

T H E

20%

SOLUTION

Using Rapid
RedesignTM to
Create
Tomorrow's
Organizations
Today

John J. Cotter

The 20% Solution

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Tomorrow's Organizations Today**

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Cotter was a founding member of The Center for Quality of Working Life at UCLA's Institute of Industrial Relations, the first university-based research center of its kind in North America. There he advised representatives from industry, labor, and government at the highest levels, in the United States and abroad, about the design of high-performance, team-based organizations. He left UCLA in 1978 to start his own consulting company, John J. Cotter and Associates Inc., based in Studio City, California. Since then, Cotter has taught organization design in the Executive Management Program at the Claremont Graduate School. He has also lectured and consulted all over the world.

A leading international authority on designing high-performance organizations, Cotter has published many articles on the subject in prestigious journals and collections, and produces a widely read bimonthly newsletter called *The Work Design Network News*. He is frequently quoted in *The Wall Street Journal*, *Industry Week*, *The Futurist*, and other newspapers and magazines, and has appeared in radio and television programs in the United States, Canada, Europe, and Australia.

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*This book is dedicated to my wife, Barbara,
whose love, intelligence, and positive spirit
sustains and supports me in everything I do, and
to our wonderful children, Jonathan and Alysia,
who continually enrich my life and inspire me in
countless ways.*

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Introduction

The other day, a colleague asked me an interesting question: “John, can you summarize, in one sentence, everything you’ve learned during the past 20-odd years from your teaching and consulting practice?” One sentence!

Since my practice has covered a lot of territory—management development and training, organizational restructuring and redesign—my friend’s question startled me at first, but then I realized I knew the answer: “Figure out the 20% of what you do that will contribute the most to your success in the future, then concentrate your time and energy working on that 20%.”

I went on to explain. I’ve spent tens of thousands of hours studying what makes organizations tick and helping people make them more productive. As a result, I’ve spent a lot of my time thinking about the future. The answer to my friend’s tough question sprang to mind because I’m convinced that, in the future:

- ❑ **Uncertainty will be the only certainty:** The future will become increasingly difficult to predict. As technology and globalization drive the world of business to operate on a larger scale in real time, uncertainty will rule. As a result, only the most adaptable and flexible organizations will survive and prosper.
- ❑ **“Getting it right” will be wrong:** Survival in an uncertain, dynamic world will depend on continuously changing the way organizations are structured. What’s right today will be wrong tomorrow. There’s no permanently right way to be organized anymore, no final endpoint to structure on which an organization can rest on its laurels. Future winners in business will recognize, adapt to, and sometimes take the lead by continuously inventing change.
- ❑ **Change will continue to change:** Incremental change, by itself, will no longer guarantee an organization’s success. The

new world economy will require creative change efforts that transform as well as adjust. To win the race to the future, an organization will have to create stimulating new opportunities rather than simply fix its present problems.

- **Winners will create their own futures:** Any organization that doesn't consciously and continuously create its own future will inherit a world shaped by others and find itself falling farther and farther behind the leaders as a result.
- **Managing successfully will require a big-picture perspective:** The biggest payoff in the future will come from avoiding problems rather than concocting spectacular solutions to problems. Disconnected improvement efforts are likely to make things worse rather than better. In a fast-moving world, an organization must simplify complexity by understanding how problems and opportunities relate to each other from a big-picture perspective.
- **Success will come from new ways of organizing work:** Winners in the future will structure work quite differently from how they do today, moving from complex structures assembled from many simple building blocks, to simple structures formed with much more complex components.
- **Only 20% of the factors shaping the future will really matter:** In a world that's changing at lightning speed, successful companies strive to change at the same rate by staying fast, focused, and flexible. The smart ones don't attempt to stay on top of every little detail or respond promptly to every fluctuation in the marketplace. Instead, they try to spot what's really important and focus their time and energy on those factors. By constantly examining and assigning priorities to developments in their environment, they concentrate on the most significant factors affecting each area of their business. Weighing how these factors will influence their future, they continuously redesign their organizations to eliminate weakness and exploit opportunities.

