection") on trade endow both of them with a fantastical new range of choices (and opportunities to change their choices) among products and investments. Still, as far as managers are concerned, the most powerful of the new bosses are undoubtedly the customers. For if managers can win them, they won't have much trouble winning investors.

This is not altogether good news. Winning customers has never been harder. Today's customers, as *Fortune* put it, are "the sharpest, most-educated customers [that] marketers have ever faced." In today's marketplaces, it's no longer a question of *caveat emptor*, but of *caveat factor*. Customers today are characterized by their relentless demands in quality, service, and price; by their willingness to act on a default of contract; by their disloyalty. All this puts them as far away from the gentle, grateful, loyal customers of the 1950s and 1960s as a pirate crew is from a platoon of crew-cut Marines.

Look at the range of choices customers are being offered today. Sony turns out four new products a day, and a new Walkman model every three weeks. In 1991, 64 new varieties of spaghetti sauce appeared on the market. In 1992 alone Heinz introduced more than 500 new products worldwide. Rubbermaid turns out an average of one new product a day. The first

laundry detergent, Tide, was introduced by Procter & Gamble in 1946. For 38 years, it ruled its market alone. Then, feeling the heat of a fickle public, P&G felt the need to add Unscented Tide and Liquid Tide (1984), Tide with bleach (1988), concentrated Ultra Tide (1990), and Tide with bleach alternative (1992). And so it goes virtually everywhere, from big-ticket items like computers to everyday items like laundry soap.

In fact, the new power and freedom of the customer has destroyed all the fond managerial assumptions of the Smooth Sailing years. No more unearned, inherited brand loyalties ("Our family always buys Fords"); no more cordial complicity among rivals in the same markets; no more confident pass-alongs of rising wages and benefits in the form of higher prices; no more easy reliance on high entry costs to keep out upstart competitors; and no more indulgent protection by national governments.

The last is a key point. There's hardly a government left in the world, whether communist, socialist, or free-market conservative, that isn't openly or wishfully committed to a policy of "tough love" toward its business sector. The "love" is for business as benefactor: Governments now realize that business, and only business, can provide the jobs that provide the paychecks that provide government with the two things it needs to keep going—the tax money that pays for services, and a sense of prosperity that translates as votes. The "toughness" is for business as beseecher: Governments, with a few exceptions, now realize that protecting business enterprises creates bloated companies unable to compete in global markets. In local markets it is like taking money (in higher prices and reduced choices) from consumers—a.k.a. voters. At the end of the day, governmental tough love speaks to the problems of business managers with a remarkably coherent message, "Sure, things are rough out there. We can't help that. In fact, for the consumers' sake, fight it out. But there's also lots of money to be made. Get your share. You're on your own. May the best man or woman win!"

Actually, governments know that the best man and woman—the consumer-voter—has already won. And this means managers will never be able to relax again. Neither government nor the customer will let them.

THE WRECK OF THE MACHINE

Whatever name we give to this new regime—*a dictatorship of the customariat* or (as I prefer to see it) *a market democracy*—it's causing a total revolution within the traditional, machine-like corporation. The corporate ship is becoming a vessel the likes of which no one has ever seen before.

Be prepared to abandon everything, says Peter Drucker, lest we have to abandon the ship. But to many managers it seems that the first thing to be thrown overboard is ourselves. Everyone knows the figures. The human jetsam of the last five years adds up to 1.4 million executives, managers, and administrative professionals, as against 782,000 from 1981 to 1986. The figure (which counts neither the vast numbers of more-or-less obligatory early retirements, nor the "opportunity losses" of hundreds of thousands of jobs struck off the nation's organization charts) amounts to 23,000 managerial jobs a month, 133 every working hour. That number may not come as a surprise. If you haven't experienced management attrition in your own company yet, you have certainly read about it daily on the business pages of your newspaper. The first wave of managerial exodus came purely from the need to reduce costs in order for companies to remain competitive—for some, to remain in business. The second wave came with a challenge that some managers didn't add any business value. It's almost become the fashion to close "headquarters," a sign of the "lean and mean" image to which some companies aspire. The third wave came with a little more forethought, a recognition that many managers—especially middle managers—principally gathered and moved information through a bureaucracy and that information technology had finally obviated their need. And then came reengineering, with managerial accountability being pushed down and out as work becomes more self-managed, and the need for many of the managers in our organizations being challenged.

Now all of these actions were arguably options that senior management chose to exercise—sometimes with little other choice. Still, managers up to now may have felt in control. But no one will be insulated from the next wave: the collapse of the old corporate machine. The ferocious, unrelenting competition for the customer's approval has been straining every work process in almost every company in the world, from product development to customer service. *Reengineering the Corporation* was a highly successful book because it came on the market at just the right time—to meet an urgent, not to say frantic, need to reinvent these processes.

But now, as we saw all too clearly in Chapter 1, the equally urgent need is to reinvent the processes of management, to bend them to the new realities of the demands of the marketplace. As Shirley Richard, a "reengineer" at Arizona Public Service, told us in an interview, the greatest drawback of the old "machine" metaphor was that it fostered a culture of bureaucracy—that is, a moral environment that focuses on "activity, not results." Thus, as customers make tougher and tougher demands on a company's services and products, those rational "machines" have been groaning and popping in protest at the pressure.

And it's specifically the "chains" of command, the "lines" of authority, the very stuff that held Sloan's automaton together, that are groaning and popping the loudest. For what's happening is an *internal power shift* to match the external one from management out to the free markets. Customers, flexing their new muscle, are growing ever more exacting, even (or so it seems to the old captains) uppity. And how do they express their power? *They're always asking to speak to the person in charge!*

But who *is* in charge? As reengineers see it, this question is the beginning of wisdom. The customer doesn't really want to speak to the traditional "person in charge." Such a person, if he or she exists, is just a name in a box on the organizational chart, and what the customer wants, the name-in-a-box probably can't give him. The customer wants help, service, a product, or a solution to a problem. He doesn't want someone whose only possible role in the affair might be to tell someone else to give him what he wants. So, say the reengineers, let's redesign our processes so that customers can talk with someone who can do something that will actually help them—that should be the real person in charge.

