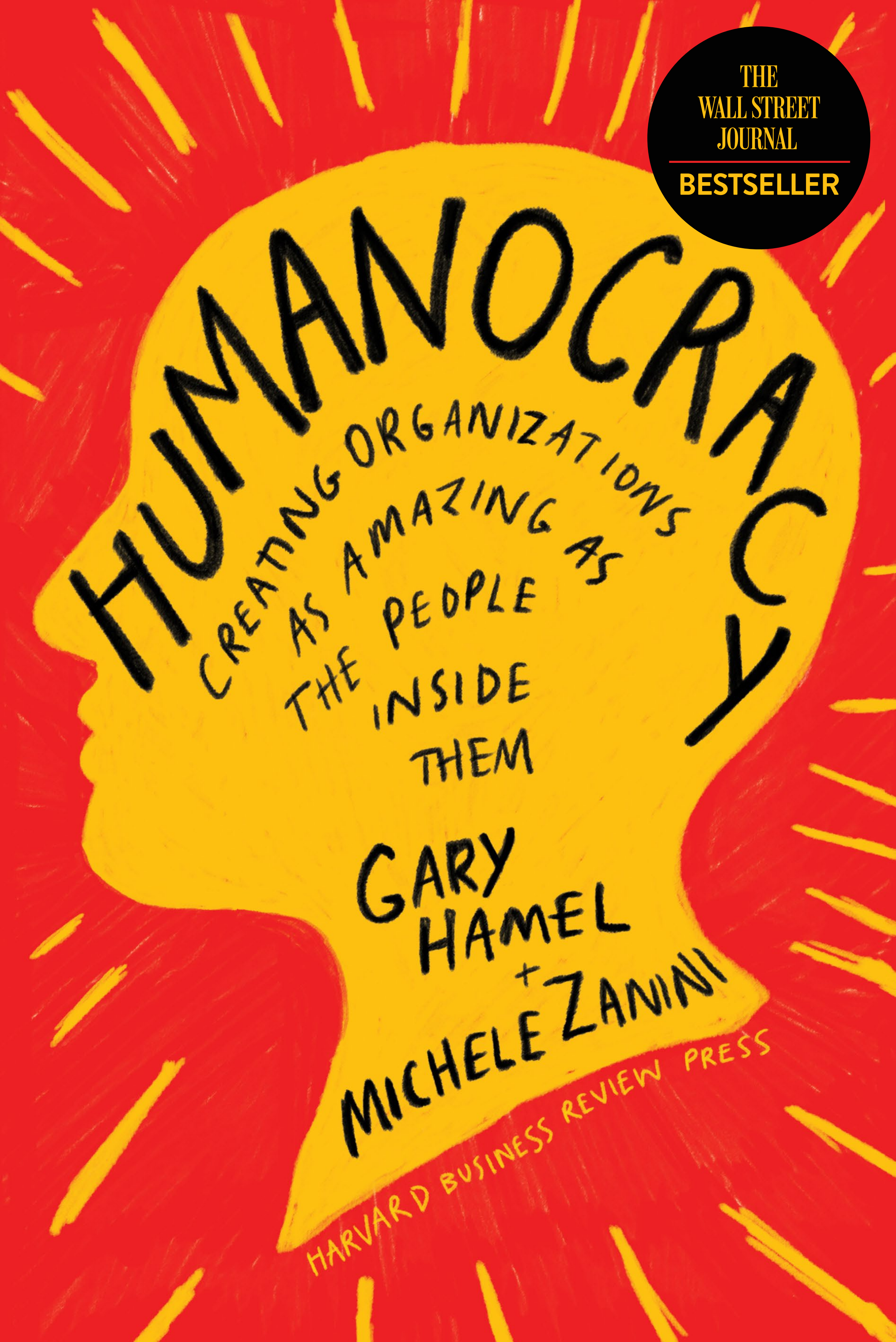
THE WALL STREET JOURNAL
BESTSELLER
HUMANOCRACY
CREATING ORGANIZATIONS AS AMAZING AS THE PEOPLE INSIDE THEM
GARY HAMEL + MICHELE ZANINI
HARVARD BUSINESS REVIEW PRESS

"Rarely has the case for dismantling bureaucracy been made as effectively, passionately, and comprehensively. The time to start is now, and the book to read is *Humanocracy*, Hamel and Zanini's practical guide to creating work environments that give everyone the opportunity to flourish. This is essential to revitalizing our organizations and reinvigorating our economies."

—**BENGT HOLMSTRÖM**, Paul A. Samuelson
Professor of Economics, Massachusetts Institute
of Technology; 2016 Nobel laureate in Economics

"Hamel and Zanini have achieved two remarkable feats. They've produced one of the most cogent critiques of bureaucracy that I've ever read—explaining the many ways that bureaucratic organizations undermine human autonomy, resilience, and creativity. And they've issued a stirring call to do better—to build organizations that liberate the everyday genius of the people inside them. Packed with keen insights and practical guidance, *Humanocracy* is an essential book."

—**DANIEL H. PINK**, #1 *New York Times* bestselling author,
Drive and *To Sell Is Human*

"*Humanocracy* provides the reader with a road map to helping organizations unleash creativity, energy, and resiliency through leveraging the core of every organization—humans."

—**GEN. STANLEY McCHRYSTAL**, US Army, Ret.; author, *Team of Teams*

"*Humanocracy* is the most important management book I have read in a very long time. This is not just another book about the power of purpose or the joys of empowerment. Rather, it's a detailed, well-researched, data-driven, compellingly argued exposé on the massive costs of bureaucracy in society. Hamel and Zanini offer an equally compelling argument for why it doesn't have to be this way, complete with a practical guide for creating organizations that really work."

—**AMY EDMONDSON**, Professor, Harvard Business School;
author, *The Fearless Organization*

"Almost all large organizations create a bureaucratic system for the sake of elusive safety. In reality, bureaucracy paralyzes the organization and frustrates employees. *Humanocracy* is a practical guide about how to escape this trap and unlock the hidden potential of large organizations and, most importantly, of their biggest asset, their employees."

—**OLIVER BÄTE**, Chairman and CEO, Allianz

"Great companies in today's highly dynamic world need to unleash the power of their people to multiply value and impact. *Humanocracy* presents a compelling handbook for how large organizations can reduce bureaucracy, create a highly engaged workforce, and build leaders that serve their people."

—**VAS NARASIMHAN**, CEO, Novartis

"If an organization has ever crushed your hopes and dreams, this book just might help to rejuvenate you. It's hard to imagine a better guide to busting bureaucracies and building workplaces that live up to the potential of the people inside them."

—**ADAM GRANT**, *New York Times* bestselling author, *Originals* and *Give and Take*; host, TED *WorkLife* podcast

"Hamel and Zanini have written a bold, essential guide to building an organization infused with the same spirit of creativity and entrepreneurship as the people who work there. Their 'post-bureaucratic' vision of work is not just timely but energizing."

—**ERIC RIES**, author, *The Lean Startup*

"Fast technology and business innovations call for a big overhaul of traditional bureaucratic organizations. *Humanocracy* provides a stimulating and inspiring framework for creating the innovative organizations of the future."

—**MING ZENG**, former Chief Strategy Officer, Alibaba Group; author, *Smart Business*

"*Humanocracy* makes the case for replacing chain of command with chain of trust and radical transparency. It's a prescription for unlocking game-changing innovation and the value of every individual."

—**MARC BENIOFF**, Chair and CEO, Salesforce; author, *Trailblazer*

"At last, a playbook to take a sledgehammer to bureaucracy. The reasons for bureaucracy have long vanished in the digital age—and yet it persists. Hamel and Zanini introduce us to an alternative that energizes people rather than crushing their souls, humanizing the organization for higher levels of accountability and impact."

—**DIANE GHERSON**, Chief Human Resources Officer, IBM

"For a business to perform its role of producing products and services that help people improve their lives, its employees must be fully empowered to continually improve their ability to contribute. This requires roles that fit their unique abilities and a culture that celebrates and rewards innovation, collaboration, challenge, and all the other elements of principled entrepreneurship. *Humanocracy* illustrates a basic condition for bringing this about—eliminating bureaucratic management. Such a change is not only essential for long-term business success but for a free and open society that gives everyone the opportunity to rise."

