Interview with Dr. Gary Hamel, Co-author of the book *Humanocracy*

How Can We Revive Organizations as Innovative as the People Inside Them?

By *Japan SPOTLIGHT*

During the Covid-19 pandemic, innovation can play a key role in helping businesses navigate the crisis. Restaurants, retail shops and other service sectors need to change their face-to-face business with clients due to social distancing, and the managements of these businesses now face the critical need to enhance their innovation.

Dr. Gary Hamel, an influential business thinker and long-time faculty member of the London Business School, is co-author with Michele Zanini of the recently published book *Humanocracy: Creating Organizations as Amazing as the People Inside Them* (Harvard Business Review Press, 2020). He strongly advocates in this book for management to unleash an individual employee's creativity, energy and resilience from the control of a hierarchical bureaucracy as a key to innovation. Dubbed a "management innovator without peer" by the *Financial Times*, Dr. Hamel offered us his insights in the following interview.
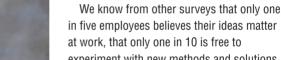
(Interviewed on Aug. 20, 2020)

Motivation to Write *Humanocracy*

JS: *Humanocracy* **is a very enlightening book that provides many good ideas for saving companies from inertia or lack of enthusiasm to innovate or raise productivity. What motivated you to write it?**

Hamel: The motivation came as I observed organizations from all over the world struggling with the same disabilities. Whatever the country, whatever the industry, it seemed that large organizations had some core incompetency, and most of them struggled with proactive change. Often deep

Dr. Gary Hamel

change is crisis-driven; it is episodic and often convulsive. Typically, it takes a change in CEO to set an organization in a new direction after much ground has been lost. I also saw that many organizations are incremental – they are not very good at changing using the fundamentally new business models that come from relatively young companies which are unencumbered by the machinery of bureaucracy. And finally, I could see that large organizations were wasting an extraordinary amount of human capability. Gallup – which does a global workplace survey – reports that only 17% of employees around the world are fully engaged in their work. That means the other 83% are not bringing their ingenuity, their initiative,

and their passion to work every day.

We know from other surveys that only one in five employees believes their ideas matter at work, that only one in 10 is free to experiment with new methods and solutions, and only one in 11 believes that they can influence decisions that are important to their work. It seemed that many organizations waste more human capacity than they use. And think about the challenges that our organizations face – they are inhuman, they are incremental and quite dispiriting – these are things that human beings know how to fix. So as human beings we are resilient, we go through difficulties and tragedy. We are going through an immense global crisis right now and we are extraordinarily resilient and able to reinvent ourselves and to adapt to difficult experiences. As human beings we have this quality of resilience, but our organizations are inertial. As human beings we are immensely inventive and creative; every day 500,000 hours of new video content goes up on YouTube, and 1,300 new apps get launched on the Google play store, and 40 million videos go up on Instagram. So there is no shortage of creativity in our world, but our organizations struggle to be truly innovative. And finally, human beings are filled with passion – we care about the environment, our families, perhaps our sports teams, and yet our organizations are often passion-free zones. So I was struck by this strange difference, this divide between our capabilities and the lack of capabilities in our

organizations.

So I wrote the book because I believed that organizations need to become as resilient and as inventive and as spirited and daring as the people inside them, and today that is clearly not the case. The book hopes to change that. I would just add one more thought to that. As a species, today we face an array of daunting challenges: besides the pandemic we face cyber threats, deep social fissures, climate change, geopolitical conflict, mass economic migration, and the potential of job-destroying effects of automation. Against those challenges, we need to be able to muster every bit of human initiative and ingenuity on the planet. So we can no longer afford organizations that are hierarchical, that are rules-bound, and that fail to use this immensely valuable human capital.

Individuals & Organizations

JS: Our next question is about hierarchy. You seem to be saying that hierarchy is the main culprit for low productivity and less creativity of each employee in organizations. Could you elaborate on how hierarchy hampers individual creativity or passion?

Hamel: First, I would want to distinguish between two types of hierarchy. There is one hierarchy that we inherited from bureaucracy. Literally, the word bureaucracy means the "rule of desks". That is the traditional management structure in which you have a hierarchy of administrative positions, typically of department heads and business heads and vice-presidents and senior vice-presidents and so on, where your authority depends on the position. You are a vice-president and now you have that positional authority. And yes, I believe that is quite often quite destructive.

