

Organization Life Cycles:

The Creation and Destruction of Wealth¹

The history of countries, civilizations and corporations is the history of the pursuit and destruction of wealth. If wealth were “naturally” sustainable, there would have been no decline of Rome or Greece, or the Aztecs or Mayans, all once great civilization with all the wealth of their time. But they were not sustainable. They all ended in chaos and defeat. If the wealth of corporations did not contain the virus that would cause their death, there would have been no death of Enron, Lehman, Bear Sterns, and hundreds of others we forget. But the virus is there, and leaders are blind to their own disease, blinded by the illusion of financial might. It is a fragile illusion.

Mark Twain said “History doesn’t repeat itself – but it does rhyme.” That is probably an accurate assessment of the value of history. There are broad patterns that seem to follow some natural evolution as there are natural patterns in the birth and growth of infants, animals and even plants. There can be no exact roadmap drawn from history, but there can be wisdom derived from the patterns. The culture at the birth of a company or civilization is of one kind, and that is entirely different than the culture at maturity or in decline. The behavior of leaders, their relationships, skills and intentions are different at each age. And wealth varies by stage. Obviously at birth a company is not rich in financial assets. But it may be rich in innovation or in the spiritual quality of dedication to a worthy purpose. In maturity a company becomes increasingly focused on the refinement of process and builds its social capital both in brand equity and internal relations. Material resources are growing, and with that growth the motivations are likely to shift from the single cause the excited the early followers to a more narrow self-interest. And as financial assets increase and managers are increasingly drawn from those who know more about finance and mechanisms of financial control, the innovative spirit declines, and social relations fragment. Companies toward their end, like civilizations, decline in a process of social disintegration, the loss of trust and innovation. The loss of money is only the last sign of decay.

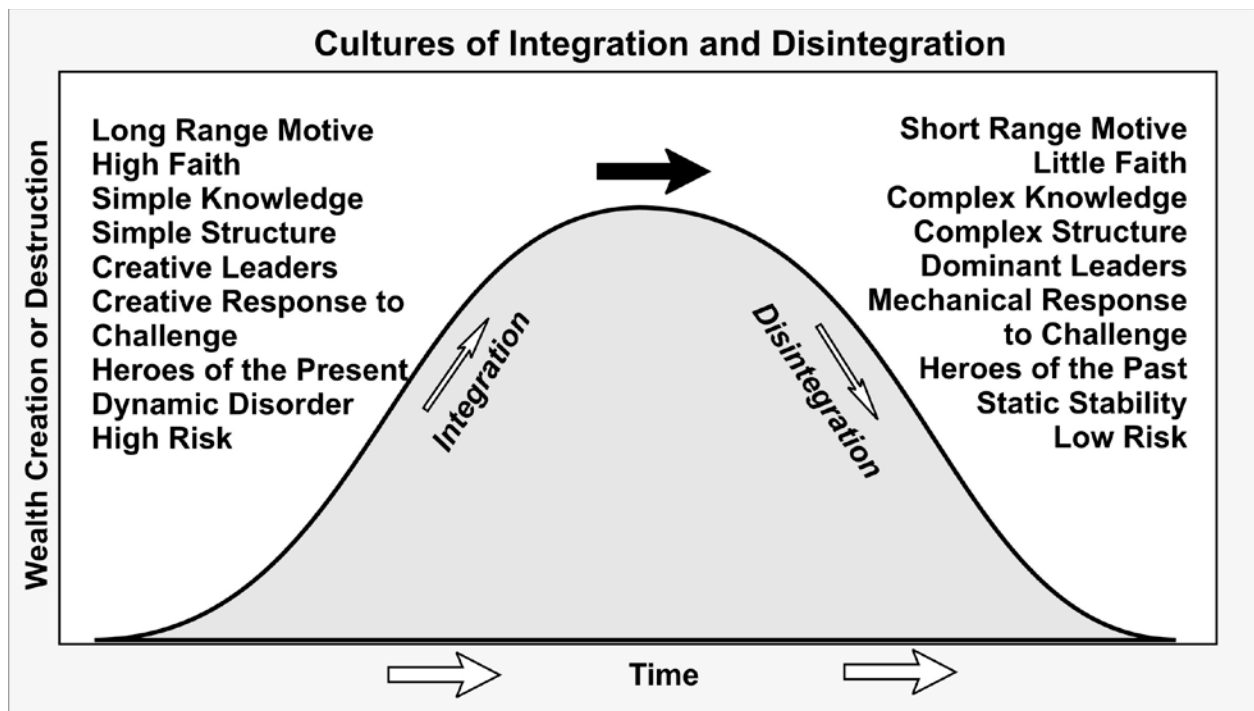
Oswald Spengler in *The Decline of the West* recognized the cycle of spiritual awakening at birth and the hardening of the arteries, what we call “bureaucracy” in the emergence and decline of cultures. You can exchange the word “culture” or “civilization” with the word “corporation” in almost every instance and see the parallel.

“A culture is born in the moment when a great soul awakens out of the proto-spirituality of ever-childish humanity... But its living existence, that sequence of great epochs which define and display the stages of fulfillment, in an inner passionate struggle to maintain the Idea against the powers of Chaos without and the unconscious muttering deep-down within... The aim once attained – the idea, the entire content of inner

¹ This paper is adapted from *Barbarians to Bureaucrats: Corporate Life Cycle Strategies and Sustainable Wealth*, both by Lawrence M. Miller.

possibilities, fulfilled and made externally actual – the Culture suddenly hardens, it mortifies, its blood congeals, its force breaks down, and it becomes civilization.”²