—**CHARLES G. KOCH**, Chairman and CEO, Koch Industries; founder, Stand Together; and author, *Good Profit*

"In *Humanocracy,* Hamel and Zanini challenge the old order and, simultaneously, show the path to creating a new and better order capable of achieving higher goals for businesses and the communities they serve.

At a time when the digital revolution is changing every aspect of human life, the authors rightly caution businesses that their change-resistant and often wasteful bureaucratic structures are a drag on their growth. Bureaucracy impedes employees' creativity, undermines their self-motivation, and hinders their workplace happiness.

Therefore, the need to transform business organizations into human-centric entities has become more pressing than ever before.

How can we succeed in this task? I have found no better guide than *Humanocracy*—a book that every change-seeker and change-agent must read."

—**MUKESH AMBANI**, Chairman and Managing Director,
Reliance Industries Limited;
named one of Time 100: The Most Influential People of 2019

"Hamel and Zanini argue that bureaucracy is soul-crushing, and they're right. With only 15 percent of the world's 1.4 billion full-time workers engaged at their jobs, we have to empower the individual or human beings will never bloom. Depending on you, this book can change the world a little or a lot."

—**JIM CLIFTON**, CEO, Gallup

"*Humanocracy* is a must-read to survive and prosper in the future. The book is a tour de force."

—**VIJAY GOVINDARAJAN**, Coxe Distinguished Professor,
Tuck School of Business at Dartmouth; author,
The Three-Box Solution

"Innovation is as important to how we organize ourselves as it is to what we make. *Humanocracy* shows how it is possible to unlock the passion and creative potential within our organizations and give ourselves a fighting chance of successfully tackling the most important challenges of our time."

—**TIM BROWN**, Chair, IDEO; author, *Change by Design*

"*Humanocracy* is a book about unleashing human potential by replacing bureaucracy with passion and creativity. A must-read for anyone who wants to build efficient human-centric organizations."

—**JIM HAGEMANN SNABE**, Chairman, Siemens AG;
Chairman, AP Møller—Mærsk A/S; author, *Dreams and Details*

"*Humanocracy* thoughtfully outlines why the time has come for organizations to abandon their bureaucratic ways and bring humanity back into the workplace. I found myself nodding throughout the book and thinking 'YES! This is it. This is the new management paradigm we've been needing for decades. Hamel and Zanini have done it!'"

—**JIM WHITEHURST**, President, IBM;
author, *The Open Organization*

"*Humanocracy* is the most insightful, instructive book for this new, purpose-driven decade and should be mandatory reading for all organizations seeking to thrive, survive, and, more importantly, make the human impact their teams long for."

—**ANGELA AHRENDTS**, former CEO, Burberry;
former Senior Vice President, Apple

"Virtually all businesses are being disrupted by innovations from every direction. Bureaucratic hierarchy is simply too slow in making decisions and not innovative enough to be competitively successful in the third decade of the twenty-first century. *Humanocracy* shows us the path forward to creating less bureaucratic and more innovative and humane organizations."

—**JOHN MACKEY**, cofounder and CEO, Whole Foods Market;
coauthor, *Conscious Capitalism*

"Gary Hamel and Michele Zanini effectively describe a way out of the bureaucratic gridlock which is frustrating so many people in their daily work. *Humanocracy* as a movement will lead us to more human organizations!"

—**JOS DE BLOK**, founder, Buurtzorg

"Hamel and Zanini insightfully diagnose the choking bureaucracy that makes many of today's organizations far less collectively intelligent than they could be. Then they give fascinating examples and inspiring prescriptions for creating organizations that are vastly more innovative, adaptable, and fulfilling for the people in them."

—**THOMAS W. MALONE**, Patrick J. McGovern Professor of
Management, MIT Sloan School of Management;
Director, MIT Center for Collective Intelligence

"For over a decade, Gary Hamel has called for us to hack how we lead and organize. In this book, Hamel and Michele Zanini offer specifics about how to dismantle our bureaucratic enterprises and rebuild them into agile organizations in which employee passion and talents are unleashed and harnessed to cocreate, with customers, products and services that make a positive difference."

—**LINDA A. HILL**, Wallace Brett Donham Professor of Business Administration, Harvard Business School; coauthor, *Collective Genius*

"This book is an exhaustive analysis of the dysfunctional consequences of hierarchy and bureaucracy. Using multiple examples of companies that are trying a different approach, the authors provide an alternative model based on humans as committed, active problem solvers rather than 'resources' to be used for organizational goals. This alternative model is shown to be more effective across all of the traditional managerial functions."

—**EDGAR H. SCHEIN**, Professor Emeritus, MIT Sloan School of Management; coauthor, *Humble Leadership*

"To build a resilient business, everyone must think and act like an owner. *Humanocracy* provides a guide to building entrepreneurship within an organization."

—**TONY HSIEH**, CEO, Zappos;
New York Times bestselling author, *Delivering Happiness*

Humanocracy

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Contents

Preface

How would you feel at work if . . .

You had the right to design your own job?

Your team was free to set its own goals and define its own methods?

You were encouraged to grow your skills and take on new challenges?

Your workmates felt more like family than colleagues?

You never felt encumbered by pointless rules and red tape?

You felt trusted in every situation to use your best judgment?

You were accountable to your colleagues rather than a boss?

You didn't have to waste time sucking up or playing political games?

You had the chance to help shape the strategy and direction of your organization?

Your influence and compensation depended on your abilities and not your rank?

You were never given reason to feel inferior to the higher-ups?

How amazing would it be if all these things were true where you work? Amazing enough, we reckon, that work would hardly feel like work. Unfortunately, this is not the reality for most employees. The typical medium- or large-scale organization infantilizes employees, enforces dull conformity, and discourages entrepreneurship; it wedges people into narrow roles, stymies personal growth, and treats human beings as mere resources.

In consequence, our organizations are often less resilient, creative, and energetic than the people inside them. The culprit is bureaucracy—with its authoritarian power structures, suffocating rules, and toxic politicking. Some might believe bureaucracy is on the wane, that it's headed for the same fate as landline telephones, gas-powered cars, and single-use plastics. The word "bureaucracy," like "horsepower," seems to be the relic of a bygone age—and in many ways it is, but sadly, bureaucracy is still very much with us. As we'll see in chapter 3, bureaucracy has been growing, not shrinking—a fact that is correlated, we believe, with the worrying slowdown in global productivity growth, a phenomenon that bodes ill for living standards and economic opportunity.

Bureaucratic organizations are inertial, incremental, and dispiriting. In a bureaucracy, the power to initiate change is vested in a few senior leaders. When those at the top fall prey to denial, arrogance, and nostalgia, as they often do, the organization falters. That's why deep change in a bureaucracy is usually belated and convulsive. Bureaucracies are also innovation-phobic. They are congenitally risk averse, and offer few incentives to those inclined to challenge the status quo. In a bureaucracy, being a maverick is a high-risk occupation. Worst of all, bureaucracies are soul crushing. Deprived of any real influence, employees disconnect emotionally from work. Initiative, creativity, and daring—requisites for success in the creative economy—often get left at home.

Thankfully, bureaucracy isn't the only way to organize human activity at scale. Around the world, a small but growing band of post-bureaucratic pioneers are proving it's possible to capture the benefits of bureaucracy—control, consistency, and coordination—while avoiding the penalties—inflexibility, mediocrity, and apathy. When compared to their conventionally managed peers, the vanguard—many of which you'll meet in this book—are more proactive, inventive, and profitable.

These companies were built, or in some cases rebuilt, with one goal in mind—to maximize human contribution. This aspiration is the animating spirit of humanocracy, and stands in stark contrast to the bureaucratic obsession with control. Both goals are important, but in most organizations, the effort spent on ensuring conformance is a vast multiple of the energy devoted to enlarging the capacity for human impact. This gross imbalance is dangerous for organizations, a drag on the economy, and ethically troubling.

Bureaucracy is particularly problematic for large companies. As an organization grows, layers get added, staff groups swell, rules proliferate, and compliance costs mount. Once a company hits a certain threshold of complexity—around two hundred to three hundred employees, in our experience—bureaucracy starts growing faster than the organization itself. That's why big companies have more bureaucracy per capita than small ones, and why they're burdened with managerial diseconomies of scale.

The link between girth and "bureausclerosis" would be less worrying if large organizations weren't so dominant. Despite all the talk of the gig economy, a greater percentage of the US labor force works for large companies than ever before. In 1987, 28.8 percent of US employees worked in companies with more than five thousand employees. Thirty years later, the percentage was 33.8. Today, the number of employees working in companies with more than ten thousand employees exceeds the number who work in businesses with fifty or fewer employees.