The other kind of hierarchy is the natural hierarchy. On the Internet, there are some people who have more followers than others on any social platform. On the Internet, I have influence only if people choose to follow me; I cannot compel them to follow me. So the problems with that traditional positional hierarchy are several. It is important to remember why we have those formal hierarchies and we have managers at all. If you go back to the early industrial era and even before, information was very expensive to acquire and move. The best way of doing that was through a hierarchy with the employees talking to customers and sensing changes, and they would report up to a manager. Then at that level you would consolidate the inputs and the data from the managers and that would be reported up again. So in that period, that hierarchy was in essence an information-handling machine. And of course, in that old world, the people at the top were the only ones who could see the whole picture, the only ones with the entire view. Now, of course, we can share information immediately, everyone can see the same information instantaneously, and so this hierarchy is a relic of another age when information was very expensive to move.

Also, in the early industrial and pre-industrial age, most people at work were illiterate or very poorly educated. And they needed a particular breed of employee – a super employee called a "manager" to tell them what to do. Now today, most employees are quite well-educated, and they do not need someone to tell them moment by moment what they should be working on. And so, that hierarchy and that managerial control are artifacts of a time 100 years ago and more when information was expensive to move and when most people did not have the skills to be self-managing. And yet that bureaucratic structure has persisted. This causes damage across multiple fronts.

In that traditional hierarchy, we make the assumption that the thinkers are at the top and the doers are at the bottom. Hierarchy builds a kind of organizational caste system that distinguishes between thinkers and doers, between managers and workers, and between the clever and the compliant. When you treat people as doers, when you deprive people of autonomy and freedom in their job, they will not bring the best of themselves to work. That is why only 17% of people are engaged in their work, according to Gallup. And when you look deeper at that, it's quite interesting because 89% of people around the world – at least in the Gallup poll – are satisfied with the task. They don't mind the physical thing they are doing. What they object to is the work environment that infantilizes them and treats them like children.

In a typical company, an employee may be able to buy a car or an apartment in their private life but at work they cannot even buy an office chair without someone else's permission. So that hierarchy is by definition disempowering because it is a hierarchy of authority and that means those at the bottom have almost no authority, and that is what the evidence says. It treats a large amount of employees as second-class citizens. If you think that I am perhaps exaggerating a little bit, I will share an example that appeared in the *Harvard Business Review* a couple of years ago. This was said by one of the managing directors of one of the world's most influential consulting companies: "The CEO, the CFO and the CHRO will shape business by looking at the big picture, while others have their heads buried in operations." So he is saying that 99% of the organization does not need to look into the future, they should just have their heads down, doing what other people have told them. This is an extraordinary waste of human capacity.

The second problem when you have a hierarchy with all those layers is that it takes an extraordinary amount of time to get things done. If you believe that you need senior executives to make the most important decisions, that means that nothing changes until you change the minds of people at the top. In my book I talk about two decades that were lost for Microsoft. Between about 1993 and 2013, Microsoft missed almost every new opportunity in the digital world because their leaders were operating under the old mindset where the personal computer was the most important digital device, and the most important customers were CIOs in large companies. So they missed the opportunities for smartphones and for tablets and online music and so on. Now they are slowly catching up, but they lost two decades there. That is not a criticism of Microsoft, but it is an inevitable result of these hierarchical organizations because

inevitably for leaders at the top with a long tenure most of their emotional equity is invested in the past. They feel that they have to defend decisions that were made 10, 15 or even 20 years ago. They are insulated from the latest trends by the layers of managers who are trying to package up the data and make it palatable to the leaders and are often unwilling to challenge the biases or the prejudices of their superiors. Because of that, there are long lags between sense and respond. So typically, by the time an issue is big enough or urgent enough to get the serious attention of the CEO, it is already too late.