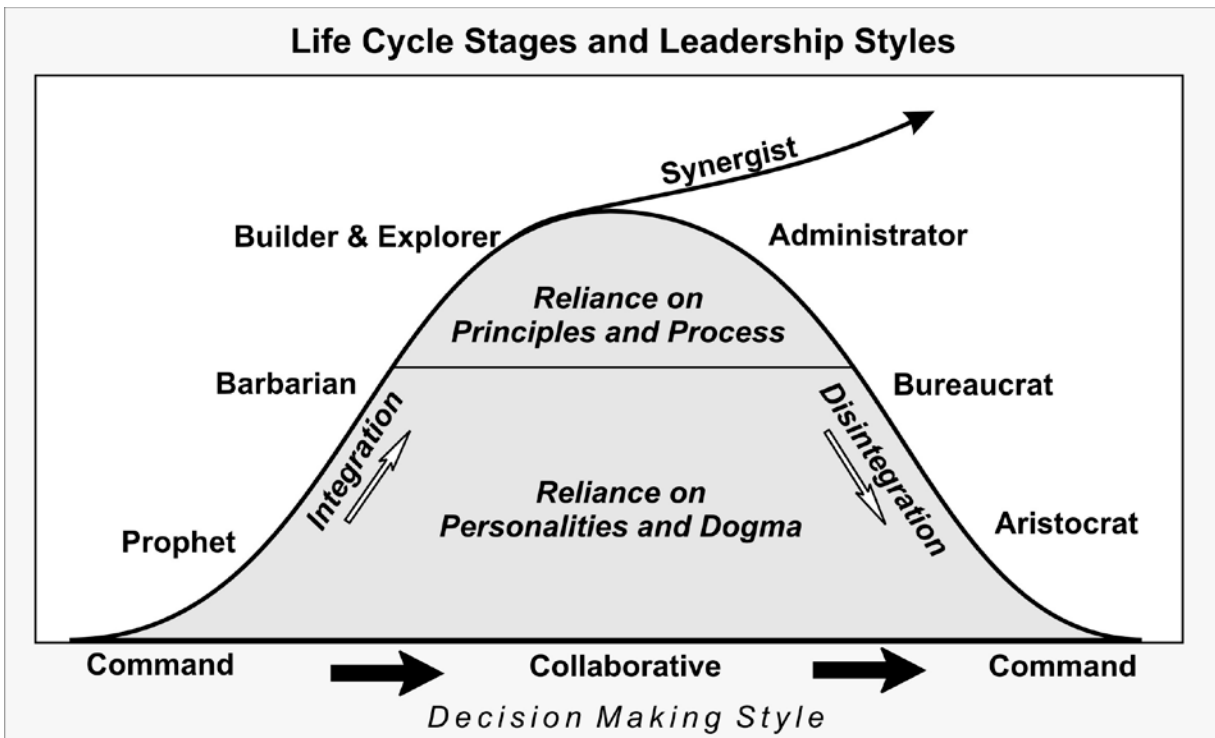
Arnold Toynbee long ago recognized that “We have ascertained that civilizations come to birth in environments that are unusually difficult and not unusually easy. The greater is the challenge, the greater the stimulus to growth.” He described the role of leaders in the emergence of civilization as those who recognize the challenges presented by their environment and then muster the creative response to that very challenge. This creative response to challenge is the mechanism of growth, both in civilization and corporations. A “condition of ease” leads, not to growth, but rather to decline. Every innovation is a response to some challenge, either externally or within. The successful response leads to the new challenges of growth, size, specialization, and then organization. With growth, size, complexity and wealth come leisure time, the pursuit of leisure rather than challenge, increasing materialism, and hubris of leaders. Lacking the recognition of challenge, leaders lose their creativity and increasingly rely on yesterday’s successful response in the presence of new challenges. It is this condition of ease and failure of creativity that is the cause of decline. Too often, organizations follow a similar path.



In the life cycle of civilizations and companies there is a twin-fold process of integration and disintegration. Civilizations or companies, when growing, expand their borders and are integrating different people, ideas, competencies, and cultures. When they cease the process of integration and expansion, they start defending their borders and building walls to keep out the energetic barbarians, and the process of internal disintegration begins. As the focus shifts from offense to defense, the focus of energy is increasingly internal rather than external. The spirit of unity of purpose increasingly becomes the spirit of self interest and internal division. Soon the body of the

² Spengler, Oswald. *The Decline of the West*, Volume 1 (New York, Alfred A. Knopf, 1926), p. 106.

culture is engaged in internal warfare and self-mutilation, and the enemy does not so much conquer as to march in to fill the void created by the impotence of the old culture. Toynbee concluded that the decline of every civilization was not at the hands of an external enemy but rather an act of suicide, the loss of will, and the disintegration of the culture. Whether or not you accept Toynbee's analysis of the rise and fall of civilizations, there are clearly lessons for leaders of companies and countries. You can see these in the emerging periods of the Prophet, Barbarian and Builder and Explorer. You can also see the decay and decline beginning the dominance of the Administrator, the Barbarian and the Aristocrat. You can only hope to see an age of the Synergist, when the best qualities are held in balance.



The Prophetic Age: Inspiration and Innovation

“Reasonable men adapt themselves to their environment; unreasonable men try to adapt their environment to themselves. Thus all progress is the result of the efforts of unreasonable men.” George Bernard Shaw

In the beginning is the word, the creative act, the spirit of renewal. Creative personalities, including religious prophets, seem to follow a pattern of withdrawal-and-return. They disappear into the mountains or desert. They remove themselves from the distractions of the current order and seek some vision of a better future. Their power to inspire others is only seen on their return when they are intentionally disruptive. A revolution begins and their followers can hardly be called an organization, more a group of disciples. It is disruption, not order. It is the nature of creative personalities. The vision of these prophets is like a rocket blast, a surge of energy that disturbs the

old and propels movement toward something new. Often these prophets are incapable of doing their work within the framework of the old order, but must be exiled to a new land. As new wine must be put in new bottles, so too, may the new wine of innovation require the new bottle of new organization, (*Mar 2:22 And no man putteth new wine into old bottles: else the new wine doth burst the bottles, and the wine is spilled, and the bottles will be marred: but new wine must be put into new bottles.*)

Most companies appear to be formed by the impetus of a creative personality, the *prophet*, who issues forth the creative response to challenge. The creative personality is almost never a great manager or administrator. The founders of Apple Computer or General Electric were visionaries who were devoted to their technologies, to their research, and to the creation of new products. In the “latter days” the prophets will be crucified or exiled by the bureaucrats and aristocrats who will seek to maintain order. The prophets are inherently disorderly. Disturbing the established order is the business of prophets.

One must wonder whether or not Thomas Edison could find a home in the corporations that grew from his creativity. Could he survive the current General Electric Corporation?

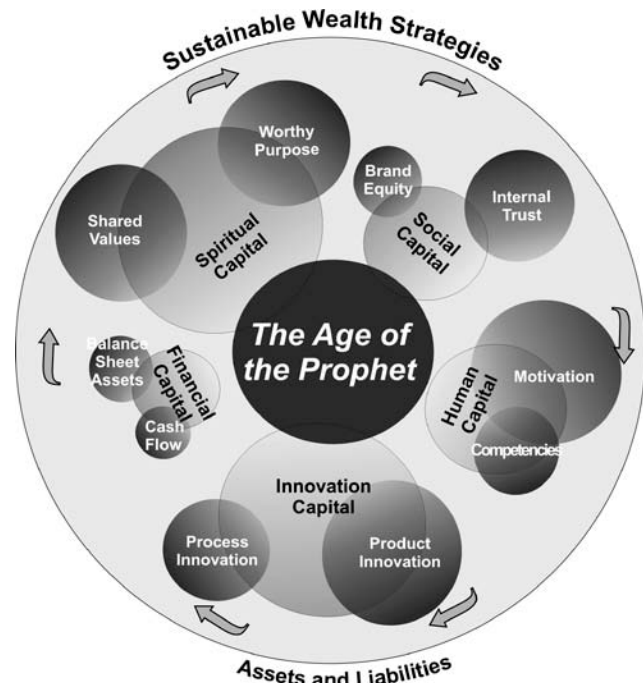
They used to say that you could find Edison in his laboratory by following the trail of tobacco juice that he squirted onto the floor. When his wife asked him why he refused to use a spittoon, he answered that a spittoon was hard to hit, but the floor was difficult to miss. Not only did he have bad habits, but he was an all around bad manager and poor communicator. The modern GE would likely have little to do with Thomas Edison.

When it comes to inventors, Edison is not unique. He lived in the world of ideas, ideas that he brought to tangible fruition and practical application, but only with the help of more practical personalities. “My business is thinking,” Edison proclaimed. “The man who doesn’t make up his mind to cultivate the habit of thinking misses the greatest pleasures in life.”

What are the assets and liabilities of an organization in its earliest stage? Of course, it will vary depending upon how the organization was created and by whom. However, it is most likely that the organization will be high in the spiritual capital of a dedication to a worthy purpose and common values. It will likely have high internal sociability but little or no brand equity. It may have high innovation capital in the area of either technology or process. It is most likely that the young company is lacking in human and financial resources.