Defenders of the status quo will tell you that bureaucracy is the inevitable correlate of complexity, but our evidence suggests otherwise. The vanguard companies prove that it's possible to build organizations that are big *and* fast, disciplined *and* empowering, efficient *and* entrepreneurial, and bold *and* prudent.

If you doubt this, here's an amuse-bouche—a short example of what's possible when an organization commits itself to "Humanity above bureaucracy." That's the motto of Buurtzorg, a leading provider of home health services in the Netherlands. The company's workforce of eleven thousand nurses and four thousand domestic helpers is organized into more than twelve hundred self-managing teams. Each nursing team comprises twelve caregivers who have responsibility for a particular geographic area, typically encompassing around ten thousand Dutch residents. These compact operating units are responsible for finding clients, renting office space, recruiting new team members, managing budgets, scheduling staff, meeting ambitious targets, and constantly improving the quality and efficiency of the care they provide.

In most organizations, these duties would fall to area or regional managers but at Buurtzorg they're divvied up among local team members. Every team has a "housekeeper and treasurer," a "performance monitor," a "planner," a "developer," and a "mentor." These are part-time roles filled by nurses who spend most of each day working with patients.

To support its hyperempowered workforce, Buurtzorg trains every employee in group decision making, active listening, conflict resolution, and peer-to-peer coaching. Teams are tied together by a social platform, "Welink," where nurses post questions and tips. Rather than dictate home care protocols top-down, Buurtzorg encourages teams to optimize their operating practices by tapping the collective wisdom of the network and innovating locally when they see opportunities to advance the state of the art. Detailed performance metrics on every team are visible across Buurtzorg. This transparency creates a powerful incentive for peer-to-peer learning and continuous improvement.

Buurtzorg's administrative personnel include fifty-two regional and head office coaches, fifty back office staff (mostly in IT), and two senior directors, including Jos de Blok, Buurtzorg's founder. That's lean: a fifteen-thousand-person organization with two line managers and a staff group of just over one hundred individuals.

Buurtzorg sets benchmarks in virtually every area of performance. (See figure P-1). The company's substantial lead over its competitors isn't the result of a brilliant top-down strategy, slavishly applied operating rules, or data-munching algorithms, but rather of an organizational model that empowers and equips every employee to be an inspired problem solver and a business-savvy decision maker.

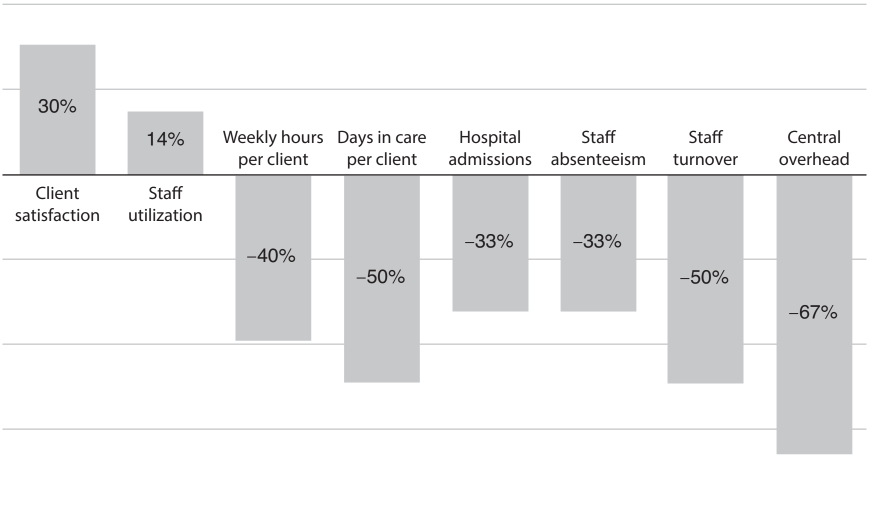
Buurtzorg has been voted Dutch Employer of the Year five times—not bad for a company founded in 2006, but, as we'll see, it's not the only company to have harnessed the power of everyday genius.

Why, then, haven't more companies followed suit? Why would incumbents burden themselves willingly and unnecessarily with what is, in essence, a tax on human effort? Because, to put it bluntly, dismantling bureaucracy means dismantling traditional power structures. As you may have noticed, people with power are typically reluctant to give it up, and often have the means to defend their prerogatives. This is a serious impediment, since there's no way to build a human-centric organization without flattening the pyramid.

Rather than taking on the politically fraught task of excising bureaucracy, CEOs have sought to offset its cost through the pursuit of market power and regulatory advantage. Between 2015 and 2019, the value of global mergers and acquisitions amounted to $20 trillion, that's roughly the size of the entire New York Stock Exchange. Economists Gustavo Grullon, Yelena Larkin, and Roni Michaely estimate that between 1972–2014, more than 75 percent of US industries became more concentrated.[1]

FIGURE P-1

Buurtzorg versus its competitors



Source: Stefan Ćirković, "Buurtzorg: Revolutionizing Home Care in the Netherlands," Center for Public Impact Case Study, November 15, 2018.

All too often, when a big company gets battered by the winds of creative destruction and starts to take on water, the first impulse of a CEO isn't to jettison the ballast of bureaucracy, but to lash up to another wallowing supertanker.

While CEOs often justify megamergers by promising increased operating efficiencies, research suggests that the real benefits are less about economies of scale and more about oligopolistic advantage.[2] A comprehensive study of the US economy by Jan De Loecker, Jan Eeckhout, and Gabriel Unger found that "markups," a proxy for market power that measures firm-level difference between prices and marginal costs, have increased sharply over the last several decades. In 1980, the average firm charged 21 percent over marginal cost; by 2016, the average markup had grown to 61 percent. This trend has been observed not only in the United States, but in other developed economies as well.[3]

Bulking up also increases a company's political power. A $100 billion business with a lobbying effort to match has a lot more clout in Washington, Brussels, and other power centers than a business a tenth its size.

Recent examples of big-dollar lobbying include the efforts of America's carmakers to prevent Tesla from opening company-owned stores, the promise extracted by the pharmaceutical industry that the US government won't use its heft to drive down drug prices, and the resistance of US hospitals to the government's demands for greater price transparency in health care.

Though CEOs gripe about regulation, a recent study by Boston University's James Bessen revealed a strong correlation between industry-specific regulation and a subsequent rise in profits.[4] Bessen calculates that in recent years, regulatory rent seeking added $2 trillion to corporate valuations and transferred $400 billion annually from consumers to businesses. Why bloody yourself on the playing field, CEOs ask, when you can use your political power to tilt the field in your favor?

As many companies have discovered, it's easier to do another deal or hire more lobbyists than to de-bureaucratize a sprawling empire. This is bad news for consumers and citizens. As any economist will tell you, high levels of market power depress investment, stifle innovation, reduce job creation, and exacerbate income inequality.

It would be great if young, aggressive startups held the oligopolists to account, and this sometimes happens, but in aggregate, the impact of entrepreneurship is modest. As of this writing, the world contains 433 "unicorns"—venture-backed companies that boast a market value of $1 billion or more. While these companies get a lot of press, they're a relatively small part of their respective economies. In early 2020, US-based unicorns had a combined market value of $650 billion. This seems like a big number, but at the time amounted to just slightly more than 2 percent of the combined market value of the S&P 500. While entrepreneurial enclaves like Silicon Valley are important, we need to find ways to turn up the entrepreneurial flame in every organization.

Many leaders, it seems, have yet to reach this conclusion. They're betting, in essence, that the advantages of market power and political muscle will more than offset the disadvantages of bureaucratic drag. There's a risk, though, of banking on the continued acquiescence to ever-expanding corporate power. The White House's Council of Economic Advisers has called for a "robust reaction to market power abuses."[5] Legal scholars Eric Posner and Glen Weyl believe that "some of the country's biggest employers . . . need to be broken up," and "regulators need to get more aggressive with tech monopolies and stop them from absorbing innovative rivals."[6] Even Goldman Sachs, officiant at countless corporate weddings, has noted that if the trend toward greater concentration persists, it will mean "there are broader questions to be asked about the efficacy of capitalism."[7] You can be sure that when Goldman Sachs wonders if consolidation has gone too far, the answer is yes.

