

Notes from  
**Who Really Matters**  
Art Kleiner  
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[The authors suggests that virtually every organization has a central group of folks whose habits and values ‘infect’ the remainder of the organization, for better or worse. The danger lies in either failing to recognize this fact of life, or even denying it. And now that we understand this, how can we capitalize on this knowledge to improve the performance or our organizations?]

**Part One – The Reality of Organizations**  
**Chapter 1 – The Customer Comes Eighth**

‘The customer comes first’ is one of the three great lies of the modern corporation. The other two are: ‘We make our decisions on behalf of our shareholders’ and ‘Employees are our most important asset.’ Government agencies have their own equivalent lies: ‘We are here to serve the public interest.’ Nonprofits, associations, and labor unions have theirs: ‘Above all else, we represent the needs of our members.’ (p 4)

This book ... starts with the premise that , in every company, agency, institution, and enterprise, there is some Core Group of key people – the ‘people who really matter.’ Every organization is continually acting to fulfill the perceived needs and priorities of its Core Group. ... What comes first, in every organization, is keeping the Core Group satisfied. (p 4)

Core Groups are not inherently bad or dysfunctional. Indeed, they represent probably the best hope we have for ennobling humanity .... Without an energetic and effective Core Group, all efforts to spark creativity and enthusiasm sputter out. (p 5)

[The Core Group] usually includes most, but not all, of the people at the top of the organization chart. Plus others. The Core Group members are the center of the organization’s informal networks, and symbolic representatives of the organization’s direction. ... It’s influence is not always conscious, or even visibly apparent, but it is always present in the implementation of actual decisions. ...

The people of the organization agree to make decisions on behalf of the Core Group, while the Core Group members agree to dedicate themselves as leaders to the organization’s ultimate best interests. ...

*The organization goes wherever its people perceive that the Core Group needs and wants to go. The organization becomes whatever its people perceive that the Core Group needs and wants it to become.* (p 7 – 8) [**Ayers’s Note:** That certainly has implications for the Ladder of Inference!]

In the rest of the chapters of this book, I hope to articulate ‘who really matters’ in a way that transcends both cynicism and naïveté, charting the boundaries and influence of the

Core Group and discovering the most effective ways to manage it, live with it, and influence organizations for the better. (p 10)

## **Chapter 2 – How Organizations Think**

\*\* To make sense of this [organizational collective], we need to understand how organizations act and think. The basic building block of organizational action isn't the job, the team, the project, the process, the share, or even the dollar: It's the *decision*. Organizations are essentially the sum of all the decisions made in them over time. (p 14)

If you have ever worked in an organization, then you know that every critical decision is made amidst a maelstrom of conflicting priorities, constraints, competitors, and constituents. ... The Core Group gives people a way to manage the complexity of decisions. ...

When faced with a complex decision, you might ask yourself, How comfortable would *so-and-so* be with this decision? ...

Now imagine that, for any organization, you could make a list of all the *so-and-so*'s in *everyone*'s mind in aggregate .... Those are the members of the Core Group. (p 16 – 17)

In a paradoxical way, the less hierarchical and more fluid an organization is, the more influence the Core Group has. ... when everybody's decision makes a difference, and people at every level make a lot of decisions, the Core Group becomes critically important. (p 19)

## **Chapter 3 – A Field Guide to Some Common Core Groups**

[offering some prototypical examples (for an established consumer products company, a high-tech start-up, a large military contractor, and a research university) and a two diagnostic exercises: Who really matters here? and, How is the Core Group chosen?]

## **Chapter 4 – A Very Special Kind of Love**

[When you're in the Core Group] it's as if the organization has fallen in love with you, a passionate, head-over-heels kind of love that is present beneath the surface of every conversation you have. The organization does all the things for you that infatuated lovers do. (p 37)

It's important to reemphasize, before we go any further, that there is nothing wrong with Core Groups, *per se*. In most organizations, the Core Group members are robust, intelligent, capable people. They deserve each individual perk and reward. They generally don't intend the cumulative effect when all the perks are added up, the dysfunctional feeling that some people are loved by the organization and others are not. Moreover, we don't condemn all forms of love just because people sometimes fall into dysfunctional relationships. (p 41 – 42)

[and a third diagnostic exercise, Are you in the Core Group?]