These assets and liabilities define the strengths and weaknesses of the new company. The smaller circles are those that present risks to the organization and must be developed. But they must not become the focus of the leader’s energy to the detriment of the strengths. It often happens that the Prophet is the technology leader. He knows nothing about brand equity or financial management. If he devotes himself to these areas, he may weaken the very reason the organization was born. For this reason the key challenge of the Prophet is to develop internal partnerships, reliance on those who balance his or her qualities.

This diagram presents relative strengths and weaknesses, not absolute strengths and weaknesses. In other words, it may be that a large company has terrific research and development and is innovating in both technology and process. But because it has also developed strong brand equity, financial and human resources, that innovation capital will appear to be more in balance with the other forms of capital. An organization is at risk when it is out of balance. The age of the Prophet is a high risk stage precisely because the new organization has not developed a balanced wealth profile. It may have terrific technology innovation with financial value, but it may be out of business and bankrupt the next day due to the absence of cash flow. Or it may have no human competence in the area of marketing and therefore fail to develop brand equity. It is not unusual for motivation to exceed competence in the early stages and the reverse may be true in the later stages of the life of a company.



Wealth strategy is founded on the recognition of current assets and liabilities. It creates a practical plan to build balance in the organization. If an organization's wealth profile looked like the one above, it would be logical to focus strategic planning on each of the smaller circles while at the same time assuring that the leaders nurture and maintain their asset base.

The wealth profile, as can be seen in this illustration, is severely out of balance at this early stage. The degree of imbalance equals the degree of risk to the organization. The struggle for a "good life" is the struggle to achieve balance. An individual who focuses all his energy on social relationships at the expense of developing competencies will suffer. He who focuses all energies on material pursuits in disregard to spiritual values and a worthy purpose will soon find himself in an unhappy state. Organizations and civilizations have proven to be no different. Every civilization has begun its rapid descent into chaos when it was at the peak of its material achievement. The leading indicators of innovation, spiritual and social capital had already declined and were being neglected. The work of the organization is to bring itself into balance to achieve sustainability.

In the age of the Prophet the wealth that is created, and upon which the organization depends, is innovation capital in the form of a new technology or innovative process that serves customers in a superior manner. Organizations are most likely born with the dedication to some larger purpose, and the Prophet leader is likely to articulate a strong set of values that will be adopted by the members of the organization. The deficits are most likely few financial resources or human resources. While there may be strong internal sociability, trust and teamwork, there is likely little social capital in the market place. That will come later.

As we know, a majority of organizations die a natural and early death. Like the seed blown by the wind, their potential is never realized because they have not found the balance of resources (financial and human) that will nourish their development.

You may be a Prophet if...

- Your ideas are long range and visionary.
- You are willing to make great sacrifices in time and energy to see your ideas realized.
- You tend to withdraw for long periods to work through your ideas.
- You see challenges others don't see.
- Others see you as a bit "different," (You were not most popular in high school!)
- You're probably not very well organized, and you are impatient with details and administration.

Your organization may be in the Prophet stage if...

- Your leader is a visionary and creative person on whose ideas the company was founded.
- Your organization is at risk because it has not yet proved its product's viability in the marketplace.
- There is more chaos than organization, with things changing daily, reporting relationships unclear, and processes undefined.
- There is an excitement and deep belief in what you are trying to accomplish.

The Barbarian Age: Crisis and Conquest

"To be a successful soldier, you must know history... What you must know is how man reacts. Weapons change, but man, who uses them, changes not at all. To win battles, you do not beat weapons – you beat the soul of the enemy man." George S. Patton IV

The prophet founders of companies are soon followed by, or become themselves, *barbarians*, the commanding generals whose strength of will focuses energy in crisis. The idea and inspiration is not enough. Decisive action is now required to build a company. Every new company is in a crisis, a fight for survival. When business is in a fight for survival it has more in common with war than many managers realize. The ability to move quickly, with discipline and unity of energy and effort, is the key to victory.

The early time of a company's growth is inevitably a time of crisis, and what is needed most are leaders capable of acting in crisis, more so than those able to gain broad consensus. While barbarians lead the conquering march, their talents will soon be out of date. They are good when their focus does not require the coordination of complexities or working through the subtleties of political decision-making or power. It is why General Patton was great in combat and a huge bother off the field of combat. Ray Kroc, the founder of McDonald's, did not create the innovation upon which the company was built. But he did take that innovation and lead it on a conquering march. He was entirely focused on "quick, clean and courteous", the three simple qualities on which the company was built. He would visit stores and immediately visit the bathroom. As chairman of a company with thousands of restaurants, he would immediately barge through the door to the cleaning supplies and would scrub down the toilets and mop the floor. Insane? Perhaps -- but he did it. He built the company with this fierce focus that a General Grant would well understand. The

barbarians are always very close to the real work of the organization and are able to understand in simple terms what matters most. This will later be lost.

The Barbarian will make two appearances in the life cycle of a company – immediately after the birth of the business and again during times of renewal, when the excess of the baggage of bureaucracy must be shaken loose and swept away. His forte is discipline and rapid action.

While the Prophet is the first leader/visionary, the Barbarian is the first leader/manager. He brings others into the organization; he assigns roles and responsibilities; he directs action toward goals; he rewards and corrects. His manner is not one we associate with contemporary management. This Barbarian is a command decision maker, unlikely to consult others or form consensus. This is Genghis Khan, Attila the Hun, and Alexander the Great. They literally rode at the front of their cavalry in battle and suffered wounds with their men. They had an intimate relationship with the first level of their army, those who determined the fate of the battle. Alexander loved his army and, as is always the case, loved returned in an organization is called loyalty. Alexander's army was as devoted to him as he was to them. This is the magic chemistry of the heroic leader, and when the office towers are built and the leaders retreat to the top floor to remove themselves from the mess of the battle, they will not understand what happened to loyalty. They will fail to recognize that it is they, themselves, who lost the love for those who do the work and the reaction of those on the front line is only response to their stimulus.

Heroic leadership, because it has so much to do with emotion rather than analytic decision making, has much to do with symbols. The heroic leader understands, whether through intelligence or intuition that the external impression presented to his followers is as important as any decision he makes. He knows both his followers and adversaries will study his every move, and those moves will be theatrically orchestrated for their effect. And if he has any doubts about the battle plan, they will never show. Historian John Keegan said it well:

“Heroic leadership is like priesthood, statesmanship, even genius, a matter of externals almost as much as internalities. The leader of men in warfare can show himself to his followers only through a mask, a mask that he must make for himself, but a mask made in such a form as will mark him to men of his time and place as the leader they want and need.”³

The Barbarian is the leader in the age of warfare, whether on the field of battle or business. Corporations may find themselves in a desperate fight for survival during their early years and again after they have been lulled to sleep by their size and success and set upon by a more aggressive challenger. The best turnaround artist, the executive most able to reinvigorate a deteriorating culture is the Barbarian.

When Steven Jobs returned to Apple Computer after his period of exile from the company, he returned to reinvigorate more than the technology. He had to reinvigorate the human spirit, the faith in the original spirit and purpose of Apple. He was not the model of consensus decision making because he knew where he wanted to take the company, what was important, and what was not important. When Lee Iacocca took charge of Chrysler he was the same.

³ John Keegan, *The Mask of Command* (New York: Viking, 1987), p.11.