And it's not just the experts. Citizens have also had enough. In a 2019 Pew Research poll, 82 percent of Americans said large corporations had too much power and influence in the economy. The argument that bigger is better is getting increasingly hard to swallow. As the change in sentiment starts to bite, and governments become more aggressive in challenging monopoly power, CEOs will need to find new routes to profitability and growth. Their best bet: committing wholeheartedly to creating organizations that allow human beings to do their best work, unfettered by the shackles of bureaucracy.

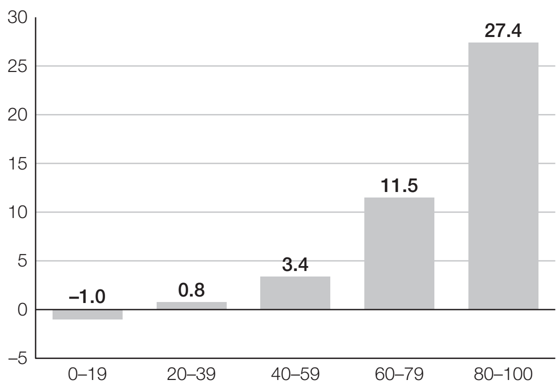
Critically, there are social as well as political and economic reasons for declaring war on bureaucracy. In recent years, policy makers and politicians have expressed concern about growing income inequality. Between 1979 and 2016, the top-quintile of US wage earners saw their compensation grow by 27 percent, while those in the bottom quintile experienced a 1 percent decline.[8] (See figure P-2.)

Many factors have contributed to this divergence, including competition from low-wage countries, the growing preference of large firms for contract labor, the shrinking power of unions, and the job-displacing effects of technology. The downward pressure these forces exert on low- and middle-income jobs has been blamed both for the rise of populism in America's rust belt and for the growing allure of socialism among Gen Z voters who fear they'll never be as well off as their parents. The danger, already much in view, is that labor market polarization will further erode social cohesion and political amity.

Added to this is the fear that robotics and artificial intelligence will supplant many low- and mid-tier jobs. A 2019 Brookings Institution report estimated that 25 percent of US jobs are highly vulnerable to automation, with a further 36 percent of jobs at moderate risk.[9] A separate study, covering thirty-two OECD countries, judged 300 million jobs to be at jeopardy from automation. Elon Musk, founder of Tesla and

FIGURE P-2

Changes in real wages by quintile (1979–2016)



Source: Jay Shambaugh, Ryan Nunn, Patrick Liu, and Greg Nantz, "Thirteen Facts about Wage Growth," Brookings Institution report, September 2017.

SpaceX, has warned that human beings need to prepare for a world in which "robots will be able to do everything better than us."[10] These and similarly dire predictions have given currency to the idea of a guaranteed income for every citizen, funded in part by a tax on robots.

The more general problem of stagnant or declining wages has produced a slew of policy proposals, including mandatory worker representation on corporate boards, sector-level collective bargaining, better benefits for gig economy workers, tax breaks for investment in human capital, and a greater emphasis on science and mathematics in secondary education.

While some of these ideas have merit, none of them addresses what we regard as an unwarranted and damaging assumption, namely that a great number of jobs are inherently and unalterably low skilled. Typically, a job is defined as low skilled if it doesn't require a university education or advanced training. Because such jobs require little in the way of specialized expertise, they tend to be low paid. According to a recent study, 53 million American workers, or 44 percent of the labor force, are in low-wage jobs.[11] This is a fact, but economists and policy makers err when they assume it's an immutable fact.

Contrary to conventional wisdom, what makes a job low skilled is not the nature of the work it entails, or the credentials required, but whether or not the people performing the task have the opportunity to grow their capabilities and tackle novel problems. The most important lesson to be gleaned from post-bureaucratic pioneers is that it's possible to radically upskill what would otherwise be regarded as low-skilled jobs—like operating a forklift truck, loading bags onto an airplane, or packing agricultural produce. This workplace alchemy—turning dead-end jobs into get-ahead jobs—becomes possible when an employer:

Teaches frontline staff to think like businesspeople

Cross-trains associates and organizes them into small, multifunctional teams

Gives these teams accountability for a local P&L

Pairs new employees with experienced mentors

Encourages employees to identify and tackle improvement opportunities

Grants associates the time and resources to run local experiments

Gives employees a financial upside that encourages them to do more than their job strictly requires

Treats every individual and role as indispensable to collective success

The vanguard companies offer better-than-average wages, not because they're unusually generous, but because their employees create exceptional value. There's a deep conviction in these organizations that when "ordinary" employees are given the chance to learn, grow, and contribute, they'll achieve extraordinary results. Over time, this conviction produces a workforce that's deeply knowledgeable, endlessly inventive, and ardently customer focused. The experience of the post-bureaucratic rebels testifies to a single luminous truth: an organization has little to fear from the future, or its competitors, when it's brimming with self-managing "micropreneurs."

Bureaucrats wrongly assume that commodity jobs are filled with commodity people. Unfortunately, this prejudice tends to be self-validating. When human beings are given scant opportunity to exercise their imagination, little creativity is forthcoming. This is then taken as proof that the average employee is a bit of a lunkhead.

Researchers trying to estimate the employment impact of automation frequently make the same error. For example, after reviewing detailed task descriptions for 702 occupations compiled by the US Bureau of Labor Statistics (BLS), Oxford University researchers Carl Frey and Michael Osborne estimated that fully 47 percent of American jobs were at high risk of automation.[12] This conclusion is hardly surprising, since, according to our analysis of BLS data, 70 percent of US employees are in jobs deemed to require little or no originality. This fact says nothing about the imagination of the people in those jobs, but much about the way in which the bureaucratic paradigm strips initiative and creativity out of work.

Frey and Osborne rightly note that occupations which involve "complex perception and manipulation tasks, creative intelligence tasks, and social intelligence tasks" are resistant to automation. But it's a thinking error to assume that the vast majority of jobs in an economy offer little scope for the application of the uniquely human capabilities that distinguish people from machines. It is similarly wrongheaded to believe that such capabilities are narrowly distributed within the human population. Think for a moment about the boundaryless expanse of creativity that can be found on YouTube or in the vast reaches of the blogosphere. Are today's creators inherently more gifted than their forebears? Of course not. What's changed is that a couple billion people, thanks to new digital tools and platforms, finally got the chance to cultivate their latent creativity. Why would we expect the results to be any less spectacular if every employee at work was similarly equipped and empowered?

It is our bureaucracy-encrusted organizations that are slow witted, not the people inside them. This is not a conjecture; it is our lived experience. More than a decade ago, one of the authors led a large-scale training program in a midwestern US manufacturing company. Over the course of a year, more than thirty thousand employees, many of them blue-collar union members, were taught how to think like business innovators. Out of this effort came thousands of game-changing ideas. In one memorable, though not unusual, case, a long-tenured assembly line worker hatched an idea that ultimately produced a multimillion-dollar payoff. For the first time in her career, this woman had been asked to think big, and when the chance came, she grabbed it. Sadly, many employees never get this opportunity. Rather than being seen as inventors and makers, they're regarded as "meatware"—costly machine substitutes that are incapable of being upgraded.

One of our primary goals in this book is to lay out a blueprint for turning every job into a good job. Rather than deskilling work, we need to upskill employees. Rather than outsourcing low-value jobs, we need to increase the creative content of every role. Instead of assuming that middle-class jobs must ultimately fall to globalization and automation, we need to redesign work environments so they elicit the everyday genius of every human being. While there may be a finite number of routine tasks to be performed in the world, there's no limit on the number of worthwhile problems that are begging to be solved. Viewed from this vantage point, the threat that automation poses for employment depends mostly on whether or not we continue to treat employees like robots.

The shift to humanocracy won't be easy. Consider that in Gallup's 2019 Great Jobs Demonstration survey, barely a third of US employees strongly agreed with the statement: "I have the opportunity to do what I do best every day." Less than a quarter said they were expected to be innovative in their job and only one in five felt their opinions mattered at work.[13] Given data like this, it's not a stretch to argue that many organizations waste more human capacity than they use.

There are practical, philosophical, and political barriers to redressing this lamentable reality. In our consulting work, we've crashed into many of these hurdles, and have the scars to prove it. We're not naive. Yet we've also learned enough to be hopeful. Bureaucracy is not a cosmological constant. Nowhere is it written in the stars that our organizations must be clumsy, stifling, and callous. Bureaucracy was invented by human beings, and now it's up to us to invent something better.