## **Chapter 5 – Power and Legitimacy**

The boss has ‘positional’ power based on his or her spot in the hierarchy. He or she can compel people to follow orders. Bosses without much legitimacy have a number of different ways to get people to do things: Incentives, discipline, threats, rewards, bullying, pleading, and bribery are all popular methods. But none of these, in the long run, are as effective as legitimacy, and they all carry a cost. Especially in crises, it’s the legitimate leaders, not the positional leaders, who carry the day. ...

In other words, while the Core Group depends on us for legitimacy, we depend on them for direction. ‘Direction’ doesn’t mean control, but the simplicity that allows us to act without having to pay too much attention. (p 48 – 50) [**Ayers’s Note:** This language is reminiscent of but varies from French and Raven’s ‘Bases of Social Power’: Reward Power: results from the ability to provide positive reinforcement; Coercive Power: reflects the potential to inflict punishment; Referent Power: a function of the respect and esteem to an individual by virtue of personal attributes; Legitimate Power: based upon authority recognized in accordance with position in an organizational structure; Expert Power: results from recognized expertise; Informational Power: stems from the ability to control the availability and accuracy of information; Connectional Power: reflects the result of whom someone knows and the support engendered from others as a result.]

\*\* What people conventionally call ‘leadership’ is, in fact, the ability to get others to confer legitimacy on us – and thus to get others to put us in the Core Group.

Building legitimacy is frequently overlooked as a way to influence organizations, but in the end it is probably the most effective way – especially when it is grounded in your own authentic persona. (p 52)

## **Chapter 6 – Employees of Mutual Consent**

If you are not a Core Group member, then to the organization, you are a transactional employee, or (to use the term I prefer) an employee of mutual consent. Your job is defined by an implicit or explicit contract, a basic agreement between you and your employer. (p 56)

Harragan’s book [*Games Your Mother Never Taught You*, published in 1976] is full of this kind of tough, unsentimental awareness. Underlying it all is the basic premise that, although the organizations we work for are powerful, as employees of mutual consent, we remain responsible for our own fates within them. (p 60)

There is a much better approach for employees of mutual consent: a strategy not of blind loyalty to the organization, but genuine friendship with it. Like all friendships, this is a stance of mutual admiration, respect, enjoyment of each others’ presence, and a modicum of care for each others’ welfare. You can be friends with an organization if you genuinely believe that, because it exists, your life is better, and so is the world around it. But friendships cannot be entered into out of need or dependency. The organization and you can be friends only if you are on an equal footing. (p 62)

## **Part 2 – Leading the Core Group**

### **Chapter 7 – A Core Group Way of Knowledge**

\*\* There is, in every case, an essential form of knowledge held by the Core Group. ... there are two parts that fit together neatly: the knowledge of the problem to be solved, shared by every organization of its kind, and each organization's unique way of solving that problem, which constitutes its own distinctive edge. (p 65) [**Ayers's Note:** Interesting implications for public education in an environment where monopoly is no longer operative and fundamentally all schools seem to share the same 'problem to be solved.' So what is the 'distinctive edge' of *school district X*, or even *school Y*?]

The preeminent historian Alfred A. Chandler, Jr. ... argues that the most successful [organizations] are those with a solid and impregnable 'integrated learning base' .... Some of this knowledge is tacit (held only in people's ingrained habits and assumptions); some is explicit (written down in manuals and passed on from one employee to the next).

The part that many writers overlook, however, is the symbolic importance of a Core Group that maintains the significance of the knowledge and its link with the organization. (p 66 – 67)

[and a fourth diagnostic exercise, What does the organization know?]

## **Chapter 8 – Guesswork**

\*\* When you are a Core Group member, your remarks are automatically amplified; people hear them as louder, stronger, and more command-like than they seemed to you when you uttered them. ... Why does this happen? Because nobody knows exactly what you want. They assume it is part of their job to guess. (p 75) [**Ayers's Note:** The Ladder of Inference looms again!]