Barbarians are well suited to the requirements of battle and ill suited to the complexity of mature organizations in which consensus reaching across organizational lines is essential. Our culture places high value on communications and empathy. Certainly, these are important, but not in times of war. It is also a period when disorder, a necessary level of chaos, is essential and the approach of the Administrator who values order and stability will result in failure. When we went to war in Vietnam, we followed a Secretary of Defense, Robert McNamara, who had a Ph.D. in Administration from Harvard and had led Ford Motor Company from a period of chaos to a period of control by accountants and strategic planners. If filing cabinets and planning could have won the war, we would have been victorious. Unfortunately, we were fighting someone who said "You will kill ten of my men for every one of yours we kill; but it is you who will tire of it first." Ho Chi Minh was a Barbarian, and when a Barbarian meets Bureaucrat on the battle field the war is over before the fighting has begun. Ho Chi Minh understood what General Patton understood when he said, *"Weapons change, but man changes not at all; you beat the soul of the enemy man."*

The organization of this heroic age is more like the military organization than the lean manufacturing organization lauded today. Little attention has been paid to making processes interruption free and controlled by front line teams. That will come with time. The absence of organizational process and principles is due to the reliance on personality. In its early days a company or civilization tends to be driven by strong personalities. In the middle, more mature and stable periods, there is greater reliance on principles and process, a Constitution and the rule of law, rather than the will of personality.

What is the wealth created during the age of the Barbarian? The wealth profile, as was true in the previous stage is not in balance during the Barbarian stage. However, it has begun to change. This is the great age of rapid expansion. Market share is being captured. This means that brand value is being created, external social capital is the most important territory conquered. But, at the same time the company must be building its human resources. The number of people is growing and the organization is increasingly hiring people with specialized competence. This will be the primary focus in the next stage. Hopefully, the Barbarian is maintaining the unifying effect of Spiritual Capital, a focus on worthy purpose and shared values. And, the financial capital of the firm must be growing during this stage.

You may be a Barbarian if...

- Your mission is clear and urgent. Conquer or die is the priority.
- You are in charge and very comfortable making decisions.
- Others accuse you of being authoritarian and not consulting them on decisions.
- You are very action-oriented and have little patience with planning and administration.

Your organization may be in the Barbarian age if...

- It is rapidly expanding, taking in new territory and integrating the conquered.
- Decisions are made quickly and the leader may only consult a small group of associates.
- Growth in products and markets is far ahead of the growth in administration, processes and organization structure.
- The demand for performance is high and those who can't are left behind or expelled.

The Age of the Builder and Explorer: Specialization and Expansion

“Insofar as civilization grows and continues to grow, it has to reckon less and less with challenges delivered by alien adversaries and demanding responses on an outer battle field, and more and more with challenges that are presented by itself to itself in an inner arena. In other words, the criterion of growth is progress towards self-determination.” Arnold Toynbee

The period of the Prophet may be a brief moment in the history of the corporation. The age of the Barbarian should also be short. If an organization’s leadership remains in the Barbarian Age, its growth will be arrested. It must move on and enter a period of specialization, a time when systems and structure take form, and the organization matures.

Now leadership has to take on a different character. It must be shared, delegated, and increasingly collaborative. While the leaders must continue to be creative and fast moving, they must also develop increasingly specialized competence in production, service, marketing, and sales. If they do, this third stage may last for centuries in the life of civilization and decades for a corporation.

The primary leaders in this period of specialization are the Builder and Explorer. The Builders will construct the internal capacity of efficient production, while the Explorers continue the push outward, expanding the boundaries of the developing corporation or culture. In civilization the Builders are literally building cities, roads, reservoirs, libraries and stadiums; the Explorers are conquering new territory to expand the scope and influence of the culture by integrating diverse people. In corporations the Builders are creating the means of production, they are making production efficient. The Explorers are out conquering new customers and territories, seeking to dominate their competition.

In the first two stages of development, growth is highly dependent upon the individual leader, the Prophet and the Barbarian. But in the third stage, the environment – both internal and external – is becoming too complex for such centralized decision making.

Initially there was room for only one Christ, Mohammed or Buddha on stage at any one time. But as society becomes more integrated, including increasingly diverse people, it is necessary that some degree of pluralism, the mechanisms of unity and diversity, are accepted to maintain the union of diverse peoples. Now less charismatic characters must share the stage and if one personality insists on domination, he cripples the culture with internal warfare. At this stage a company has marketing, sales, engineering and manufacturing relying on the administrative functions of accounting, human resources, and information systems management. These functions must work together. Their varied interests must be taken into account. It is for this reason that some form of democracy or some form of collaborative decision making is always formed as civilization moves up the curve towards its period of maturity and balance. The failure to make this transition in decision making style is a primary reason for failure at this stage.

The personality required of leaders in this stage can well be seen in the great Explorer, Ferdinand Magellan. If you ever doubt that man can act with courage of heroic proportions, you need look no further than the sixteenth century explorers. Here were men who possessed not only great vision and courage, but great confidence in their ability to manage complex human affairs.

The story of Magellan illustrates the combination of personal courage and competence, as well as the ability to communicate and cooperate, that are demanded in this age.

Magellan was a Portuguese who, as a young man, had served in his country's navy. At the time, ships en route to the Spice Islands sailed around Africa, but Magellan believed that a strait existed would allow westward passage, and he wanted to find it. Portugal's king, Manuel, refused to fund a search, so on October 20, 1517, Magellan arrived in Seville to offer his services to Charles V, Grandson of Ferdinand and Isabella, and the newly crowned King of Castile.

Charles, who had adopted the motto "Plus ultra" meaning "more beyond," ultimately accepted the offer. What kind of man had he decided to fund? Historian Edward G. Bourne summarized Magellan and his feat this way:

"There was none of the prophetic mysticism of Columbus in the make-up of the great Portuguese. Magellan was distinctly a man of action, instant, resolute, enduring... the first navigation of the Straits of Magellan was a far more difficult problem of seamanship than crossing the Atlantic... Columbus's voyage was over in thirty-five days; but Magellan had been gone a year and weathered a subarctic winter before the real task began – the voyage over a trackless waste of waters exactly three times as long as the first crossing of the Atlantic... Magellan is to be ranked as the first navigator of ancient or modern times, and his voyage the greatest single human achievement on the sea."⁴

The Builder and Explorer stage of development is unlike the previous ones. Now the leader must gain the support and approval of others. Even then, there was a committee. It was the Casa de Contratacion, the official board that handled most of Spain's colonial affairs, similar to the corporate committees for capital authorization to which division managers must present expansion plans today. The Casa de Contratacion heard Magellan's plan but was unimpressed and denied approval.

Magellan then began lobbying to reverse the committee's decision. He sought the approval of Juan Foncesca, bishop of Burgos and the committee's most influential member. Foncesca's approval was obtained on the condition that his own relatives and favorites be made captains on Magellan's ships. There were three attempted mutinies during the trip, and historians suspect that those who tried to take over the expedition were acting with the bishop's encouragement.

Another member of the committee, Juan de Aranda, demanded a 20 percent cut of the expected profits in exchange for helping reverse the committee's vote. No Prophet or Barbarian could survive all the manipulation, coordination, and cooperation required of Magellan and the other great Explorers in accomplishing their mission.