The first task is to build an unimpeachable case for pulling bureaucracy up by the roots. This is the focus of part I, "The Case for Humanocracy." In chapter 1, you'll learn why the biggest liability for most organizations isn't a clunky operating model or a busted business model, but a sclerotic management model. While our organizations might once have been able to bear the costs of bureaucracy, this is no longer the case. In chapter 2, you'll get an up-close look at how the features of bureaucracy—stratification, specialization, formalization, and routinization—undermine resilience, innovation, and engagement. You'll also get an initial glimpse into how some heretical organizations have been challenging bureaucratic norms. In chapter 3, we'll show you how to calculate the hidden costs of bureaucracy in your own organization—a critical step in building commitment for a comprehensive management overhaul.

To move from diagnosis to action, you'll need to believe there's an alternative to the status quo—that the idea of a human-centric organization isn't some utopian fantasy. In part II, "Humanocracy in Action," we'll go inside two mind-bending companies that have harnessed the power of humanocracy. Chapter 4 will give you a close-up view of Nucor, the world's most innovative steel company. You'll learn how Nucor's super-lean management model unleashes creativity and encourages everyone to think and act like an owner. In chapter 5, we'll expose the secrets of what is arguably the world's most creatively run company—the global appliance maker Haier. Over the past decade, Haier has been on a quest to build a company with "zero distance" between employees and customers. To that end, it divided its fifty-six-thousand-person organization into four thousand microenterprises, with just two levels separating frontline employees from the CEO. More a network than a hierarchy, Haier offers an astonishing yet practical model for achieving entrepreneurship at scale.

In part III, "The Principles of Humanocracy," you'll get introduced to the seven core tenets of a human-centric organization: ownership, markets, meritocracy, community, openness, experimentation, and paradox. In chapter 6, we'll argue that reinventing management requires not only new tools and methods, but entirely new principles. In chapters 7 through 13, we'll provide detailed examples of how to operationalize each of the principles in ways that will make your organization more resilient, creative, and daring.

As you may suspect, bureaucracy won't yield to new thinking alone. As the world's most ubiquitous social technology, bureaucracy is familiar, entrenched, and well defended. To prevail, you'll need to route around old power structures, energize a pro-change constituency, and launch dozens of audacious organizational experiments. These are the challenges we'll tackle in part IV, "The Path to Humanocracy." In chapter 14, you'll learn how Bertrand Ballarin, an industrial relations manager at Michelin, catalyzed a bottom-up effort to radically empower frontline teams. His story will give you deep insights into how to achieve revolutionary goals with evolutionary means. In chapter 15, we'll give you a step-by-step guide for getting started with your own team. We'll show you how to rid yourself of bureaucratic thinking, get your colleagues on board, and turn your unit into a laboratory for radical management innovation. Finally, in chapter 16, we'll show you how to scale up. Drawing on lessons from management hackers and activists, we'll outline what it takes to build a companywide campaign that gets everyone involved in the work of reinventing management. We'll argue that installing humanocracy requires a bold new approach to large-scale transformation, one in which change rolls up, not out.

This book is a manifesto and a manual. It argues, persuasively we hope, that it's time to free the human spirit from the shackles of bureaucracy—and that doing so will produce profound benefits for individuals, organizations, economies, and societies. It also gives management renegades practical strategies for advancing the cause of humanocracy within their own organizations. Over the last few years, we've been blessed with the opportunity to work with an amazing band of organizational buccaneers. They've taught us that with courage, compassion, and contrarian thinking, anyone can transform a large organization—whatever their title or position. So if *you're* ready to build an organization that's fit for human beings and fit for the future, we invite you to start right here, right now.

Part One

The Case for Humanocracy

Why Poke the Bureaucratic Beehive?

— 1 —

Fully Human

We are defined by the causes we serve. Our identity is discovered in the challenges we embrace. However modest our means and finite our capabilities, we can gift ourselves the exhilaration of a noble quest. Thankfully, there are plenty of deserving problems to go around—like building machines that think, reducing CO_2 emissions, overcoming racial disharmony, combating drug-resistant superbugs, ending human trafficking, and building habitats on other planets.

At some deep level, we know that life is too short to work on inconsequential problems. We know the sages were right when they commended "the road less traveled." Solving new problems and forging new paths—this is what we were born to do. It's tragic, then, that so many of us work in organizations that are fainthearted and dispiriting. Suggest an unprecedented and audacious idea to your boss and you're likely to get pummeled with objections: "That doesn't fit our strategy." "We don't have the budget." "You'll never get it past legal." "That's not our culture." "It's impractical." "There's a lot of downside." The problem isn't your manager, who's just as hamstrung as you are. The problem is that your organization, like most, is inherently hidebound, repressive, and fainthearted.

Take a moment and score your organization on the following dimensions:

Goals:	Gutsy	Timid
Risk taking:	Embraced	Shunned
Speed:	Flat-out	Plodding
Creativity:	Unbridled	Repressed
Autonomy:	Expansive	Cramped
Commitment:	Fervent	Tepid
Nonconformity:	Encouraged	Punished

Unless your organization is pint-sized or truly exceptional, it probably tilts to the right side of the scale. That's why you feel beleaguered. You've had the bold beaten out of you. "Epic quest," you snort. "I'm just trying to make the quarter."

Fair enough, but how did we end up with organizations so lacking in courage, creativity, and passion? And, as importantly, how did we become inured to this reality? The simple answer: it's all we've ever known. To one degree or another, *every* organization is diffident and dogmatic. Even world-beating companies seem burdened with intrinsic inadequacies.

Take Intel. You need thousands of wickedly smart people to pack 100 million transistors onto a square millimeter of silicon. Yet as a company, Intel botched what should have been a no-brainer: supplying chips for billions of mobile devices. Having failed to anticipate the explosive growth in the market for smartphones, Intel spent a decade, and more than $10 billion, trying to get back in the game. Finally, in 2016, it admitted defeat and shuttered its mobile communications unit. Other titans of tech—Microsoft, IBM, Hewlett-Packard, and Dell Technologies—similarly bungled the mobile revolution. How did this happen? How do companies with billion-dollar R&D programs, celebrity CEOs, and access to the best consultants in the world fluff the future?

Make no mistake, in many ways our organizations exceed us. Tour Tesla's manufacturing facility in Fremont, California, and you'll be awestruck. At more than 5 million square feet, it's the state's largest building. Hundreds of giant robots execute complex, ballet-like movements, driverless carts shuttle parts between workstations, giant hoists twirl car frames through the air, a seven-story press slams out body panels, and a hive of workers race to keep everything running smoothly. This symphony of synchronicity is, quite simply, beautiful. One can't help but be impressed by what human beings can accomplish when they work in concert.

Our organizations allow us to do together what can't be done alone. No single human can build a car, launch a satellite, create an operating system, train a doctor, erect a building, or mobilize a movement. Even Jesus needed twelve disciples.

Yet for all their accomplishments, our organizations are inertial, incremental, and uninspiring. These are the *core incompetencies* of the corporation, and they're so pervasive that we can be forgiven for assuming they're irremediable. We tell ourselves it's the nature of large organizations to be brittle and backward-looking, and to wish it otherwise is naive. Our pessimism would be justified except for one salient fact. As human beings, *we* are resilient, inventive, and exuberant. The fact that our organizations are not suggests that in some important ways, they are less human than we are. Ironically, it seems that human-built organizations have scant room for exactly those things that make us furless bipeds special—things like courage, intuition, love, playfulness, and artistry. We can't blame malevolent gods for this lamentable fact. If our organizations are inhuman, it's because we designed them to be so—whether consciously or not. Every institution is an assemblage of choices about how best to organize human beings in light of some particular goal. The premise of this book is that most of these choices can and must be revisited.

We shouldn't have to content ourselves with organizations that are authoritarian and joyless. Legacy is not destiny. There was a time when most of the world was ruled by tyrants, but today, billions of human beings live in freedom. This shift from autocracy to democracy didn't occur spontaneously, nor was it led from the top. Instead, it was the work of a sprawling confederation of philosophers, protesters, and patriots who were inspired by the promise of self-government.

We must be no less radical in rethinking the foundations of human organizations. Like our forebears, we must do our part to emancipate the human spirit. It is here we find a cause worth serving—to build organizations that give every human being the opportunity to thrive.

