

“The Coming of the New Organization”

by Peter F. Drucker

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Summarized by: Rose Domingo
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Summary:

The article discussed the need to change the command-and-control organization to information-based organization, which is an organization of knowledge specialists. One scenario cited by the author is: In an orchestra, there are probably few orchestra conductors who could coax even one note out of French horn, let alone show the horn player how to do it. But the conductor can focus the horn player's skill and knowledge on the musicians' joint performance. And this focus is what the leaders of an information-based business must be able to achieve. As soon as a company takes the first tentative steps from the "data" to "information", its decision processes, management structure, and even the way its work gets done begin to be transformed. The following are highlights of the article.

- Consider the impact of computer technology on capital investment decisions.
- To understand "capital investment", we need at least six analyses: (a) expected rate of return (b) payout period and investment's expected productive life (c) discounted present value (d) the risk in not making the investment or deferring it (e) the cost and risk in case of failure (f) opportunity cost. Before the advent of data-processing capacity, the actual analyses would have taken man-years of clerical toil to complete.
- The availability of this information transforms the capital-investment analysis from opinion into diagnosis. Also it transforms capital-investment decision from an opportunistic, financial decision into a business decision based on the probability of alternative strategic assumptions.
- The second area that is affected when a company focuses its data-processing capacity on producing information is its organization structure. Immediately, the numbers of managers are sharply cut. If the manager serves only as a "relay", basically he/she is affected.
- The best example of a large and successful information-based organization had no middle management at all.
- Converting data into information requires knowledge.

- Information-based organization requires far more specialists who are found in operations.
- Information-based organizations need central operating work such as legal counsel, public relations and labor relations. In its central management, information-based organization needs few, because of its flatter structure. For example, in pharmaceuticals and telecom, the traditional sequence of research, development, manufacturing and marketing is being replaced by synchrony: meaning specialist from all these functions work together as a team.
- Information-based organizations, in other words, require clear, simple, common objectives that translate into particular actions. It also needs concentration on one objective or at most on a few. Because the “players” in an information-based organization are specialists, they cannot be told how to do their work.
- So an information-based business must be structured around goals that clearly state management’s performance expectations for the enterprise and for each part and specialist.
- The other requirement of an information-based organization is that everyone takes information responsibility. Information responsibility means everyone in an organization should constantly think of information he or she needs to do the job and to make contributions.

According to the author, the information-based organization also poses its own special management problems and these are:

The first challenge that faces an information-based company is developing rewards and recognition. Opportunities for specialists in an information-based business organization should be more plentiful within that specialty. Advancement into management will be exceptionally low because of the fewer or no middle-management positions to move into an information-based business. Also, creating parallel opportunities for individual professional contributors can be considered as rewarding. Whatever scheme will be developed it will work if the values and compensation structure of business are drastically changed.

The second challenge that management faces is giving its organization of specialists a common vision, a view of the whole. A business simply cannot function without communicating to the whole organization its vision, objectives, expectations etc. It needs a view of the whole and a focus on the whole to be shared among a great professional specialist.

Thirdly, a problem is relying heavily on task force teams in an information-based organization. One way to foster professionalism is through assignments to task forces. And the information-based organization will use more and more small self-governing units. The role and function of the task-force leaders are risky and controversial, because the assigned leader will act as supervisor or manager. Conflicts arise on this scenario, whether it carries a rank or whether the assignment is considered a task or a position? So there is a need to have a clear trend and understanding as to what it entails in handling a specific task force.

Finally, the toughest problem will probably be to ensure the supply, preparation and testing of top management people. This is an old and central dilemma for the general acceptance of decentralization in large businesses in the last 40 years. The author proposed to copy “German Gruppe” in which the decentralized units are set up as separate companies with their own top management. The Germans use this

model to promote people in their specialties, especially research and engineering; if they did not have available commands in near independent subsidiaries to put people in, they would have little opportunity to train and test their most promising professionals. The entire top management process – preparation, testing, succession – will become problematic. There will be a growing need for experienced business people to go back to school. And business schools will surely need to work out what successful professional specialists must know to prepare themselves for high-level positions as business executives and business leaders.

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