And often today, the organization will never catch up. So my first problem with formal hierarchy is that it turns off a great quantity of human capacity. The second is that it makes organizations very slow because people on the front lines cannot act, they cannot experiment and move forward. Let me give you an example. The Chinese company Haier, which I know quite well, is now the world's largest appliance maker. I think they bought the appliance business of Sanyo in Japan and General Electric in the United States and are now a global presence. When I first met Zhang Ruimin, the current CEO of Haier, in 2011, he came to my office in California and we worked through a translator. He had read my book *The Future of Management* and said that he wanted to build the kind of company that I describe. He said, "We are going to encourage our employees to become entrepreneurs, because people are not a means to an end but an end in themselves. Our goal is to let everyone become their own CEO, to help everyone fully realize their potential." So what Haier did was to reduce eight organizational layers down to three; they broke the company up into 4,000 micro-enterprises, small entrepreneurial businesses, and they got rid of 12,000 middle managers. They didn't fire most of those managers, most of them were re-deployed into these new entrepreneurial units, but those jobs will never come back in a flat, highly networked organization where individual teams have the freedom to make important decisions, are accountable for results, and have the financial upside – you do not need legions of managers directing their activities.

In my book, I describe bureaucracy as a massive multi-layered game that is played for the prize of promotion; it is played for the prize of positional power. So if I play this game well, I get promoted and a bigger salary. Unfortunately, the game of bureaucracy is not very well-aligned to the actual challenge of creating value for customers, because the way you win in such an organization is you learn to manage up, you learn how to massage your bosses ego, to show great deference and not to argue. You learn how to negotiate targets and how to manipulate the internal financial systems so that you have a chance of beating your numbers. You spend time deflecting blame, learning how not take responsibility, learning how to elbow rivals out of the way. So these behaviors are destructive often, but in many organizations an enormous amount of energy goes into these non-productive behaviors.

What you end up with is a hierarchy of people who are still bureaucrats, not necessarily a hierarchy of people who are distinguished by their courage, their imagination, their creativity and their leadership ability. So I think that the traditional idea of positional power and bureaucratic authority is going to have to surrender to something that is more dynamic, that better correlates confidence and influence and is more open to ideas and suggestions from people on the front lines.

JS: We think today that it is very important for employees to feel happy in their work, and your ideas in *Humanocracy* seem to be very helpful in encouraging an employee's happiness. Would you concur?

Hamel: Happiness is a difficult word, but I think yes. As human beings, we are at our best when we feel we have control over our own destiny. You have seen protests over the last few months and years in the US, but this is not just an American phenomenon. First of all, you saw a large group of disaffected voters in the Midwest part of the US who were left behind by deindustrialization. Those voters put Donald Trump in power. I saw in Britain 17 million British citizens voting to leave the European Union because they didn't think that distant political energy was alert to their needs. You see the Yellow Jacket protestors in France and the 5-Star movement in Italy, and coming back full circle to the US, it is not only people on the right who voted for Trump – there are millions of young people, many of them college educated, who do not see a future for themselves. If you look across the OECD, and this includes Japan, in every generation since World War II the percentage of people making it into the middle class has gone down. So we have immense frustration on both sides of the political spectrum today and that frustration is understandable. Every human being wants dignity. They want to believe that their life matters and their vote matters. They want opportunity and the ability to enlarge their skills, to enlarge their contribution and to benefit from that. Finally, they want equity – they want the rewards of success to be fairly distributed.

The data says that millions and millions of people do not find dignity and opportunity and equity in the workplace, and if you don't find it there it is going to be very hard to find enough of that anywhere else. So people go to work, and they are loyal and work hard, but they find very little fulfillment there – they find fulfillment in playing video games and distractions, and binge-watching shows on Netflix. But the emotional returns from work for many people are quite low. We do need to change that, and there are three levels of the argument in our book.

There is the economic argument that says, "We will not reverse that declining productivity growth until we find a way of turning on the individual worker's capacity at work." So if you look at the data, what we have seen since 1983 in the US is that the number of bureaucrats working in the economy – the number of managers and supervisors – has grown by more than 100%. It has more than doubled. All other job categories have grown by less than 50%. Most of this is not an artifact of government regulation; most of this comes from the natural human desire in organizations to win at the

game of bureaucracy and acquire more of the trappings of positional authority. So bureaucracy self-replicates in our own organizations. As bureaucracy has been growing, productivity has been slowing. I do not think those things are uncorrelated because bureaucracy puts a tax on the entire economy. We calculate that for the OECD, if we could reduce the bureaucratic load by half, and we know this is possible because we see some companies that have done this, it would raise economic output across the OECD by more than $10 trillion. That would more than double recent productivity growth, just that single move, if we could achieve that over the next decade.