If you believe that human beings deserve more from their jobs, and that we'd be better served by more dynamic and inventive institutions, there's a ton you can do to move the world forward. As we'll see, there are compelling, workable alternatives to the organizational status quo, and a way to get from here to there—though it'll take some bushwhacking. Have no doubt, if you start with the right principles and learn to think like an activist, you can make a decisive contribution to enriching the lives of your colleagues, and to helping your organization flourish in a world that, however unsettling, is awash in opportunity.

As we set off, we should remind ourselves that when we regard a problem as intractable, we conspire to perpetuate it. Think of the well-off urbanite who averts his eyes from the homeless rather than volunteering at a shelter, or the beachgoer who picks her way through a scattering of plastic waste but doesn't stoop to pick it up. However daunting, even the most entrenched problems yield to courage and tenacity. We must not flinch or look away. Instead, we must confront what we have long known—our organizations are incapacitated by their inhumanity. We'll document this reality in the remainder of chapter 1, diagnose root causes in chapter 2, and build the case for a management revolution in chapter 3. In subsequent chapters, we'll lay out a blueprint for building organizations that are fully human and fully capable.

Human Beings Are Resilient. Our Organizations Aren't

We live in a world of accelerating change, where the future is less and less an extrapolation of the past. Change is unrelenting, pitiless, and occasionally shocking. (Picture robots working a stripper pole in Vegas. Yeah, that's a real thing.) Welcome to the age of upheaval.

Some argue that change has been accelerating since the Big Bang.[1] Across the eons, the rate at which matter organizes itself into more complex structures and systems has been gradually, imperceptibly quickening. And now, after 14 billion years, the pace of change has gone hypercritical. Lucky us!

This sudden acceleration is the product of radical shifts in the growth of computational power and network capacity. The latest iPhone has nearly six thousand times more transistors than the i486 chip that powered PCs in the late 1980s. In 2017, global internet traffic amounted to more than 46,600 gigabytes per second—a nearly 40-million-fold increase over the number in 1992.[2]

This exponential growth has opened up dazzling new horizons. Thanks to computational biology, we're beginning to understand the elaborate biochemical processes of human cells. Greater computing power means radically more capable machines. DRIVE AGX Pegasus, the dual-chip system designed by Nvidia to support self-driving vehicles, performs 320 trillion operations per second.[3] As the cost of bandwidth has plummeted, entirely new industries, like social media, have emerged. Powerful networks allow human beings to collaborate in ways never before possible. The paper that announced the discovery of the Higgs boson, for example, had more than five thousand coauthors.

The shockwaves of this explosion in computation and communication are reverberating all around us: e-commerce, the sharing economy, synthetic biology, blockchain, augmented reality, machine learning, 3-D printing, and the internet of things. As these shocks dissipate, new ones will thunder across the landscape. Within the next few years, somewhere between 200 billion and a trillion things, mostly sensors, will get connected to the web.[4] Imagine a world in which every change of state—every movement, flow, transaction, and perturbation—produces data. The planet itself will finally be sentient.

In this maelstrom, the most important question for any organization is this: Are we changing as fast as the world around us? For most organizations, the answer is no.

CEOs are inclined to blame this lack of adaptability on human nature. "People," they solemnly intone, "are against change." Like so many trite managerialisms, this is rubbish. Think about the people you know. Over the last three years, how many of them have done at least one of the following things:

Moved to a new city

Started a new job

Ended a romantic relationship or started a new one

Enrolled in a course

Adopted a new exercise regime

Taken up a new hobby

Lost ten pounds

Redecorated a room

Traveled to a new holiday destination

Formed a new friendship

Probably everyone you know has made a change in at least one of these areas. Fact is, we're change addicts. We have an insatiable appetite for the new. All those changes that are roiling our world, they're *our* doing. *We* are the agents of upheaval.

Unlike human beings, organizations are pretty much crap at change. That's why incumbents so often find themselves on the back foot. Today, we *expect* the newcomers to beat the geezers. Instinctively, we know that in a fast-changing world, resources are no substitute for resourcefulness—and that even the smartest companies are vulnerable.

Despite its commanding lead in search, Google missed the opportunity to take a pioneering role in social media. By the time it launched Google+, Facebook had built an insurmountable lead. When Apple's iTunes was slow to offer streaming content, it opened the door to newbies like Spotify and Netflix. When eHarmony, a pioneer in online dating, was tardy in responding to the smartphone revolution, Tinder filled the gap.

If you believe the future is essentially unknowable, you might argue that today's much-fêted insurgents were simply lucky. It was mere chance that they got the future right. Such a conclusion is wrong on two counts. First, the future isn't as opaque as is often assumed. If you pay attention to what's changing—the nascent trends that are gathering speed—you can often see the future a long way off.

Right now, America's cable television companies are scrambling to adjust to a world in which they no longer have a monopoly on the distribution of video content. By the end of 2019, over 40 million American households had shunned cable television for new, online services.[5] That same year, the number of streaming subscriptions surpassed the number of cable TV customers.[6] This shift was entirely foreseeable. In the early 1990s, technologists at AT&T predicted that video streaming would become commercially viable in 2005, and they were right. YouTube was launched in 2005, the first iteration of Apple TV appeared in 2006, and Netflix streamed its first movie in 2007.

Second, even if stumbling onto a future-friendly strategy is a matter of luck, one must still explain why the old guard is so predictably unlucky. If you watch someone play blackjack for several hours and they lose every hand, you won't mark it down to bad luck. You'll assume the hapless gambler is incompetent.

The data suggests that institutional inertia is endemic, and costly. Consider:

- Only 11 percent of the companies that made up the *Fortune* 500 in 1955 are on the list today
- The average age of a company on the S&P 500 Index has fallen from sixty years in the 1950s to less than twenty years currently
- Between 2010 and 2019, US public companies reported more than $550 billion in restructuring charges, which are typically the product of belated or inept attempts at strategic renewal

All this is testament to a simple fact: the world is becoming more turbulent faster than most companies are becoming more adaptable.

In practice, organizational change tends to be either trivial or traumatic. Every day, companies refresh products and improve processes with little drama. Strategic pivots, by contrast, tend to be convulsive, not unlike the uprisings that occasionally concuss poorly governed dictatorships. In large companies, as in authoritarian states, regime change—replacing the top dog—is the only way to rescind calamitous or superannuated policies.

Given these dynamics, companies that fall behind tend to stay there. Since 1990, there have been only five years in which General Motors hasn't lost share in its domestic market.[7] The company is alive today thanks to a government bailout in the wake of the 2008 financial crisis.

Sadly, senescent companies can't be euthanized. Instead, semi-comatose, they hang on, closing facilities, killing brands, throttling R&D, shedding staff, merging with lethargic rivals, and lobbying for regulatory help. These are "treadmill companies," and there are more of them than you think.

In January 2020, there were 454 firms in the S&P 500 that had existed as public companies for at least ten years. Of these, 124 had failed to deliver top-quartile returns in more than one year out of the previous ten. Among the league of laggards: Berkshire Hathaway, Coca-Cola, Comcast, ExxonMobil, Ford, Intel, Merck, Oracle, PepsiCo, Procter & Gamble, United Parcel Service, Verizon, Viacom, Walmart, and Wells Fargo. Between 2009 and 2019, these and other treadmill companies produced a median cumulative return of 172 percent—or less than half the 388 percent median gain achieved by the other veterans in our data set.

Shareholders aren't the only losers when a company gets stuck in the mud. Organizations that are slow to change tie up talent and capital that would be better deployed elsewhere. This depresses wages and returns across the economy. Inertial organizations also postpone the future. Having been shamed by Tesla, every major vehicle maker now plans to bring a full range of electric vehicles to market.[8] That'll be great for the planet, but it would have been better if the incumbents had embarked on this quest years ago, rather than waiting for a newbie to rub their noses in the future.

What we need are organizations with an "evolutionary advantage"—a capacity to change as fast as change itself.

A truly resilient organization would . . .

Never take refuge in denial

Rush out to meet the future

Change before it had to

Continually redefine customer expectations

Capture more than its fair share of new opportunities

Never experience an unanticipated earnings shock

Grow faster than its rivals

Have an advantage in attracting the world's most dynamic employees

One of our favorite *New Yorker* cartoons portrays a pair of dinosaurs. One is lounging against a boulder while the other is sitting bolt upright, stubby forelimbs punching the air. "All I'm saying," says the reptile, "is now is the time to develop the technology to deflect an asteroid." Unlike those doomed dinosaurs, human beings have a large prefrontal cortex and opposing thumbs and forefingers. We're clever enough to see the future coming and dexterous enough to do something about it. We're not dinosaurs, and neither should be our organizations.