But accomplish it Magellan did. He sailed south and eventually found the strait that now bears his name. He circumnavigated the globe, uncertain where or when he might find a passage to the Pacific, totally ignorant of the immense size of that ocean, which is twice as large as the Atlantic and without any of the navigational equipment we now take for granted. Magellan succeeded, not because he was simply courageous, but because he attended to all of the details of keeping hour-by-hour logs, taking constant sightings of celestial bodies, and mapping every landfall and detail of the

⁴ Edward G. Bourne, quoted in Morison, *The Great Explorers* (New York: Oxford University Press, 1978), p. 427.

oceans he explored. He had the mind of an engineer or scientist as well as commanding skills of the general.

At the same time in history that Magellan was exploring the seas; Builders were creating the process of manufacturing and studying efficiency. The same division and the same combination of skills are required at this stage of development in the corporation.

The wealth profile of the organization in this stage is moving toward balance. Now is the time of greatly expanded human resources competencies. Innovation must shift to processing innovation and how efficiency is gained in manufacturing and sales, as well as maintaining the progress of technical innovation. The task of maintaining Spiritual Capital requires far greater skills than in the earlier days. Maintaining unity of purpose and common values is not so easy in a diverse organization with geographically dispersed units of production and sales. In the early days, common purpose was a natural result of marching into battle together. Now it must be promoted with deliberation. Also in this age, external social capital, brand equity, is greatly expanded as the marketplace both expands and recognizes the value of the organization's innovation and manufacturing competence. Of course, financial capital is now emerging as a major asset, one that can be employed for further expansion and innovation.

If the Builder and Explorer are successful, a period of balance of wealth will be achieved. But this balance is rarely maintained as there are natural forces that will push it toward bureaucracy.

You may be a builder if...

- You enjoy the “real work” of your company, making the product or delivering the service.
- You enjoy measuring the results of your work.
- You like to make decisions quickly, take action, and see results.
- You know you are not a visionary and don't waste a lot of time dreaming about the future.
- You don't like committees or sitting around wasting time talking.

You may be an Explorer if...

- You are a convincing and enthusiastic communicator.
- You sometimes feel that you work for you customers and others in your own company often seem to be obstacles to your goal of serving your customers.
- You believe your company should place a high priority on expansion.
- You are curious and you naturally explore for new opportunities for your company.
- You love to keep score, and you are competitive by nature.

Your organization is in the Building and Exploring Age if...

- Your products or services have proven to have a competitive advantage and you are growing rapidly.
- You are now profitable and you can add needed staff to develop management systems and to make processes routine and stable.
- You are hiring more, and the jobs are becoming more specialized.
- There is a high confidence in the future.

The Age of the Administrator: Creating Systems, Structure and Security

“Whenever an individual or a business decides that success has been attained, progress stops.” Thomas Watson, Sr. (Founder, IBM)

“The arrested civilizations have achieved so close an adaptation to their environment that they have taken its shape and colour and rhythm instead of impressing the environment with a stamp which is their own. The equilibrium of forces in their life is so exact that all their energies are absorbed in the effort of maintaining the position which they have attained already, and there is no margin of energy left over for reconnoitering the course of the road ahead, or the face of the cliff above them, with a view to a further advance.” Arnold Toynbee

Increasingly the challenge is within, not from the external environment. Increasingly the leaders are seeking to bring order to the chaos of differentiated organization created in the previous stage. Counting and recording, systems and structure, are now important. And increasingly the processes of administration become dominant in their minds, and the leaders are drawn from the administrators. In time, with Administrators in charge, counting and recording become more important than the substance and spirit of creativity, the response to the external challenge that was the source of initial growth. Increasingly the focus is on internal, rather than external, challenges. The unchecked priorities of administration will soon lead to bureaucracy.

It is difficult to accept that chaos is good. But growth, in people or cultures, implies some degree of chaos. If you want a perfectly clean and orderly house, do not have children. Children, in their most rapid periods of growth, are a mess, and create a mess around them. Mess is good. In old age, the personality becomes obsessed with order and control. Just as the bones become brittle, so too does the mind become intolerant of innovation. But, there is a middle ground, a balance between the disorder of growth and innovation and needs of administering differentiated organization.

Initially administration serves the needs of those producing and selling, building and exploring. To manage a large manufacturing or selling organization you must know where things are, how many you have, and what they cost. Initially, to “take account” is to assist those engaged in the work that serves customers. But it shifts, and it gradually appears that those producing and selling increasingly come to serve those administering. It is the turning of this tide that signals the entry into the Administrative stage.

In this fourth stage, the corporation is holding its ground, creating and maintain order. And now the successful leaders face their single greatest test. Are they able to maintain forward motion, continue to be creative, decisive, and develop increasing competence, while at the same time administering secured territory? If they can, the organization will break through to that ideal balance that assures continued health. If they can't and the Administrator becomes the dominant leader, imposing his cultural priorities, decline will begin.

To survive this stage, managers must understand and employ both leadership and management. Leadership provides the vision, values, and purpose that create motion. Management channels the energy leadership creates. Leadership is necessarily a personal relationship; while management is necessarily less personal and more systematic. One appeals to the intuition and emotion, the other to rational intellect. Both are needed, and they are needed in balance.

Can there be heroes of administration? It seems almost an oxymoron. However, the history of commerce demonstrates that administrators have overcome great challenge to enable organizations, even nations, to achieve great things.

The American West was not conquered by the pioneers and the cavalry alone. The development of the great railroads that moved from east to west was essential to the integration of the westward territories into the United States. The railroads were the prototype of the large American corporation. They were the first to require coordination of resources and schedules across a large territory and thus demanded great numbers of full-time managers. It was these railroad managers who first developed what we regard as modern administrative practices to coordinate, control, and evaluate the activities of scattered operating units. The resulting efficiencies, later adopted by the nation's production and service organizations, are largely responsible for the global expansion of corporations over the past century.

Following their rapid growth, and due to the capital intensive nature of railroads, the railroad companies began to merge. In the early days of railroads, each local railroad company decided which gauge of track to lay. Moving goods a great distance required unloading the goods from cars of one railroad and re-loading them onto cars of the next railroad that would carry them the next distance. Integration and efficiency require some degree of uniformity. From a "do your own thing" entrepreneurial culture that initially created rail lines, now control and conformity were essential to gain economic efficiency.

The various lines along the Erie Canal and the Hudson River were consolidated in 1853 to form the New York Central Railroad. Daniel C. McCallum of the Erie railroad was promoted to general superintendent of the new line and charged with creating a smoother running organization. He developed a system of prompt reporting of both personnel activity and the movement of rail cars that had no precedent.

In 1854 the American Railroad Journal reported: "By an arrangement now perfected, the superintendent can tell at any hour in the day, the precise location of every car and engine on the line of the road and the duty it is performing. Formerly, the utmost confusion prevailed in this department, so much so, that in the greatest press of business, cars in perfect order have stood for months upon switches without being put to the least service, and without its being known where they were. All these reforms are being steadily carried out as fast as the ground gained can be held."

Daniel C. McCallum may well be called a "hero" of the Administrative Age. In every corporation that expands and integrates different operations into an efficient whole, there are similar heroes of administration who are not likely to be given the credit they deserve. The key factor, however, is that administrative process and efficiency served the purpose of growth as allies to the building and exploring process.