People's guesses, after all, are based on what *they* would want if *they* were in the Core Group, or on what they imagine the signals from the Core Group might mean. They probably have only a fraction of the information available to you, and even if they had it all, though some 'knowledge management' computer system, they still wouldn't have your judgment and experience. (p 76)

Politicians, diplomats, and psychiatrists have long been aware that they have to be exceedingly careful with even their most casual remarks, because these can have huge effects on their listeners. ... Few business leaders have the instinctual level of *noblesse oblige*. (p 80)

[and a fifth diagnostic exercise, What signals are we sending?]

## **Chapter 9 – 'Doggie Treats' (Incentives, Targets, and Measurements)**

In practice, no matter how the measurement and incentives are intended to work, only what seems to matter to the Core Group will be measured. ... [The organization cannot] rely on 'cascading' ... down the hierarchy, because most middle-managers (who are not themselves members of the Core Group) will inevitably distort the message through self-interest and guesswork. So the Core Group members, particularly those at the top of the hierarchy, translate their goals into numerical targets and measures. (p 85)

\*\* What we really need around here, then, is a genuine conversation about the value of the measurements and incentives. Which ones truly matter? Why do they matter? Who put them in place, and what were they thinking of? (p 88)

## **Chapter 10 – Welchism**

When Jack Welch was appointed the new CEO in 1981, chosen specifically because he was the only person who might turn around the situation, few GE insiders believed he'd be able to pull it off. But he did. He did it by creating one of the most widely copied management practices in history, a philosophy that will undoubtedly come to be known as Welchism. ...

Most notably Welch put in place a performance appraisal method that he came to call the 'vitality curve': managers identified the top twenty percent ('A players'), the middle seventy percent ('B players'), and the bottom ten percent ('C players') of their top-level subordinates. The evaluations were based on two criteria: 'Do they get results?' and 'Do they match our values?' (p 90)

The Welchist efforts that succeed in the long run are, paradoxically, intensely devoted to cultivating their people at the same time that they prune them. They don't just pay lip service to this; they relish it. Jack Welch himself was an unusually skillful Welchist. (p 95)

## **Chapter 11 – The CEO's Choices**

If you are a senior executive, then you have fairly broad power to give commands – for example, to promote people, lay off people, set targets, move resources into and out of projects, and authorize decisions. Those are the levers and switches of formal authority. But they are constrained by guesswork. You cannot specify how people interpret your commands, or how they interpret information. Nor, unless you are willing to micromanage the entire enterprise, can you specify how people will lead individual projects. (p 97)

\*\* When you are aware of Core Group dynamics, the possibilities of this kind of design [of structures and procedures] becomes much clearer. Executive leverage, in short, lies in sending signals and establishing constraints; setting an environment and context out of which a great Core Group can emerge. (p 98)

\*\* The form of talk is profoundly important. ... If you want to change an organization, you start by changing the patterns in which people talk together, the things they talk about, the frequency of their contact, and the makeup of those who overhear them. (p 101 – 102)

[and a sixth diagnostic exercise, What am I doing to foster a great organization?]

## **Chapter 12 – The Expanded-Core-Group Organization**

Could there possibly be an organization where almost everyone is in the Core Group – where decision-makers take into account all of the members of the organization whenever a decision is made, where everyone works on behalf of everyone else, and where things

*don't* dissolve into either bureaucratic torpor or chaotic everyone-for-themselves anarchy? ... [In the Expanded-Core-Group organization] it's easy for everyone, from the CEO on down, to take the needs and priorities of everyone into account when they make a decision. (p 106 – 107)

[With 'open-book management'] they deliberately educate their employees in all the financial numbers of the company's business. ... Once people understand what it takes to be a business person, not just a cog in the system but somebody on the brighter side of capitalism, then their lives can change forever. (p 108 – 109)

## **Chapter 13 – The Glass Ceilings**

A thousand training courses will not address the Core Group diversity issue, unless Core Group members lead the way. No one else can do it; no one else has the wherewithal to unravel the barrier that prevents certain types of people from entering the Core Group no matter how valuable or worthy they may be. (p 117)

## **Part 3 – The Essential Core Group Career Guide**

### **Chapter 14 – Your Inner Core Group**

People mistakenly assume that a pattern set long ago, by some other Core Group in some other organization, will be universal. We carry with us the Core Group members who have supported us or rejected us in the past, in a kind of Inner Core Group – and we try (usually unsuccessfully) to recreate the nature of that Inner Core Group in the organizations of the moment. (p 129)

There is kind of innate authority that develops within each of us as we cultivate our Inner Core Group. Ironically, that's probably the best way to get into the *external* Core Group of an organization worth working for. Such organizations are naturally attracted to people with the kind of maturity that stems from long-standing intensive reflection.