Human Beings Are Creative. Organizations Are (Mostly) Not

Innovation is the fuel for renewal. CEOs get this. In a Boston Consulting Group poll, 79 percent of leaders rated innovation a top priority. They know that innovation is the only insurance against irrelevance. Yet in another survey, this one conducted by McKinsey & Company, 94 percent of executives expressed disappointment with their organization's innovation performance.

Despite this, a capacity for innovation is the hallmark of our species. Each of us was born to create—whether it's landscaping a garden, writing a blog, composing a photograph, inventing a recipe, developing an app, or starting a business. A recent study of US millennials, aged thirty to thirty-nine, found that 55 percent of them had used online videos to hone their creative skills, with a significant number also posting a handcrafted object for sale online.[9]

Digital technology has democratized the tools of creativity and given creators a global audience. Every day . . .

- More than 700,000 hours of new content gets uploaded to YouTube
- Three million blogs get created with WordPress

- Ninety-five million new photos get posted on Instagram
- Google Play adds 1,300 new apps to the 3 million already available
- Thousands of projects get launched on crowdfunding sites like Kickstarter, Wefunder, Indiegogo, and Crowdcube

Scientific innovation is also advancing at a blistering pace. Since 1985, the number of patents granted each year by the US Patent and Trademark Office has grown by more than 400 percent. There is no shortage of ingenuity in our world. Why, then, do long-established organizations generally suck at game-changing innovation?

Every year *Fast Company* magazine publishes a list of what its editors regard as the most innovative companies in the world. In a recent year, the top fifteen innovators were:

1. Meituan Dianping
2. Grab
3. NBA
4. Walt Disney
5. Stitch Fix
6. Sweet Green
7. Apeel Sciences
8. Square
9. Oatly
10. Twitch
11. Target
12. Shopify
13. AnchorFree
14. Peloton
15. Alibaba

Notably, all but two of these companies are less than thirty years old, and two-thirds were born digital. It would seem that if an organization is old and analog, it's screwed. Yet many of the companies crowned "most innovative" turn out to be overhyped, one-hit wonders. In 2012, when Gilt Groupe appeared on *Fast Company*'s most innovative list, the online retailer boasted a $1 billion valuation. Unfortunately, the company's business model, built around "flash sales" of high-end fashion items, turned out to be a flash-in-the-pan itself. After several rounds of downsizing, Gilt Groupe was acquired by Hudson Bay Company in 2016 for $250 million. Fifteen months later, Hudson Bay wrote off half the purchase price. Other once-lauded innovators have experienced similar slides, including Zynga, Groupon, SolarCity, and GoPro. Inventing a killer business model is hard; reinventing it is harder still. Serial innovators are rare.

Apple and Amazon are the exceptions that prove the rule. Despite their size, they have repeatedly created category-defining products and services like the iPhone and the iPad, and the Kindle and Echo. They've also pioneered radical new business models—such as the App Store and Amazon Web Services. In a rare feat, both Apple and Amazon have appeared on Boston Consulting Group's list of the world's most innovative companies for thirteen consecutive years, with Apple headlining the list in each of those years. So, yes, large organizations *can* be consistently innovative—but most aren't, and if innovation depends on having a creative genius like Steve Jobs or Jeff Bezos at the helm, most never will be.

Hoping to overcome their habitual incrementalism, many companies have set up purpose-built innovation "incubators" and "accelerators." By one estimate, there are now 580 idea labs around the world, up from 300 just two years ago. Despite their popularity, there's little evidence these creative outposts deliver significant returns. A few creative souls living large in their accelerator digs are no substitute for a deeply embedded capacity to continually reinvent the core business.

Acquisitions are another oft-used strategy for overcoming an innovation deficit. Unfortunately, like lonely barflies at closing time, perennial laggards are often overeager and indiscriminate suitors. Between 2008 and 2016, Hewlett-Packard, once an innovation luminary, spent over $37 billion on acquisitions aimed at transforming itself into an IT services powerhouse. Many of the deals led to big write-offs. As we write this, HP Enterprise is worth less than half what it spent on its acquisition binge.

Despite a torrent of books promising to unlock the secrets of innovation, large organizations seem as incapable as ever of unleashing the creative energy of their people. Some management pundits, like the nineteenth-century skeptics who believed human beings would never fly, claim that large companies are genetically incapable of game-changing innovation. We understand their pessimism, but are more hopeful. Across the globe, 1 million people are airborne at this very moment. If we aim high, there's no reason our organizations can't soar as well.

Human Beings Are Passionate. Our Organizations Are (Mostly) Not

Undoubtedly there's something in your life that ignites your passion, something that captivates and energizes you. Maybe it's your family, your faith, a social cause, a sports team, or a hobby. Passion can have a dark side, of course—like religious extremism, racial hatred, or sexual predation. These are passions misdirected and corrupted. Thankfully, most human passions are life-affirming.

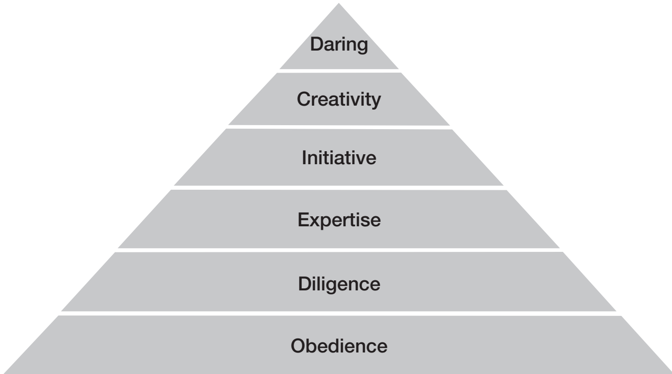
When we're in the thrall of a healthy passion, we experience a magical melding of effort and enjoyment. Formidable obstacles become intriguing puzzles, and minor wins, badges of accomplishment. We are most alive when we're doing something that enchants us. Sadly, for most people, that something isn't found at work.

A 2018 Gallup study found that barely a third of US employees were fully engaged in their work—where engagement is defined as being "involved in, enthusiastic about and committed to work." The majority of employees, 53 percent, were "not engaged," while 13 percent—the maliciously compliant—were "actively disengaged."[10] Globally, the situation is even worse, with 15 percent engaged, 67 percent disengaged, and 18 percent actively disengaged.

Here's why this matters. Picture for a moment a hierarchy of work-related capabilities, a bit like Maslow's hierarchy of needs (see figure 1-1).

FIGURE 1-1

Hierarchy of work-related capabilities



At the bottom is obedience. Every organization depends on employees who are capable of following basic rules around safety, financial discipline, and customer care. Next is diligence. An organization needs employees who are willing to work hard and take responsibility for results. The third level is expertise. To be effective in their jobs, team members need the requisite skills. While these capabilities—obedience, diligence, and expertise—are essential, they seldom create much value. Winning in the creative economy requires more. An organization needs people with initiative—self-starters who are proactive, who don't wait to be asked and aren't bound by their job description. Equally critical is creativity—people who are able to reframe problems and generate novel solutions. Finally, at the top, is daring—a willingness to stretch oneself and take risks for a laudable cause.

These higher-order capabilities are the products of passion, of a commitment to something that inspires us, something outside ourselves that needs and deserves the best of who we are. Initiative, creativity, and valor can't be commanded. They are gifts. Every employee gets to decide, "Do I bring these gifts to work today, or not?" and as the Gallup data suggests, the answer is usually "no" and, sometimes, "hell, no."

Just as a company can't build an evolutionary advantage without an innovation advantage, it can't build an innovation advantage without an inspiration advantage. If the goal is to build a self-renewing organization that ventures boldly into the future, then *everything* hinges ultimately on willing, enthusiastic, joyful engagement.

There's no secret about what drives engagement. From Douglas McGregor's *The Human Side of Enterprise* to Dan Pink's *Drive*, the formula hasn't changed in sixty years: purpose, autonomy, collegiality, and the opportunity to grow. Unfortunately, engagement levels haven't changed much either. It seems that every generation rediscovers the essential elements of human engagement and then does nothing.