There is danger in this success. Robert McNamara, one of the "Whiz Kids," heroes of World War II, who enabled the logistical miracle that was performed by the United States military at that time, a miracle that created four complete new generations of aircraft to be designed, produced, and flown in battle within a four year period, came to believe that administrative control was synonymous with good management. He then became CEO of Ford Motor Company and imposed the dominance of accounting and control that diminished the innovation of engineers and

destroyed any remaining social unity in the organization. He then took the same flawed mindset to the military as Secretary of Defense as we went to war in Vietnam. The results were disastrous.

The wealth profile is at its best and most balanced as the organization enters the Administrative Age. As it drifts toward bureaucracy, it again becomes out of balance. During this period the financial assets are growing, brand equity is increased, and human capital is increasing with the capacity to produce. It is likely that spiritual capital is the first resource that will decline during this period, followed by the loss of innovation and then internal sociability and trust. These losses are the leading indicators of decline.

You may be an Administrator if...

- You developed your career in the corporation's staff functions.
- You consider yourself expert at the procedures, processes and systems of management.
- Order, consistency, and smooth operations are high priorities for you.
- You devote more time to checking on what has happened, as reflected in financial and other reports, than you spend focused on future growth in products, services, or customers.

Your organization may be in the Administrative Age if...

- Much of the energy of the managers is devoted to streamlining and improving procedures.
- You are well established in your market and feel confident that customers will continue to buy from you.
- There is little sense of urgency or crisis.
- Your organization is investing in expensive offices and staff headquarters.
- New products or services are expected to come from the staff research and development group.

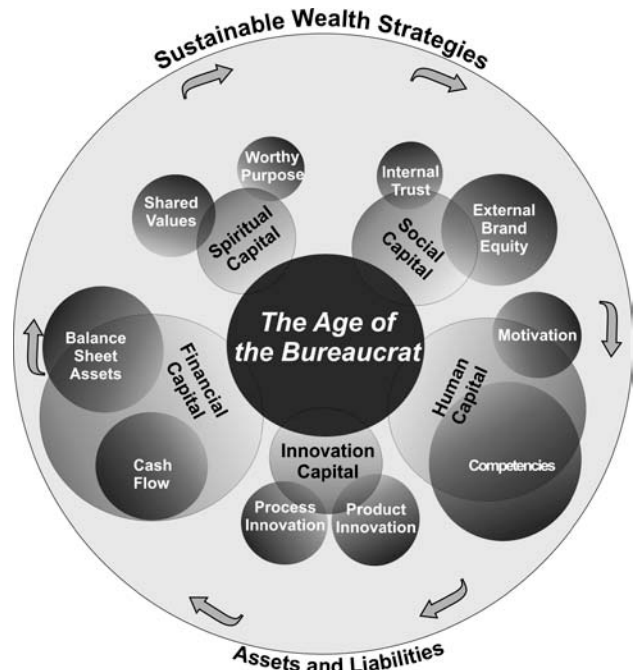
The Age of the Bureaucrat: the Tight Grip of Control

"The piper who has lost his cunning can no longer conjure the feet of the multitude into a dance; and if, in a rage and panic, he now attempts to turn himself into a drill sergeant or a slave-driver, and to coerce by force a people whom he feels that he can no longer lead by his old magnetic charm, then, all the more surely and more swiftly, he defeats his own intention; for the followers who had merely flagged and fallen behind as the heavenly music died away will be stung by a touch of the whip into active rebellion." Arnold Toynbee

The transition from the Administrative Stage to that of the Bureaucrat occurs without any plan or intention. Old age happens. It needs no encouragement. No one in the history of organization ever created a design team to design and implement bureaucracy.

As soon as the leader imposes increasing levels of control in his love for order, he becomes a *bureaucrat* and loses understanding of the original organizing principle that was the energy created by the “word,” the creative act that was the reason to unite and sacrifice. Now the lack of creativity leads to impotence in the marketplace, and survival is dependent on cost cutting and control and anyone with the creative spirit, potential Prophets who possess the very cure that is so needed are driven to exile or crucified for their violation of order. The decline will soon lead to death. The bureaucracy causes the exile or execution of those who are creative but unable to conform to the required order. With the departure of creativity, the fate of the company is sealed

In 30 A.D. Crassus the moneylender became head of the legions of Rome. H.G. Wells, the historian, said, “After the fall of Carthage the Roman imagination went wild with the hitherto unknown possibilities of finance. Money, like most other inventions, had “happened” to mankind, and men had still to develop – today they have still to perfect – the science of morality and money. What happened to Rome? Various answers are made – a decline of religion, a decline from the virtues of the Roman forefathers, and the like. We, who can look at the problem with a larger perspective, can see that what had happened to Rome was “money.” Money had floated the Romans off the firm ground.”⁵ And ‘money happens’ to companies as the accountant becomes CEO and the focus and expertise at the top is on counting and recording and the maintenance of order and not on the engineering of the new car or the challenge of conquering a new market. This is the signal of decline in the company. This is the loss of creativity.



While financial assets are at their peak during this period, the spiritual and social forms of capital are declining quickly. The primary characteristic of the Bureaucratic Age is a loss of social purpose resulting in a loss of unity. The layered classes of the structure fail to understand each other and are increasingly devoted to their own self-interests. The leaders divorce themselves from their followers. The work force proceeds to develop its own bureaucracy to protect it from the unresponsive leadership of the company. The social fabric begins to rip apart.

With the Bureaucratic Age comes the age of skepticism. The employees in the Bureaucratic organization begin to doubt their leaders have a clear vision of the organization’s future. They begin to doubt the value of dedicating their career to a company that appears to care little about them. The managers are beginning to doubt their own strategies as they increasingly are pushed to make financial sense out of a less and less innovative response to the marketplace. Now they seek salvation in a mirage of unfamiliar enterprises or products. Perhaps there is more money in credit default swaps or mortgage backed securities, and the more they go astray from that which they

⁵ Wells, H.G. *The Outline of History*. Garden City, New York. Doubleday & Company, Inc. 1971. pp. 385-86.

know, the more they are taking increasing risk with the financial assets of the company. They do not yet understand that the problem is not with the business, but with them.

Research has shown that retired persons, who have lost a sense of purpose and are no longer working to achieve some good outside of themselves, deteriorate both mentally and physically. The Bureaucratic corporation is doing precisely the same thing.

In the Bureaucratic Age the members of the organization spend their declining energies not on innovation for customers, but on the struggle within. The more they focus on internal discord, the less they are capable of responding creatively to the challenges of the external environment. They now enter into more and more mergers and acquisitions, which increase the weight of the uncreative mass while reducing the number of creative leaders.

Leaders in this fifth stage of the life cycle begin to devote themselves to the symbols of their authority rather than the substance of the products and services in the marketplace. They build taller buildings; have larger and more grandiose offices, because these symbols talk to them. The symbols say "You are in charge. You do know what you are doing. You are an effective leader."

As the Administrator reduced the drive to innovation and expansion, the Bureaucrat must now increasingly focus on financial return. This is the period in time when investors are less likely to buy the company's stock because of its growth potential, but rather for its current dividend return and for security. This motive of shareholders then becomes the priority of the executives. More and more those shareholders are the customers rather than the buyers of products or services. The company is now about producing money, not about innovation. While not intending to create risk, the Bureaucrat is unwittingly creating the risk that will ultimately destroy the company. There is a shift from forward momentum to holding ground, and the need to produce financial returns increasingly drives out the potential of innovation and expansion that created the company's brand equity. The old lion is increasingly at risk of being beaten by young and aggressive competitors who see the weakness and are all the more willing to take the risk of attack.