'You think you're in a Core Group or you're not,' says Bill Isaacs, 'because of some external factor. You go to school, for instance, because you think the degree will get you into the Core Group. You wonder, 'How come this person got in and that person did not? How do I get to be part of it?' And all along, you're bypassing the critical question: 'Are you at the Core of you own life? Are you making decisions on behalf of your deepest unfolding potential?'"(p 130)

[and a seventh diagnostic exercise, My life among the Core Groups]

## **Chapter 15 – Core Group Enablers**

[Listing a series of sad stories ...] [All of these stories feature] Core Group enablers. They have all adopted, down to their core, attitudes that they know are wrong, but that keep a dysfunctional Core Group in place. ... All of them think that they are simply doing their job. ... In most of these cases, we strike an implicit bargain with the organization, a bargain this is neither heard not honored by anyone but ourselves. (p 134 – 135)

What a waste of our time. What a waste, for the organization, of our potential. ... Nor can we expect the organization or the Core Group to do anything to help us: that's how we got into the situation in the first place. (p 136)

## **Chapter 16 – A Portfolio of Equity**

There are dozens of types of equity that an individual can accumulate, including these:

- Fungible financial equity [portable money] ...
- Rainmaking equity [ability to raise money or business] ...
- Credential equity ...
- Recognition equity ...
- Relationship equity ...
- Capability equity ...
- Health, fitness, family, love ...

Some forms of equity are measurable while others are not, but all of them have two features in common.

First, they give you leverage in an organization (and in life in general).

Second, they accrue exponentially, with the same compound-interest emotional dynamics as a savings account. (p 139 – 141)

\*\* All forms of equity involve the same two thresholds: confidence [where you start to grasp the power of your accumulation] and sustainability [where your equity generates enough to replenish itself without effort]. (p 143)

\*\* Anyone, no matter how downtrodden (or how excluded from the Core Group), can build some kind of equity. ... Because you cannot tell in advance which will be most useful to you, accruing many forms of equity helps contribute to a well-rounded life. (p 146)

[and an eighth diagnostic exercise, My own portfolio of equity]

## **Part 4 – Core Group Stories**

### **Chapter 17 – Parasitic Core Groups**

A parasite, as Arie de Geus puts it, is any part of a company that 'serves its own self-interest at the expense of the natural functions of the host organization.' Any parasite can damage its host, but a parasitic Core Group is particularly devastating, because its priorities are so loudly amplified throughout the organization. (p 151)

### **Chapter 18 – Core Group Feuds and Maladaptive Companies**

[Describing the recent situation at HP ...] On the Fiorina side was the CEO and most of the board; on the Hewlett side, some key leaders inside the company and the representatives of the two founders' families. By early 2002 HP had fallen into one of the most destructive circumstances an organization can face: a feud within the Core Group. (p 160)

In a circumstance like that, the first order of business is to end the feud. Because Core Groups are judged by the way they act, this articulation of a ‘whole greater than the sum of the parts,’ has to be grounded in action. To heal a maladaptive systems, there needs to be a deliberate series of small but symbolically significant actions that are consistent with each other and that build momentum gradually, so that word of mouth spreads. There is no one set of leaders again. We don’t have to worry about which one will ‘win.’ (p 161)

[and a ninth diagnostic exercise, Where are the feuds in the Core Group?]