That's why I answered my friend's question the way I did. I could have said it even more simply: "Don't sweat the small stuff." Simple, yes, but not so easy to do. Most of the "stuff" any organi-

zation does is truly small stuff, but few organizations know how to distinguish between what's big and what's small, what's important and what's not.

"Great answer, John," my friend said after I'd explained my thinking. "I like that: The 20% Solution." "It's just another example of Pareto's Law," I explained. Vilfredo Pareto was a French-born economist who observed 100 years ago that 20% of the factors in most situations account for 80% of what happens (that is, 20% of a company's customers generate 80% of its profits). He called it Pareto's Law, and it applies perfectly to a world driven by accelerating change, where the ability to act quickly by screening out distractions and recognizing real opportunities can make all the difference between success and failure. The future will arrive as surely as a high tide. Those organizations that heed Pareto's Law will ride the crest of the wave; those that break it will be pummeled by the surf.

What will high-riding organizations look like in the future? How will they differ from today's organizations? For a partial answer to those questions, I can cite three companies that have already adopted and applied The 20% Solution: Skaltek, Semco, and W.L. Gore & Associates.

- Skaltek, a 100-person Swedish company founded in 1974, designs machines to wrap cables onto spools. It maintains no traditional business functions and operates with no departmental structure. When an order arrives, people interested in working on that order form a project team. When the team completes the order, its members disband and move on to a new project. The company spurns hierarchy, formal titles, and conventional managerial jobs. Twelve people are selected each year to evaluate individual performance and decide on salary increases for all employees. With the company's computer system, everyone in the firm can readily access information about orders, profits, cash on hand, wages, and anything else to do with the company's performance. Skaltek only does what it does best: designing overall systems and subsystems, and servicing its customers. It produces no parts, but acts as an integrator, fitting together supplies it purchases from others. Customers deal directly with employees at all levels. Assembled machines even carry

a picture of the people who assembled them and a phone number to call in case something goes wrong.

- Ricardo Semler, the majority owner of Semco S/A, a marine and food services equipment manufacturer that is one of the most successful companies in Brazil, explains the secret of his company's success. "Our first principle is that information is the ultimate source of virtually all power. For this reason, we try to make all of it available to everyone. The second principle is that responsibility for any task belongs to the person who claims it. And the third is that profit sharing for employees and success-oriented compensation for suppliers will spread responsibility across the Semco map." With income and security at risk, and with information readily available, people try to stay aware of everyone else's performance. Participation gives people control over their work, profit sharing gives them a reason to do it better, and information tells them what's working and what isn't. Semco functions as a three-level organization, with factory floor flextime, open stockrooms, self-set salaries, and six-month budgeting. Six "counselors" provide overall leadership and take turns every six months as acting CEO. Weekly divisional meetings and biweekly interdivisional meetings are open to everyone, and those who attend make decisions vital to the business. Over half the products Semco once made in-house it now subcontracts to employee-owned satellite companies.
- W. L. Gore & Associates, famous for its waterproof Gore-tex fabric, operates 35 plants and employs almost 6,000 "associates" worldwide. The company rang up revenues of a billion dollars in 1993. Four core values guide everyone in making crucial decisions at Gore: maintain fairness, honor your commitments, give everyone freedom to grow, and check for agreement before making "waterline decisions" that could sink the ship. No Gore plant employs more than 200 people. No one holds a fancy title, except as required for incorporation purposes. No one gets hired unless an associate agrees to sponsor and find work for that person. There's no permanent organization per se. Instead, project specialists form teams and get work done by recruiting other

associates. Each team member possesses multiple skills and commits to performing whatever tasks need to be done. Team leaders evolve from within each team and win their positions by consensus.