There is a competitive reason as well. If I look at many of the great companies in Japan, many of these have struggled to keep pace with change as the pace of change has accelerated. So today the biggest risk to any company is not that it becomes inefficient; it is that it becomes irrelevant. Many CEOs are now learning a very hard lesson – that you cannot win in a networked world with a hierarchical organization.

Finally, there is a social reason, because people have a right to dignity in their work, they have a right to grow at work and to have a financial upside, and for many employees that is not possible. As consumers, we understand now the idea of radical innovation. When you think about how the way we pay for things has changed with mobile payments, when you think about how we consume news and information – these are radical changes over the space of a decade. So I would argue that just as today we could at least contemplate and think about radical innovation in business models, now we need to think about radical change in management models, because this is the only way of building locally competitive companies and building a society in which everybody has the chance to win.

JS: We believe that digital technology could reduce the negative aspects of bureaucratic organizations or hierarchies. Would you agree?

Hamel: In traditional organizations, most of the relationships and information flows were vertical. That is, command and control. Today most of it is lateral. We are already online and using Microsoft Teams and so the reality is that our organizations are already more lateral than they are vertical. And yet we are using these new collaborative technologies mostly to make white-collar work more efficient. So many of the new collaborative technologies do for teams what Microsoft Office did for individuals 30 or 40 years ago. But that does not change the structure of the organization; very few companies are using these collaborative platforms to set strategy. They are not using these to ask thousands of employees what they need to change in that bureaucratic model. We are doing that in some companies – we have a platform using our software that we built that is now being used by 70,000 people in Apple to collaborate and share ideas in a way that was simply not possible a few years ago.

The technology could harness the collective wisdom and imagination of many people, but the people at the top still have to be willing to listen. They have to be willing to empower people and to give them a voice in these conversations; otherwise those people will take their ideas somewhere else. They will be talking offline, they will be on Facebook, they will be talking about something else, but you won't be harnessing them at work. So it is wonderful having these new open platforms, but first of all you need an open mind to be able to use them.

Management in "Humanocracy"

JS: Our next question is about managers. We need to select wise managers in order to achieve the purpose of "Humanocracy". How do you think that would be possible? Meritocracy might be the answer mentioned in your book, but could you elaborate on this argument.

Hamel: Let me start with a little anecdote. In the book I talk about a Dutch company called Buurtzorg. This is the leading provider of home health services in The Netherlands, and this is a growing business around the world as we have an ageing population. So Buurtzorg employs around 16,000 nurses and nurse helpers. They divide those 16,000 employees into teams of 12 caregivers. Each team has somebody who is responsible for finances, somebody who is responsible for staffing, someone responsible for winning customers. Each of these teams operates as a little business. They have to find their own office space, they recruit colleagues, and they win customers. All of those teams are tied together by a social platform. So if I have a problem with a patient I can go online and search the collective wisdom of 16,000 colleagues about this problem. The performance of every team is visible across the entire network, so I know exactly how my team is doing against all the typical parameters of patient satisfaction and nursing utilization. Nobody wants to be at the bottom of that league table. So given all of that, they run a company of 16,000 people with only two managers. Two managers. That is a span of control of one to 8,000 people. And when they built the company, one of the founders said, "I want to create a company that values humanity over bureaucracy." I told this story because I am not sure how many managers we need – maybe we don't need any.

We certainly need less, so if you look at the companies we profile in the book, another example is Nucor, one of the world's most innovative and profitable steel companies. It is a company with 20,000 employees, and they have roughly one-third the number of managers of their competitors, because they have frontline employees who are taught to think like business people. Blue-collar employees who know how to read a profit and loss (P&L) statement and calculate return on capital, who have a natural upside if they improve those metrics, and every day they spend thinking about how to build a more successful business. So when you have people at the front lines who have been trained to think like business people and who have the authority to make important decisions and who have a

financial upside if they do well, you do not need a lot of managers because these people are self-managing. How do we select wise managers? I think we are going to need a lot fewer managers.