## Chapter 19 – Government Agencies

For the past century or more, economists and politicians have fiercely debated the most effective way to run an economy or a government: with relatively free markets, or with relatively strong governments. But now a recognition is sinking in that the argument itself is irrelevant. ... What matters most is the quality of the Core Group. Competent organizations with high-quality leadership are likely to produce the most effective infrastructure and services – public *or* private. (p 164)

\*\* This is also the conclusion reached ten years ago by the most authoritative and comprehensive study of government agencies that I know of: *Bureaucracy* by James Q. Wilson. Wilson opens this masterwork by describing three government organizations that produced dramatically effective results compared to their peers [an army, a prison system, and a high school]. ... In all three cases, the effectiveness stemmed from the ability of a particular leadership team – a Core Group, though Wilson doesn’t call it that – to take charge of an operation and make it work. (p 164 – 165)

\*\* ‘To do better,’ writes Wilson, ‘we have to de-regulate the government.’ [The author then lists the essential criteria: a clear, simple set of criteria for success; authority to chose methods and staff; rewards commensurate with results; oversight but not micromanagement; an exit strategy so that the next Core Group can assume the mantle after a reasonable time – which might be decades!] (p 168) [**Ayers’s Note:** Hmmm ... and what about the typical relationship between Schools Boards and Superintendents?]

## Chapter 20 – Labor Unions

Why do managers hate unions so much? Only one answer makes sense to me. Union members have collective-bargained their way into the Core Group while many managers have not. ... They have muscled their way in. Thus, nearly every unionized company is prone to Core Group feuds. (p 170)

Unions negotiate from the premise that workers should be rewarded only as members of a group; no one should be singled out as individually worthy, for that will make all the others vulnerable. ... Meanwhile, management, from the era of Frederick Taylor to the era of Jack Welch, has internalized the principle that some people are worthy and some are not. (p 171)

\*\* [Recounting a school situation ...] The principal believed that the union leaders were too strong; after all, look at the trouble they were giving him. But it was clear, in listening to the story unfold, that the basic problem was the opposite. The union was too



*weak*. Being weak, its leaders had no choice but to move in petty, noncreative ways. If the principal really wanted to improve his ability to innovate, then, counter-intuitively enough, he would have to invest in helping the union become stronger without making himself weaker. ... The same is true, incidentally, when management is weak. They aren't strong enough to generate profits from good decision-making, so they take it out on the union. (p 173) [Ayers's Note: This is very close to Ben Zander's idea that you need to make the people around you more powerful – the goal is to *increase the power generally*, not to simply to *consolidate whatever limited amount there is now* into one pair of hands.]

## Chapter 21 – Management Consultants

... the single skill are which all great consultants excel: the ability to develop close relationship with Core Group members at client companies. No matter what their specialty or practice, in other words, all established management consultants are keenly attuned to the difference between Core Group and non-Core Group members.

And the same is true in reverse. Core Group members in client organizations may not be able to recognize their own Core Group structure well (in part because employees keep it hidden from them), but they are sharply aware of the Core Group status (or lack of it) among the consultants they hire. (p 175)

Why should the rest of us care about the fate of management consultants? Only because, in an organization-driven world, these people have a unique role to play. In many organizations, they re needed to help the Core Group function more effectively. ... the outsider becomes, in effect, a developer of Core Group talent .... (p 178) [Ayers's Note: See Greenleaf's comment (in *Servant Leader*) paraphrased as 'We are a society of large organizations and they are not serving us well. We need to do something about that.'

## Chapter 22 – Schools and the 'Hidden Curriculum'

\*\* ... schools get blamed for poor performance. Meanwhile, the biggest single factor at most schools in improving student performance is not class size or school budget size, but the quality of teachers. ... The well-known teachers shortage in the U. S. Would not exist, except for the fact that almost fifty percent of the teachers hired for public schools leave their jobs within the first five years – not for lack of salaries, but for lack of legitimacy. (p 180 – 181)

The primary factor that separates the favored from the unfavored in the hidden curriculum is knowledge – knowledge of the subtle forms of behavior that signal your membership in the elite. That's the kind of knowledge so important and difficult that it takes six or seven hours a day to learn. ... *That* was the hidden curriculum [for students] at MIT: learning how to 'read' the culture, to distinguish important from unimportant rules, and to adapt their own survival strategies accordingly. (p 182 – 183)

What we all thus need, in learning-oriented organizations like schools, are better Core Groups: Core Groups diverse enough that every student can see him- or herself reflected somewhere in one or more of them, and thus see examples of how powerful he or she could become. (p 184)

## Part 5 – Making a Better World

### Chapter 23 – The Shadow Core Group

People seriously trying to influence an organization can be effective only if they understand how the Core Group's priorities are perceived, and how those perceptions differ from the Core Group's actual intentions. ... That combination – dispassion plus time plus commitment – is so counter-intuitive that those who intervene to change organizations, whether from the inside or outside, have to learn to generate it practically from scratch. (p 189 – 190)

... what *not* to do ...

