



# Book The Intelligent Organization

## Engaging the Talent and Initiative of Everyone in the Workplace

Gifford Pinchot and Elizabeth Pinchot  
Berrett-Koehler, 1999  
First Edition:1996

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### Recommendation

How can citizens of a society that exalts freedom consent to spend the majority of their lives laboring within organizations that are hierarchical, slow-moving and dictatorial? Gifford and Elizabeth Pinchot raised that question in their heralded 1993 book and provided the following answer: Not willingly and not for long. The Pinchots were among the first management scholars to predict the demise of the military-style command structure, along with its inherent secrecy and Machiavellian political sniping. Although a slew of books devoted to the same theme have been published since, none have done a better job at explaining the potential of informed and engaged employees who don't fear their bosses too much to take decisive action. *BooksInShort* strongly recommends this book, which brims with meticulous case histories showing how teams, employee-owned companies and internal free-market competition have transformed organizations. (In fact, the Pinchots coined the term "intrapreneurship" to describe this process.) While you might not be convinced that a company run by consensus can ever compete with one run by The Prince, this book gives you hope that it can.

### Take-Aways

- Corporate and governmental bureaucratic systems are inefficient and doomed to fail in the information age.
- Most corporate problems arise from the fear-driven hierarchical structure.
- Fear of the boss is a terrible motivator for workers in the information age.
- Self-organizing systems of free markets and self-rule are the only solutions for today's corporate problems.
- The Intelligent Organization promotes widespread rights, liberated teams, diversity, learning networks, democratic self-rule and limited corporate government.
- Workers should enjoy freedom inside and outside of work.
- Monopolies within companies should be replaced with competitive teams.
- Employees should own the tools and the inventions that they create.
- Corporate managers should function more like limited corporate governments than traditional bosses of rank and title.

- "Free-intraprise companies" will increase profits and social responsibility.

# Summary

## The Much-Anticipated End of Bureaucracy

Bureaucratic systems, of both the government and corporate variety, are an ineffective and dying breed. Bureaucracies were probably great for landowners and serfs, but they are sorely lacking in an age of information and speed. Bureaucracy is too simple-minded to deal with the complexity of today's workplaces. Because it discourages workers from using their native intelligence to solve problems, bureaucracy will give way to intelligent organizations that foster collaboration between workers and management. The demise of the bureaucratic hierarchy of fear and reprisal is a sensible evolutionary outcome.

“Within the more bureaucratic organizations, work life more closely resembles life in a totalitarian state than life in a free nation. Freedom of speech is at the sufferance of the boss.”

History is filled with examples of traditional corporate hierarchies that stumbled not because their employees were dumb, but because the structures that they worked within were illogical. General Motors, IBM and Sears lost a total of \$32.4 billion dollars in 1992. (BooksInShort note: This book was originally published in 1993, so the case studies are a bit dated.) IBM gave away the software business to Microsoft in large part because of infighting between its various factions. In classic hierarchies like IBM's, you don't just fear your boss, you fear your colleagues as well.

“Leverage is more easily gained by changing the structure of human systems than by directly controlling events or specific behaviors.”

3M has realized the shortcomings of the traditional management structure and started moving in the direction of intelligent organization. Rather than relying on the decisions of one omnipresent executive, 3M allows its 50 business units to operate largely autonomously. Amazingly enough, the units seem to function like competitive states as opposed to slavish business divisions. This structure, combined with the company's history of allowing innovative employees to nurture their ideas, has resulted in 3M's growth and success.

“The newer national systems that have given people more freedom of choice and democratic responsibility tend to be high in material prosperity and closer to social equality.”

Hewlett Packard also has embraced intelligent organizational concepts. Never a believer in dictatorial rule, HP uses consensus management, divisional autonomy and decentralization to create new businesses. HP was one of the first companies to use counterintuitive practices like open standards and collaboration between competitors, which work in a wired world but rub the classically trained organization manager the wrong way. The efficiencies generated by such methods enable HP to manage its 9,000-person printer division with a single executive and four assistants. Such a feat could never be accomplished in a classical bureaucracy, and as a result, a bureaucratically run organization could never react to change as quickly as the HP division.

## Defining Organizational Intelligence

There are seven essential characteristics of the intelligent organization:

1. Widespread truth and rights: Employees must have access to detailed financial results, productivity measures and organizational strategies.
2. Freedom of enterprise.
3. Liberated teams.
4. Equality and diversity.
5. Voluntary learning networks.
6. Democratic self-rule.

## 7. Limited corporate government.

“The structure of intelligent organizations is not set by those in charge during periodic restructuring; instead order emerges as a result of everyone’s voluntary connections and more democratically determined directions.”

Freedom of community also will be a defining element of intelligent organizations of the future. Corporate democracy must be stronger and far more responsive than representative democracy, which entails simply voting every couple of years.

## Rights and Freedoms

Intelligent organizations should have a Bill of Rights that guarantees the following protections:

- Freedom of speech.
- Freedom of the press and e-mail.
- The right to inquiry.
- The right to privacy.
- The right to free association and continuity of relationship.
- The right to make and keep promises.
- The right to participate in democratic decision making.
- The right to develop one’s knowledge and competence.
- The rights of individual and team ownership.
- The right to justice for all.