Let's go back to the early industrial revolution. When you had all these people coming to work, many of these people were illiterate and so you needed a manager to tell them what to do. The first business school gets established in the 1890s. All of the leading business schools get established around 1890 and 1930 or 1940 and then the rest of the world follows suit. The business schools were created to train this new breed of employee called the manager. At that time, it was a very rare skill set – it was like a data scientist today or a geneticist, very rare and very special. That was true for managers 100 years ago. No more! Interestingly, our companies are still hierarchies of administrative expertise. What distinguishes one layer from the next is just the size of your headcount and the size of your budget, not that you are adding more value, but you get paid more and get a better title because you have a bigger organization beneath you. Which is why people want to build a bigger organization beneath them – whatever the role, you try to add staff because that is how you get power and authority.

But I think that today, with information instantly available and very educated employees, the number of managers we need is much less. In 1988, Peter Drucker said that 20 years into the future we would have half the organizational layers and one-third the number of managers, and that did not happen. He should have been right because with better-educated employees as we went from an industrial to knowledge-creative economy, and as we got better communication, it should have been possible to reduce all of that bureaucracy, but it did not happen and we have to ask why. The most likely explanation is that people with power are pretty good at hanging on to it and can give reasons why they need to. That is the number one challenge in busting bureaucracy. I think of Pope Francis when he became the pontiff in 2013. He declared that he was going to cut through the Vatican bureaucracy – he wanted to create a church that was more responsive to the needs of the world and less inwardly focused. He was asked last year how it was going with dismantling the bureaucracy, and he said that it was like trying to clean the Sphinx with a toothbrush.

So if you want to bust bureaucracy you have to evolve the whole organization. This will never happen top-down – you cannot ask bureaucrats to remove bureaucracy, as a rule. Coming back to your question, I think that what we are going to have to do is to distinguish genuine leadership from management. That is hard because what we do today is talk about senior managers as if they are leaders, whether or not that is true. You hear people talk about "the leadership team", but my experience is not all of those people are leaders, and usually it is not a real team. They are usually fighting with each other, have very different views and perspectives, and yet we call them leaders. People refer to themselves as being in the "leadership ranks". I think that be a leader is not about your positional power. Today, with young people coming to work, if you have to rely on bureaucratic power to get things done you are

actually eroding your leadership capital. You are losing the respect of young people because they have grown up in a world where power trickles up, not down. If you have influence on the Internet. it is because people have chosen to follow you. People need to ask themselves – assume for a moment that I have no title with my name and no positional authority, what can I accomplish in my organization? If the answer is "not very much", then you are probably a bureaucrat and not a leader. What we have done is that we have completely conflated and intermingled these terms. My view of leadership is very simple – a leader is somebody who makes a catalytic contribution to collective accomplishment. That could be anybody at any level. And so I think that in some of the companies I talk about in my book the teams chose their own leaders. Leadership should be the reciprocal of followership. You are only a leader if people will follow you if they have the choice. That is the other question you could ask – if people had the choice, would they willingly follow?

At Haier, every year at every one of those micro-enterprises, they elect a leader. And if they miss their performance targets for three months in a row, it triggers a new leadership election. You can even do a hostile takeover if you see a micro-enterprise that is not doing very well and you know that people are anxious to do better, you can go and make your case and say, "I think I can lead your team better." And if the team says yes, you are the new leader. The reason that Haier can trust this kind of system is because every employee has a financial stake in the business. They are quite willing to tolerate a leader who is maybe not the easiest to get along with if they help them to achieve amazing results. So I think that we are going to have many fewer administrators in organizations; the work of managing will be more distributed to the periphery. I think that leadership will be less about mastering administrative tasks and will be much more about your capacity to drive meaningful change in a hostile environment with other people. We need to be very careful about conflating these terms "leadership" and "manager" as they are quite different.

Future of "Humanocracy"

JS: Our last question is about the future aspect of "Humanocracy". Do you think it will turn shareholder capitalism into stakeholder capitalism all over the world? Also, what is your view of the role of leadership recommended by "Humanocracy" in the age of the pandemic?