And with that neat, logical, and altogether drastic redesign,

the whole of Mr. Sloan's wonderfully rational machine falls apart. For to say that the person in charge is the person who can help the customer (and vice versa) is to make entire layers and branches of the old organization chart "redundant," as our British friends say. All those boxes are suddenly revealed to be meaningless, and their inhabitants irrelevant. Why? Because their meaning and power, such as they were, were always *internal*; that is, wholly concerned with the functioning of the machine itself. The great corporate vessels of the Sloan sort were really cruise ships: huge facilities for the enjoyment of passengers, yes; majestic powers of command and control for their top officers, yes; but for all the other officers on board, not much more than a floating system of rewards, promotions, and privileges—in a phrase, a self-serving bureaucracy.

In the new climate, with competitive ships constantly looming up over the horizon, with top officers preoccupied by constant problems of navigation and lousy weather, with passengers constantly ready to revolt and jump ship, and with the crew totally absorbed in trying to make the passengers happy, the junior officers may even ask themselves, "What the heck are we doing here?"

It's a good question (and one for which I'll give answers later in this book). But the point I want to make here concerns the question with which I began this chapter: What is the "everything" that Peter Drucker says we must be prepared to abandon?

It is not the ship, we may hope. Nor is it jobs. Jobs are being lost, and will continue to be lost for some time. Reengineering will teach us to do far more with much less. But eventually reengineering should bring about such a tight fit between market opportunities and corporate abilities that jobs will be created. For some period, downsizing and outsourcing will be byproducts of reengineering, no doubt about it, but they are not by any means the thing itself, nor one of its purposes.

No, in the last analysis, what must be abandoned by the new management of our corporate ships—that is, both officers *and* crew—is a whole ideology, a whole way of thinking about power. Power no longer belongs in boxes, in titles, in ranks. In the new heavy weather, those are nothing more than heady abstractions, eloquent vacancies, and they count for nothing. What counts—for power, authority, responsibility—is what you can do, you yourself, you with your own skills and personal qualities.

At the deepest level, then, the ordeal of management is revealing something about a great change not only in business organizations, but in the larger society. The democracy of customers, voting with their money, is summoning a meritocracy of people and producers, responding with everything they've got.

schemes, the hierarchies, the vertical organization, the whole tool kit of command-and-control management techniques no longer work.

Everyone must change. The change will go deeper than technique. It touches not merely what managers do, but who they are. Not just their sense of the task, but their sense of themselves. Not just what they know, but how they think. Not just their way of seeing the world, but their way of living in the world.

This book's refrain

These refrains will keep coming at you in this book. *Nothing is simple. Whatever you do is not enough. Everything is in question. Everyone must change.*

Consider the news from Saturn—the General Motors division, not the planet. On August 2, 1991, at the end of Saturn's first year of production, Alan G. Perriton, Saturn's director of materials management, gave a speech in the heart of Old Motor City: Traverse City, Michigan. You could practically hear the trumpets sounding—for Saturn, for GM, for America!

> Surveys show that, in new car sales per outlet, Saturn is matching or exceeding Honda, and clearly exceeding Toyota. . . .
>
> Ninety-eight percent [of our customers] would enthusiastically recommend their Saturn car to a friend, neighbor or relative. And they're equally excited by the purchase experience. . . .
>
> J. D. Power's initial quality survey sends Saturn home with the gold medal.
>
> I'm here to tell you that Saturn has scored a word-of-mouth home run.

Saturn yesterday today

Now it is two and a half years later, and Saturn still makes a top-quality car; still has a cult following in a highly desirable demographic (college-educated baby boomers); still has the avant-garde, just-in-time production system and the no-hassle, courteous sales-and-service system that were the envy of managers in all the other GM divisions; still has the union deal that allows those systems—*and still* is making a very marginal profit.

"Saturn, GM's Big Hope, Is Taking Its First Lumps," said the *New York Times* in its March 1994 front-page story. Inside the paper, we learn what the stock analysts are saying, what the union guys are saying, and rumors of what GM's new leadership is saying. What they're saying is not good. Saturn may have changed the way cars are made, sold, and serviced, all for the better, but the "better" has not yet been good enough. The bottom line is still barely black and recalls have tarnished the car's quality image.

And do you want to know the worst of it? The *Times* didn't mention the fact, but Saturn started with the same inestimable advantage that the Germans and the Japanese had after World War II. It started with a clean slate—and even that wasn't enough. not didn't

How far a company must go to succeed shouldn't come as a surprise. In 1993, Michael Hammer and I wrote in *Reengineering the Corporation*, "A set of principles laid down more than two centuries ago has shaped . . . American businesses throughout [this century]. . . . The time has come to retire those principles and adopt a new set. The alternative is for corporate America to close its doors and go out of business. The choice is that . . . stark."

Peter Drucker has put it just as bluntly: "Every organization has to prepare for the abandonment of everything it does."

But what is this "everything" that we must abandon? And why must we abandon it? To answer that question, we must look for a moment at how our "modern day" managerial thinking was shaped.

THE METAPHOR OF THE CORPORATE MACHINE

"A great business," said Henry Ford, who knew one when he saw one, "is really too big to be human." The pronouncement, which many people would agree with, begs an interesting question: If a great business can't be human, what can it be? Some image, or metaphor, is called for. Our whole *sense* of a business depends on it, as does our image of the people who work there,