“Corporations and other large employers are among the last bastions of dictatorship.”

In other words, the more information, the better. Everyone has access to e-mail and the Internet and the right to act intelligently upon the information that they find. The monarch has to let go of power in order for the workers to perform at their best.

## The Free Intraprise System

Mere decentralization isn’t enough. Teams must engage in free intraprise. Free-market entities competing within the organization engage everyone in the company, even the lowliest workers.

“When most of Europe and nations such as Japan and Korea moved from feudalism to more open economies and eventually more open societies, they were making the transformation from faith in centralized power to faith in the self-organizing systems of marketplace and democratic control. A similar transformation is beginning in our workplaces.”

For example, if a single unit is responsible for buying parts, break that monopoly up into teams that compete against each other. Of course, this will not be easy. Management must be willing to relinquish day-to-day control and become something like a benevolent arbiter. If management takes that leap, the intelligence of the workers will rise and with it, the fortunes of the company.

“The rights that increase organizational intelligence include freedom of speech, press and e-mail; rights of free choice and association; rights to lateral exchange within internal markets; the right to make democratic agreements on the ways and means to promote the common good.”

No company yet has established a true free-intraprise system, but if you’re ready to try, follow these steps:

- Create easy systems for setting up intraprisers.
- Establish institutions for defining and registering joint ownership of an intraprise - Each intraprise should be able to function like a client at the bank.
- Create a system for registering agreements and contracts.
- Create a fast and efficient internal justice system with fair courts and judges.
- Create a body of internal commercial law and promote worker ownership of the whole organization to increase cross-system cooperation.

“This ‘free intraprise’ system is composed of a network of intrapreneurial teams or ‘intraprises’.”

Liberated teams will form the basis of any successful free-intraprise system. Workers in traditional bureaucratic hierarchies are too frightened to take risks and be truthful to managers. "Teams, by contrast, provide safety from the power structure to take risks and do new things."

## Limited Government

Meanwhile, the monarch/CEO of the dying bureaucracy should transform himself into something that resembles a European government and concentrate on the following:

- Guarantee the rights of people, teams and intraprises.
- Establish the institutions of the internal market.
- Provide a charter system of justice.
- Provide limits that protect the reputation, integrity and deep pockets of the corporation.
- Intervene when a unit mistreats customers, the environment or employees.
- Provide an unemployment and health-care safety net for all employees.
- Support organizational standards for accounting, product and service compatibility.
- Foster dialogue on the long-term future of the organization.

“We hope to accelerate the transformation of organizations from bureaucracy to forms that develop everyone’s talents and let people make a positive difference in the wider world through their workplaces.”

The benevolent limited government should learn to think in the long term. The leaders of this limited government should guide and encourage a communications infrastructure, much like the United States government helped create the backbone of the Internet. In addition, they should fund and coordinate strategies too large for any one intraprise to take on. They can also play a role in establishing beachheads in new territories, nations, product categories and customer groups. Finally, leaders should foster the development of core capabilities and fund the defense of intraprises against unfair attacks.

## Beyond the Bottom Line

Worker freedom and empowerment can not only improve the corporate bottom line, it can better the world as well. Bureaucratic organizations that are only driven by markets have the potential to do communities great harm. Bluntly put, free markets don’t cure all ills. Market freedoms can make the rich richer, magnify social inequities, place too high a value on production and consumption, and elevate short-term gains over such critical concerns as the environment.

But if workplaces were more egalitarian, free workers could take into account the long-term consequences of their actions - something that they cannot do in bureaucratic hierarchies.

## A Free-Intraprise Manifesto

All of the principals of the intelligent organization can be combined in the following example of a Free-Intraprise Manifesto.

First, the workers at a free intraprise are not employees - a word that connotes and legally implies hierarchical subjugation to bosses - but freeholders, which implies independence. No one in a free-intraprise system owns another person’s labor. Intraprises are mutually owned by all of their full-time members and they contract with others for results. Every freeholder is guaranteed the right of free speech, freedom of association, freedom to give reasonable notice to leave and take a job elsewhere in the organization, and freedom to moonlight for other non-competing enterprises.

The organization will abide by the principle of Intra Property, which guarantees that workers and inventors own the tools and the inventions that they create, in the belief that the company will work better if employees own their own assets.

Intraprises will make up the basic building blocks of the free intraprise system and workers or freeholders will build the organization by forming partnerships that they choose and define. In addition, free intraprises that earn revenues have the right to decide how to

spend or invest them, for power is derived not from the hierarchy, but from having customers and making profit.

Free intraprises should benefit from their own financial institutions. Free intraprises need intra-money, intracapital, and a central intrabank. Intelligent organizations also should allow individuals or teams that have earned more intracapital than they care to invest in their own businesses to become venture intracapitalists. Free intraprises should be able to seek money from the company's central bank or any of the intraprises that act as banks within the company. Finally, the free intraprise should be managed by a limited corporate government that should implement taxes (pollution, payroll and gross) in order to fund its activities.

## About the Authors

**Gifford and Elizabeth Pinchot** have started and still run four companies together. They have also worked with more than half the Fortune 100, led school and community reform projects and collaborated in the writing of their influential book, *Intrapreneuring*.

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