You might argue that disengagement is inevitable. After all, a lot of jobs aren't very appealing. Every day you meet people with jobs you wouldn't want. Maybe it's a retail clerk, a service center rep, a short-order cook, a delivery driver, a gardener, or a housekeeper. You can hardly expect these people to be enthusiastic about their jobs, right? Actually, wrong. In a study conducted by the Pew Research Center, 89 percent of employees said they were either "very satisfied" or "somewhat satisfied" with their daily activities.

The engagement deficit isn't about what people do at work, but how they're managed. In Gallup's research, 70 percent of the variation in engagement scores was explained by differences in the attitudes and behaviors of the employee's boss.[11] For example, employees who felt they could approach their boss with any type of question were more engaged than those who couldn't. "But wait," you say, "if two-thirds of employees are disengaged, does this mean most managers are jerks?" Maybe, but here's the thing: managers are no more engaged than their subordinates. Per Gallup, 51 percent of US managers are not engaged, and 14 percent are actively disengaged.[12] In other words, your boss is probably just as disheartened as you are. Good lord! Maybe it's assholes all the way up. Or maybe not.

The Legacy of Bureaucracy

What if the inhumanity of our organizations is symptomatic of something deeper, something that has nothing to do with any particular manager or organization? Doesn't that seem likely? If virtually every organization on the planet suffers from the same afflictions—inertia, incrementalism, and emotional anomie—maybe there are common underlying disease mechanisms. A mutation in the BRCA gene raises the risk of breast cancer for a woman whether she lives in China or France. A carb-heavy diet raises the risk of diabetes whether you're Mexican or Australian.

Following this logic, we need to ask, in what ways are organizations alike? What traits are common to Sony, Telefonica, UNICEF, the Catholic Church, Oracle, Volkswagen, HSBC, Britain's National Health Service, Petromex, the University of California, Rio Tinto, Carrefour, Siemens, Pfizer, and millions of other, lesser-known organizations?

The answer: they are all bastions of bureaucracy. They all conform to the same bureaucratic blueprint:

There is a formal hierarchy

Power is vested in positions

Authority trickles down

Big leaders appoint little leaders

Strategies and budgets are set at the top

Central staff groups make policy and ensure compliance

Job roles are tightly defined

Control is achieved through oversight, rules, and sanctions

Managers assign tasks and assess performance

Everyone competes for promotion

Compensation correlates with rank

These organizational features may seem innocuous, but as we'll see, it's here, in the unremarkable landscape of bureaucracy, that we find the roots of institutional incompetence. Our organizations are less than fully human because they were designed to be so. Writing in the early twentieth century, Max Weber, the pioneering German sociologist wrote: "[B]ureaucracy develops more perfectly the more it is 'dehumanized,' the more it succeeds in eliminating all purely personal, irrational and emotional elements which escape calculation."[13] Then as now, the goal of bureaucracy was to turn human beings into semi-programmable robots.

The word *bureaucratie* was coined in the early eighteenth century by Jean-Claude Marie Vincent, a French government minister. Translated as "the rule of desks," the label was not intended as a compliment. Vincent viewed France's vast administrative apparatus as a threat to the spirit of enterprise. (*Plus ça change, plus c'est la même chose.*) A century later, in 1837, the British philosopher John Stuart Mill described bureaucracy as a vast tyrannical network.

This depiction seems as apt today as it did 180 years ago, so why haven't we yet rebelled? Why have we remained mired in an abusive relationship with our organizations? Because, to put it simply, we've lacked for a better alternative, or so we've assumed.

When compared to the despotic, disorderly organizations that preceded it, bureaucracy was a blessing. In pre-bureaucratic organizations, leaders were capricious and decision making mostly guesswork. Planning was haphazard and work practices idiosyncratic. Oversight was spotty, compensation poorly correlated with effort, and employee turnover often more than 300 percent per year. Bureaucracy changed all this and, in so doing, turbocharged productivity growth.

Between 1890 and 2016, the value created by an hour of labor increased thirteenfold in the United States, sixteenfold in Germany, and eightfold in Great Britain. While other factors—such as capital accumulation, universal education, and scientific invention—contributed to this bonanza, the biggest boost came from advances in bureaucratic management including workflow optimization, production planning, variance reporting, pay-for-performance, and capital budgeting.

Though dehumanizing, bureaucracy was, as Weber noted, "superior to any other [organizational] form in precision, in stability, in the stringency of its discipline and in its reliability," and thus "capable of attaining the highest degree of efficiency."[14] It is thanks to large, bureaucratic organizations that a billion people on the planet now own a car, that 4 billion of us carry a mobile phone, that when inclined to travel, we can choose from more than one hundred thousand commercial flights each day, and that when we buy and sell we can rely on a global financial system that processes more than one million transactions per minute. Whatever its faults, bureaucracy has earned its spot atop the pantheon of human inventions.

Yet as with other instruments of progress—firearms, fossil fuels, the combustion engine, large-scale agriculture, antibiotics, plastics, and social media—this triumph came at a price. Bureaucracy multiplied our purchasing power but shriveled our souls.

The fault lies not with any particular manager, but with a management regime that empowers the few at the expense of the many, that prizes conformance over originality, that wedges human beings into narrow roles, robs them of agency, and treats them as mere resources.

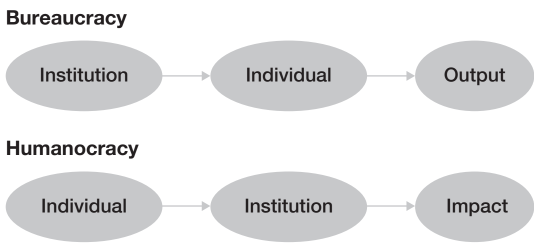
Like all technologies, bureaucracy is a product of its time. Since its invention in the nineteenth century, much has changed. Today's employees are skilled, not illiterate; competitive advantage is the product of innovation, not just scale; communication is instantaneous rather than tortuous; and the pace of change is hypersonic, not glacial. Yet the foundations of management have remained cemented in bureaucracy. This must change.

In recent decades, we've seen mind-flipping innovation in operating models and business models. Ocado, Britain's leading home-delivery grocery service, has a warehouse where dozens of robots scamper across an enormous grid of open-topped boxes, picking out items and delivering them to human beings who place them in plastic bags. That's radical. YouTube, Netflix, and Amazon Prime Video offer viewers a virtually unlimited menu of on-demand choices. For someone who remembers half a dozen channels of terrestrial television, that's radical.

To cure the disabilities that cripple our organizations, we need to be equally radical in reimagining the bureaucratic management model. Building organizations that are endlessly malleable, ridiculously creative, and brimming with passion requires entirely new approaches to mobilizing and coordinating human effort. We must try to imagine new management models that are as radically different from the bureaucratic template as FaceTime is from a landline phone call, or Alipay is from a wad of banknotes.

FIGURE 1-2

Bureaucracy versus Humanocracy



We need to put human beings, not structures, processes, or methods, at the center of our organizations. Instead of a management model that seeks to maximize control for the sake of organizational efficiency, we need one that seeks to maximize contribution for the sake of impact. We need to replace bureaucracy with humanocracy. We'll spend much of this book exploring the differences between these two models, but the essential distinction is this. In a bureaucracy, human beings are instruments, employed by an organization to create products and services. In a humanocracy, the organization is the instrument—it's the vehicle human beings use to better their lives and the lives of those they serve. (See figure 1-2.) The question at the core of bureaucracy is, "How do we get human beings to better serve the organization?" The question at the heart of humanocracy is, "What sort of organization elicits and merits the best that human beings can give?" As we'll see, the implications of this shift in perspective are profound.

To move beyond the old model, we must understand the precise ways in which bureaucracy has disabled our organizations. We must face up to the costs of bureaucratic malaise. We must learn from the management vanguard—progressive organizations that have demonstrated the viability and value of post-bureaucratic management practices. We must embrace new human-centric principles and operationalize them within our organizations. We must rid ourselves of bureaucratic mindsets and rethink our core assumptions about "leadership" and "change management." We'll tackle all this and more in the chapters that follow.

For now, let's be clear on one thing: bureaucracy must die. We can no longer afford its pernicious side effects. As humankind's most deeply entrenched social technology, it will be hard to uproot, but that's OK. You were put on this earth to do something significant, heroic even, and what could be more heroic than creating, at long last, organizations that are fully human?