- Do *not* try to bully the organization's Core Group into improvement. ...
- Do *not* adopt a passive-aggressive campaign. ...
- Do *not* put yourself down as a way to curry favor or influence ....
- Do *not* put your hopes on a 'skunk works' or other innovative operation buried within the organization ....
- Do *not* start a revolution. ... a revolution, besides being immeasurably disruptive to ongoing business, merely substitutes one Core Group for another. ... (p 190 – 191)

What then can you do? You establish proficiency as a deliberate intervener. Intervention in a complex systems is a kind of art form in itself: the art of crafting legitimacy for a set of new ideas. ...

Probably the best way to begin is to convene an informal team of compatriots who feel the same way you do – a shadow Core Group for the organization. ... The name comes from politics, where people talk about 'shadow government': the apparatus set up by the party voted out of power ... you have to be willing to develop the same level of care and commitment for the organization as if you were in the Core Group. (p 192 – 194)

... some ideas for what the shadow Core Group can do:

- Move deliberately to widen the shadow Core Group to embrace and include real Core Group members. ...
- Understand how the Core Group defines success and frame your project as a method or milestone for accomplishing their success. ...
- Wait for the right moment before you ask for formal certification. ...
- Learn how to hold high-quality conversations. ...
- Get the whole system in the room. ...
- 'Amplify positive deviance.' ...
- Articulate misperceptions. ...
- Practice. ...

If you make a better Core Group, you may engender a better organization – and that, in the end, may be the only way, these days, to make a better world. (p 195 – 197)

[Ayers's Note: For more on the 'positive deviance' concept, check out The Positive Deviance Institute at <http://www.positivedeviance.org/pd/pdi.html> ]

[and a tenth diagnostic exercise, How does the Core Group affect your own team dynamics?]

## **Chapter 24 – Corporate Governance**

... [the thesis of one camp] is more commonly known as the fiduciary model of corporate governance. In this model, shareholders come first. ... [The other is the stakeholder model which] starts from the premise that corporations are contracts chartered by the state to serve multiple interests: shareholders, employees, neighbors, suppliers, customers, managers, and the citizens of their community. (p 201)

We need a third model of corporate governance: one that recognizes the primacy of Core Groups while constraining them from abuses of power. This theory would start by recognizing that companies survive and thrive when the purpose of the Core Group is aligned with the long-term needs of the organization – whether they're fiduciary needs, stakeholder needs, or something else. (p 205)

\*\* Governance depends on the board, but the boards of most companies – and most organizations – are systematically eliminated from the Core Group. ... It's time to find ways to elect and select board members who care not just about the share price but the reputation, integrity, and knowledge of the organization. The critical issue is trust. The greatest way for shareholders to protect themselves is by establishing new ways, probably varying from corporation to corporation, to engender more trust in the system. (p 206-207)

## **Chapter 25 – The Cycle of Noble Purpose**

Cigarette companies being open about health hazards, decades before they have to be. Cell-phone companies designing in protections, again before the need is proven. And chemical companies participating wholeheartedly in epidemiological openness. All three of these potential strategic directions have three things in common. First, they are extremely difficult to see from within, especially from within the Core Group. Second, they represent obvious benefits in the long run; a company that took them on would probably outlive its competitors. Third, they are immensely risky in the short run.

Such is the nature of the noble purpose in any organization. (p 213)

\*\* A truly honorable sense of purpose is one in which the organization seeks to leave the world a much better place, in some way closely related to the organization's own integrated learning base. (p 217)

[and a eleventh diagnostic exercise, The Core Group theory of life]

## **Chapter 26 – The Body Politic**

Why can't companies operate, not like the communities as they are, but like the small-town communities of our imagination, the way we would like them to be?

Because organizations have another purpose. ... (p 225)

In an organization, decisions should be made on behalf of the perceived needs and priorities of the leadership. In a civic society – a community of any size from a village to a nation – civic decisions should be made on behalf of the life, liberty, and pursuit of happiness of all the people who live within its boundaries. If you live there, you should be seen as part of the Core Group. (p 226)