Hamel: I think that we already live in a world of stakeholder capitalism. Businesses have many responsibilities and not only to shareholders. Businesses do not have any innate rights. As human beings, in my way of thinking about the world, human beings have unique and inalienable rights, but I don't think companies do. Leaders need to remember that, because if you are not attentive to society's needs, then they will take away your freedoms and you may

end up having less latitude on many issues. So it is better to be proactive than reactive in meeting the demands of society. We are already in that world and that is happening. However, around the world, capitalism is in crisis, which is quite extraordinary when you think about it. There is no other system that has lifted so many people out of poverty as capitalism. It does not have a single intellectual rival – so why are people so frustrated? There was a recent poll across the 28 OECD countries, and 56% of people thought that capitalism does more harm than good – that is extraordinary. The reason is that capitalism has allowed itself to be perverted in some ways; it is not something inherent in capitalism, but it has allowed itself to be perverted and I think we have to separate two ideas here – the idea of capitalism from corporate power. In my country, more than 80% of Americans say that big companies have too much power, and it is hard to argue against this. They have immense power. I am sure the same is true in Japan, where you see more and more industrial concentration and smaller numbers of firms competing for customers. We know that pricing power is going up – economists tell us that a greater share of the gains is going to corporations versus employees.

There is an estimate in the US that $400 billion a year is going from consumers to producers who have more market power. Then you see a lot of financial engineering – companies spending trillions of dollars on share buybacks, loading up on debt, imperiling the balance sheet to give the illusion of superior performance when simply what they are doing is reducing the denominator in their earnings-per-share calculations. So I think there is a legitimate reason why people are upset with concentrated corporate power and the interference of large companies in the political process.

Let us not mistake abuse of corporate power with capitalism; that happens because the people who are supposed to be defending us are asleep at the switch. That is what we pay governments to do – not to kill capitalism but to point it in the right direction. I am in favor of more vigorous competition policies, and in favor of incentives for long-term shareholding, and in favor of CEO pay. All of that makes sense. But here's the deeper challenge with capitalism – as I said earlier, most people want a chance to run their own business, to have that sort of freedom. In the US, 77% of millennials want to run their own business. The number one subject area in most MBA programs is entrepreneurship. Many people will not have this chance.

When I look at Haier or other companies, I think you could create a league of owners; you could create a company where you divide it into small teams, everyone has a real P&L, not a top-down performance target, has the freedom to make business decisions, and where you can invest in your business and get a dividend. There is no reason to have a company that is just managers and employees – instead you could have a league of owners that share platforms and assets and compete together in productive ways. I think that for at least 30 or 40 years management experts have said that there is no way large companies can be entrepreneurial – that is completely wrong. Every employee needs a real financial stake in the business, a

real upside, real decision rights, because that brings dignity into work, and most people would like that chance.

Secondly, regarding the role of "Humanocracy" in the age of a pandemic, in most organizations over the last 30 or 40 years centralization has brought more and more power to the center, and there is good data for this. What happens in a big crisis is that power moves away from the center. In a small crisis, if you have a financial scandal at a company or something else, power moves to the center, somebody steps in to correct it. But when the crisis is big enough, power moves to the periphery because the center does not know what to do.

In most countries around the world at the beginning of the crisis, the bureaucracy struggled. Public health authorities struggled, certainly in Britain and in the US and so healthcare providers at the periphery stepped up. Nurses talked to nurses online, looking at the data, trying to figure out how to save patients. So you have these instant learning networks of physicians and caregivers, searching for best practice and learning from each other. In a crisis, when you are facing problems that are both novel and fast-moving, there is no hierarchy that allows you to deal with that solution.

The good news with the current coronavirus crisis is that it allowed a lot of individuals, under the worst possible circumstances, to dust off their initiative and ingenuity and to really make a difference. We need to give enormous thanks and gratitude to the people who did that. Looking ahead, I am not so optimistic because as a crisis wanes authority moves back to the center. If you look at what happened after the 2008 financial crisis, for a couple of years actual bureaucracy comes down. It took out some layers of bureaucrats but in two years it was back on the same trajectory as before. Unfortunately, Covid-19 is not lethal against bureaucracy. It may give leaders a nudge, because it is another reminder that we live in a world of unprecedented challenges, and to cope with that we need organizations of unprecedented capability. This will give a lot of leaders a nudge, and will create an inflection point in remote working which is probably a good thing, and maybe it will give a little nudge to say, "This is not the only crisis we face as human beings – we need to get better at harnessing the capability of everyone and we have to move away from these structures that are part of a world that no longer exists." JS