This stage is the last chance for the organization. If it does not generate an internal revolution to refocus its energy and purpose, that revolution will be forced upon it by external events in the next stage.

The decline of corporations is often explained by pointing to external events such as foreign competition, new technologies, or changing economic or market conditions. Of course, these may have an influence. But the organization in balance is an adaptive mechanism. The job of leaders is to sense changing on the landscape and adjust their strategies to the new threats and opportunities that appear. The inability to make these adjustments, this loss of will, is the true reason for decline.

The decline of civilizations is similarly sometimes explained by external events, volcanoes, earthquakes, plagues, or the conquering barbarians. Arnold Toynbee analyzed the decline of twenty-three civilizations and rejected all of these explanations. H.G. Wells, the historian, examining the decline of Rome wrote:

"The two centuries of order between 27 B.C. and 180 A.D. may be counted as among the wasted opportunities of mankind. It was an age of spending rather than of creation, an age

of architecture and trade in which the rich grew richer and the poor poorer and the soul and spirit of man decayed.

The Roman Imperial system... at its best had a bureaucratic administration which kept the peace of the world for a time and failed altogether to secure it... The clue to all of its failure lies in the absence of any free mental activity and any organization for the increase, development, and application of knowledge. It respected wealth and it despised science... It was a colossally ignorant and unimaginative empire. It foresaw nothing.”

The defeat is a failure of creative leadership, but the leaders – either in civilization or corporations – are as much victims as they are criminals. Because of the numbers of layers below them, the information they receive is increasingly inaccurate and distorted. Because of the weight of the potential power they wield, their subordinates are less and less likely to confront them with the truth. This physical, intellectual, and spiritual separation between the leaders and the led is growing like a cancer undetected. And with this cancer, the group as a whole, is losing its ability to exert will.

The leaders of Lehman Brothers, Bear Sterns, and others were certainly intelligent and well knew the world of finance within which they operated. But somehow they were blind to the realities of what was happening within their own organizations and in their marketplace. Do you think that no one in the organization was aware that the mortgage backed securities they were trading had a real value far below that at which they were being sold and purchased? Did no one recognize that someone would eventually understand this discrepancy and a wave of selling would ensue? Of course there were those who understood this reality. But where were the minds of the leaders? In truth, they were behaving normally. They were victims of the bureaucracies and aristocracy that they themselves had created.

You may be a Bureaucrat if...

- You spend most of your time in meetings reviewing what has already happened or should have happened.
- You cannot remember when you last participated in the development of a new product or service... and, you don't think that's your job.
- You are more concerned with how you and your company are viewed by Wall Street analysts than by your customers.
- You believe tighter control will solve many of your organization's problems.
- You spend more time with central staff managers than with line sales and production managers and workers.

Your organization may be in the Bureaucratic Age if...

- Your company is growing more by acquisition than by internal new product creation.
- Your company has reorganized more than once in the past three years.
- You are more interested in the internal challenges of the organization than the external marketplace.
- Employees and managers alike feel that they can do little to alter the company's fortunes.
- Managers and employees tend to talk about the “good old days” when things were exciting and fun.

- Managing or fixing the systems and structure receives more time and attention than selling and producing.

The Age of the Aristocrat: Alienation and Revolution

"Has God forgotten all I have done for him?" Louis XIV

"I hold that a little rebellion, now and then, is a good thing, and as necessary in the political world as storm in the natural environment." Thomas Jefferson

Management derives its power from its legitimacy, and in the Aristocratic Age legitimacy is lost. It is lost because the managers have stopped doing their job, that of leading, creating vision, and building unity of energy and effort across diverse people and interests. Peter Drucker said:

"Power has to be legitimate. Otherwise it has only force and no authority, is only might and never right. To be legitimate, power has to be grounded outside of itself in something transcending that is accepted as a genuine value... If power is an end in itself, it becomes despotism, both illegitimate and tyrannical."⁶

Legitimacy is a matter of perception, and it is the perceptions of the constituent groups that matter. In every relationship there must be a balance of power, a mutual concern, and respect. When these mechanisms break down, leadership acts on its own interests, and contrary to the interests of its followers; rebellion inevitably results.

The disintegration of culture may appear as either an internal revolution or an attack by a competing Barbarian. In either case, the cause is the same: the loss of social unity brought about by alienation of the leaders and their loss of legitimacy. It is not employees who become alienated from the leaders. It is leaders who have divorced their followers. They have moved to the 48th floor of the office tower and spent too much of their time surrounded by others who are striving to achieve the same level of detachment from workers and customers. The more detached are the leaders, the more incapable they are of recognizing challenges and issuing forth a creative response to challenge. Woodrow Wilson understood:

"I do not believe that any man can lead who does not act, whether it be consciously or unconsciously, under the impulse of a profound sympathy with those whom he leads – a sympathy which is insight – and insight which is of the heart rather than of the intellect."

At this stage, the leader's focus, his motivation, has shifted from serving others to serving self. In the later days of a society, the leaders become obsessed with material self-gratification. This obsession is largely due to the loss of gratification normally derived from productive work. There is satisfaction to be derived from sawing and sanding wood into a piece of furniture, from designing, testing, and watching a mechanical object come to life, from listening to a customer and sincerely striving to meet his or her needs. All of these pleasures are lost to the Aristocrat. Now, the rewards come from the appearance of wealth. The irony is that the Aristocrat is not achieving greater

⁶ Drucker, Peter. *The Frontiers of Management*: (New York: Truman Talley Books, E. P. Dutton, 1986), p. 180.

satisfaction than a productive individual of modest resources. The supervisor whose team sets a new production record is undoubtedly achieving a higher level of satisfaction than the Aristocrat purchasing the Gulfstream IV or the new limousine or conducting grand meetings at a country club. The Aristocrat has been so long removed from productive work that he or she no longer remembers their satisfactions.

In all cases, revolutions are not started by the revolutionaries. Revolutions are started by Aristocrats who have abandoned their followers. Revolution is the response to the stimulus, and the stimulus is Aristocracy. Where unity of energy and effort was created by the Prophet, the Aristocrat has created alienation and division of social class. The theme is an old one: do you accept that a higher class has been granted the right to make decisions without accountability, or do you trust the “common people” to do what is right? Thomas Jefferson observed the two courses in society:

“Men by their constitutions are naturally divided into two parties: (1) Those who fear and distrust the people, and wish to draw all powers from them into the hands of the higher class. (2) Those who identify themselves with the people, have confidence in them, cherish and consider them as the most honest and safe. In every country these two parties exist; and in every one where they are free to think, speak, and write, they will declare themselves.”

Both within companies and civilizations, the disintegration of a society is preceded by a period in which wealth is achieved by the manipulation of paper related assets, rather than by producing new assets. Some years ago, the writer Adam Smith pointed out:

“The Street money these days is made from pieces of paper – futures, options, tax shelters, moving corporate divisions from one balance sheet to another. That activity need not produce additional mousetraps. In the 1920s the games were played with utilities and holding companies. Pyramids were erected, companies owning companies owning companies, and the bootleg bubbly flowed until it all vanished.”

Before the fall of Rome, before the fall of the stock market in 1929, and before the fall of Lehman and Bear Sterns, the senior executives were preoccupied not with the quality of a products, meeting customer needs, or developing innovative solutions, but with the cleverness of financial manipulations. It always accompanies Aristocracy, and it always ends in collapse and rebellion. The difficulty is that now our corporations and our economies are so intertwined that the failure of any major institution or economy pulls down the rest.