All three companies, operating in countries as diverse as Sweden, Brazil, and America, applied The 20% Solution and structured themselves accordingly. They refused to let themselves get distracted from what's important, concentrating instead on developing world-class capability in selected areas of their business (the 20%) to guarantee their prosperity. As a result, each has abandoned a great many traditional business practices, moving instead to minimal hierarchies, ad hoc structures, a reliance on self-control, and the discipline of the community marketplace in jobs and responsibilities to achieve high-quality, on-time, profitable performance. They totally transformed, rather than tinkered with, how people relate to each other and how work gets done. Not only have they succeeded because of these differences, they've proven they can do it year in and year out. Gore has operated this way since 1957, Skalktech since 1974, and Semco since 1982. There's nothing new under the sun; you just need to know where to look.

In the pages ahead, I'll present many more examples of successful innovation. A word of caution, however. Rather than viewing the organizations I'll describe as a parade of strange and unusual exceptions, consider them instead as precursors of the future. Their creative arrangements, or others like them, will, I believe, dominate the world economy by the end of this century.

Many popular business books have described key elements of today's rapidly changing economy, championing new work practices to deal with these elements and advising their readers to imitate the examples they present. They say, in effect, "If these ideas worked well for Motorola, or G.E., or Xerox, they'll work for you too." While such advice may satisfy academics and business theoreticians, it doesn't work for practicing managers because it doesn't show them how to redesign their own organizations to meet the unique challenges they face. As a result, those looking for practical solutions end up with a heightened awareness of the need for and the benefits of change, but they get few cold, hard facts about how to take action. Beyond chronicling what others have done, I'll describe specific ways organizations can distinguish

between what's important and what's not, so they can prosper and grow in the fast, dynamic, and complicated economy of the twenty-first century.

The 10 chapters that follow chart a map any organization can follow on its journey to the future. That map, true to The 20% Solution, doesn't describe every nook and cranny in the landscape, every possible twist and turn in the road, or every side street or blind alley. Rather, it shows the main arteries to the future, the 20% of the trip that will provide the greatest competitive edge.

- ❑ Chapter 1 discusses how the future will differ from the present and describes how an organization can gain significant competitive advantage by understanding these differences.
- ❑ Chapter 2 examines the new perspectives and mindsets that are needed before embarking on a journey of discovery and change.
- ❑ Chapter 3 describes a process of Rapid Redesign suitable for a world that's constantly changing and shows how to plan the trip to the future, from identifying the start of the journey to harnessing change mechanisms that will generate widespread input and ownership.
- ❑ Creating an organization for tomorrow is a lot like putting together a giant jigsaw puzzle; it helps to have an idea of what it should look like when it's assembled. Chapter 4 explains how to create such a vision, built around clarity of purpose and an integrated set of strategies that target future aspirations.
- ❑ Chapters 5 and 6 show how to evaluate an organization's current work systems and structures in a comprehensive way, identifying and prioritizing key strengths, weaknesses, and missing elements in the context of tomorrow's business opportunities.
- ❑ Chapter 7 describes how to invent different paths to the future, developing options for redesigning an organization around the three key areas of structure, support, and staffing.
- ❑ Chapter 8 shows how to successfully implement organizational change in a way that builds in mechanisms for continuous reflection and renewal.

- ❑ Chapter 9 looks at what it will take to manage new, more dynamic organizations.
- ❑ Chapter 10 examines new developments influencing how work will be organized in the future that have just begun appearing on the horizon.

Concentrating on the essential 20% and shunning the distracting 80% can ignite remarkable success for people as individuals and for the companies that employ them. I hope to demonstrate to all those whose lives and livelihoods depend on organizations that:

- ❑ Change can be their ally as well as their enemy.
- ❑ They can create the future from a wealth of attractive alternatives.
- ❑ They already know much of what they need to know to get started.
- ❑ They can reap huge benefits if they act quickly.

I wrote this book not just for the executives and managers responsible for steering their corporations into the future, but also for the employees, workers, associates, and union representatives without whose informed efforts these companies can't succeed. I hope this book helps all of them create an enabling vision of a new and better world. This vision will encourage them to find the energy and patience needed to complete the journey successfully.

Bon voyage.

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