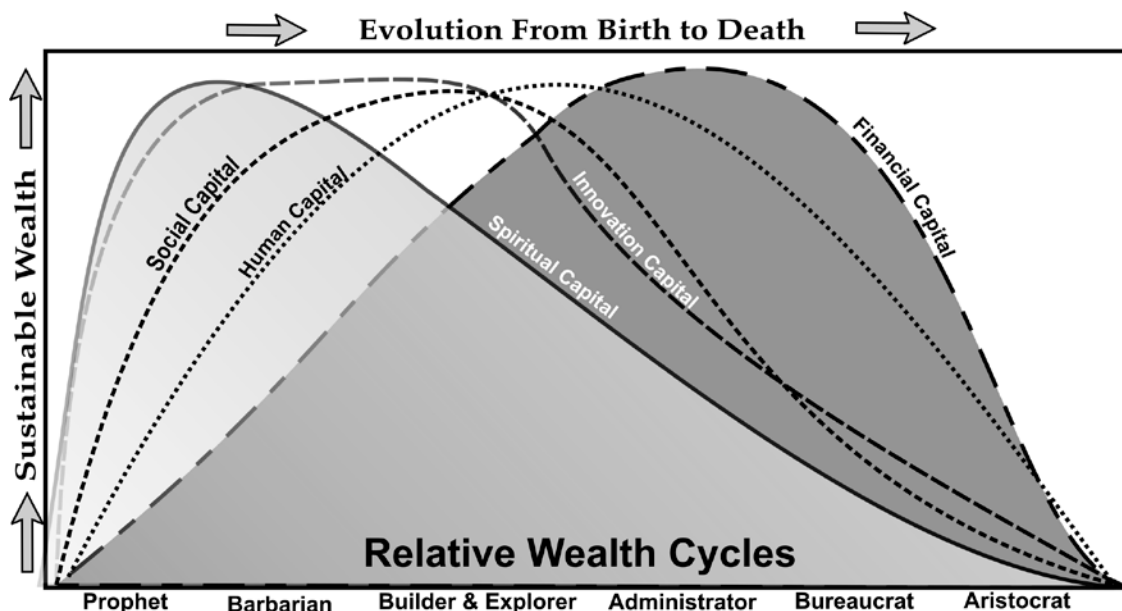
You may be an Aristocrat if...

- You manage an organization that has not successfully developed and marketed a new product or service for several years, and your only expectation for growth is through acquisition.
- Most of your time is spent on financial matters, strategic planning, and restructuring the organization, not with those who have their hands on producing or selling products or services.
- Your offices are plush with expensive artwork, you have limousine service, and you spend a lot of time at expensive social gatherings, for business, of course.
- You feel that only you and a small circle of advisers are capable of understanding the strategy of the corporation.

Your organization may be in the Aristocratic Age if...

- There is a complete separation in perception, expectations, and communication between those workers and managers who produce and sell and those who claim to be the leaders of the corporation.
- The leader thinks of himself (herself) as indispensable and almost synonymous with the company.
- A great deal of the time and energy is spent in internal warfare, both between horizontal units and vertical “classes.”
- There is an almost constant process of reorganizing.
- There is a continual effort to cut costs, hold down wages, and the leaders are constantly warning of the gravity of the situation, yet their own compensation is increasing with no apparent relationship to the fate of the business.

Relative Wealth Curves through the Life Cycle



Corporations, though of the same species, are very diverse animals. Some are born with a great deal of capital at the outset and search for a good idea to market. Others, more likely, are born with an inspiration, a marketable idea, and then search for capital, human resources and other requirements of growth. But, as they mature there are some relatively predictable, more common, relationships between the different forms of wealth, both in companies and civilizations. This illustration is intended to describe these general relationships. Spiritual Capital and innovation tend to be early capacities of the organization and as the weight of administration turns to bureaucracy, those forms of capital diminish rapidly. Social capital tends to build and begin to decline as the organization grows in size, but both internal and external sociability or trust can vary a great deal in their relationship to other forms of capital. It is normal that financial capital grows gradually and is at its peak during the age of the Administrator and Bureaucrat and then can decline with great rapidity. The ideal, of course, would be for each of these forms of wealth to reach some theoretical peak and then maintain that same level for a long period of time. That is most likely to occur if there is balance.

Achieving Balance – The Search for the Fountain of Youth

Is it inevitable that growth and expansion are followed by bureaucracy and decline? If you study the course of civilization you might reach that conclusion as the long march of cycles appears as an inevitable pattern. But Arnold Toynbee asked himself this question some years after he wrote *A Study of History*. His answer was “no”. He said that he believed in free will. He believed that if we understand the causes of integration and disintegration, of emergence and decline, we can alter our behavior and achieve an ever-advancing civilization. It is the failure to recognize and respond to new challenges that leads to a condition of ease, to the loss the power of self-determination, the loss of will.

In human aging there are chemical biological processes over which we have no control. Of course, we can greatly influence human aging with diet, exercise, and our own social and mental activity. Organizations, on the other hand can be influenced even more. They are inherently capable of regeneration. Managers change, products change, the market changes, and all of these are opportunities for adaptation, and for adjusting the style, culture, and processes to prolong the life of the organization. The 3M Corporation has been through numerous periods of refocus, redefining its product portfolio, constantly innovating and maintaining its social capital within the organization and its brand equity. It is an “old” corporation that can act young. There are many other examples. And, of course there are examples of organizations that fail to adapt to new markets and technologies and become rigid and lose their ability to innovate within a very short period.

Revolution is the transformation brought about by leaders who recognize new challenges, acknowledge the failure to adapt to a changing landscape, and promote a new outlook, a new spirit, and new strategy. Corporations have proven that there is no fixed time frame of life cycles. The key to this success is always the ability to create synergy of the different styles or capabilities of leadership and to maintain a healthy balance of the five forms of wealth.

What are the lessons of this story? I think there are several. One is the diversity of leadership styles that are needed to fulfill the potential of any organization. As companies mature, the need for the creative Prophet does not disappear; nor does the need for the conquering spirit of the Barbarian. But what is needed is balance and the creation of synergy or harmony between the diversity of talents, each put to work on the challenges appropriate to the type of temperament. The most difficult of all tasks of leadership is to create unity from diversity. It is the purpose of a leadership team. On a leadership team you do not want ten Administrators who will create excellent and orderly plans but never have the energy to go anywhere. Nor do you want ten Barbarians, each with the strong will and singular focus to fight a battle. You also need the Builders, the engineers and specialists who know how to make complex things work and Explorers to expand the territory. And you need Administrators who bring order to complex organizations and tasks through counting and recording. But you do not need the excess of administration that is bureaucracy. You need leaders, or you need to become a leader, who can bring these personalities together in a harmonious orchestra.

Another lesson regards the role of personalities versus process and principles. Civilizations, when they have been at their peak, have had senates, election processes, systems of law, and separation of powers. When Rome was being born it was highly reliant on principles. This was the period, generally regarded as the peak of the civilization, when the Roman senate was supreme and the acceptance of Roman law and order prevailed. It then was overcome with cults and clashes of

personality and the law became subservient to the personalities. The process of disintegration exactly paralleled the decline of the reliance on principles and process and the return of dominance of personalities.