Introduction

A Machine for Getting Stuff Done

According to a national time use survey, in 2008 the average employed American parent between the ages of twenty-five and fifty-four spent more than a third of the day, nearly nine hours, at work and in "related activities." We spend as much time at work as we do eating and sleeping, combined. More time with our coworkers than with our loved ones.

In fact, we spend so much time with our coworkers that some of them serve as substitutes for our loved ones. Consider the idea of the "work spouse," someone with whom you have a platonic relationship, but one of such intimacy that it replicates your marriage, perhaps even doing it one better by not involving domestic and financial tensions. In one survey, 65 percent of respondents said they had an "office husband" or "office wife."

This is just the most recent data point in a worldwide trend of more work. Since the early 1980s the amount of time we work has been on an upward trajectory, and with the advent of e-mail and smartphones, the invasion of our home lives by work is nearly complete: you can take the worker out of the office, but you can't take the office out of the worker.[1]

Despite the hours logged at the office, or maybe because of them, most employees struggle to make sense of their work lives. Many give up trying: office life can seem just too nonsensical to bother. So we descend into cynicism, offering up sarcastic commentary and office jokes that follow a few well-worn premises: clueless managers who have no idea what their direct reports do, failure to communicate objectives, failure to *have* real objectives, a blatant disregard for data and evidence, perverse incentives and personal fiefdoms, rote behavior in the face of new challenges, meaningless memos sent down from on high, the disconnect between HR proclamations and the experience of the average cubicle dweller. The list, as they say, goes on.

It's not that you couldn't make this stuff up, but you don't have to. Ask a friend. Stop a random commuter. Read a strip from Scott Adams's *Dilbert*, a cartoon built largely on readers' suggestions from their own experiences. Office life is so full of absurdities that our reality provides rich fodder for satirists to return to again and again.

But when satire pales in the face of reality, what are we left with? That's the kind of existential question that modern organizations inspire.

While this existential dread moves many to cynicism, it moves others toward action. In her book *Escape from Cubicle Nation*, for instance, Pamela Slim, a career and marketing blogger, advises readers on how to escape "corporate prison" to become thriving entrepreneurs (with no more pesky organizational headaches to deal with, of course). Slim isn't the only one: the bookstore shelves are filled with other similarly aspirational volumes.

But before you rail against the system or dive in to fix it, it might just pay to figure out how things got to be the way they are in the first place. That's where this book comes in. We're offering a description of how and why orgs do what they do—how the parts fit together, how the rules get made, and what happens when you change the rules or move things around. We aim to shed light on the anxiety and confusion that can accompany life in cubicle nation, to show how the path from one-room-workshop-cum-homestead to world-bestriding behemoth is pockmarked with daunting trade-offs and compromise, to demonstrate the logic of office life.

Then, armed with a clearer understanding of how orgs work, you can descend into better-informed cynicism.

The Least Possible Dysfunction

We're not organizational mechanics. There are lots of those around—experts who'll tell you how to fix your organization, which tactical levers to pull, exactly what steps to take to get employees to be more productive, more devoted, more engaged, more trustworthy. Nor are we here to tell you that everything you know about orgs is wrong. It's not.

Instead, we aim to explain the inner workings of the org, drawing on the tools of organizational economics. For decades, economists—people who we might think would have something to say about work—treated the workplace or organization ("the firm," as economists call it) as a black box. In economists' models of the world, stuff went in (inputs) and product came out (outputs). These inputs and outputs might be given more descriptive labels: "labor," "capital," and perhaps even "technology" went into the production of "widgets" (a placeholder for any manufacturing item).[2] Then firms marketed the outputs, consumers bought them, and economists measured it all with demand curves to determine how many widgets would get made. And there you have the manufacturing economy of the mid-twentieth century. What actually happened within the black box of the organization—be it a giant *Fortune* 500 company or a small entrepreneurial shop—was largely beyond the scope of the economics profession.

But then along came organizational economics. While it has deeper historical roots, org econ really matured starting in the mid-1980s (at about the same time, coincidentally, that our work hours were slowly increasing). Organizational economists build mathematical models that aspire to make sense of why organizations look the way they do, how they function, and how they might improve: page after page of algebra impenetrable to the very subjects whose experiences the economists are trying to describe. But lying behind the Greek symbols and esoteric economic jargon are a set of logical principles that can help us make sense of our experiences. Economics doesn't provide a complete view of the org—psychology, sociology, and other disciplines have lots to say as well—but it is very good at showing us the logical structure, the architecture of our organizational lives.

When economists look at the firm, they don't see the dysfunction—or at least that's not *all* they see. Rather, they recognize a set of compromises that result from trade-offs among many competing interests and objectives. From these compromises comes the seeming dysfunction of our work lives—the cost side of all those cost-benefit trade-offs. Organizational economics can help explain why the highly imperfect office of today may nonetheless represent the least dysfunctional of all possible worlds, however depressing the idea of "least dysfunctional" may be.

It's All about Trade-Offs

Consider the case, for instance, of Mr. X, a former member of the user experience design team for American Airlines. In the spring of 2009, Dustin Curtis, a user interface designer himself and a regular blogger, went on an extended rant about AA's terrible website, written in the form of an open letter to the airline, complete with examples of what a better-designed website might look like (which Curtis said he threw together in just a couple of hours). Curtis's web pages were far, far better, at least from the customer's perspective, than those of American Airlines. Curtis ended his letter by asking the company to "imagine what you could do with a full, totally competent design team."

AA's Mr. X sent Curtis an e-mail, which Curtis, with Mr. X's permission, posted to his website, omitting some identifying features (such as Mr. X's real name). "You're right . . . You're so very right. And yet," began Mr. X's e-mail, before launching into a description of the various trade-offs the AA.com design team had to confront. "The problem with the design of AA.com," Mr. X explained, "lies less in our competency (or lack thereof, as you pointed out in your post) and more with the culture and processes employed here at American Airlines."

Mr. X went on to note that the group running the AA.com website consisted of two hundred people spread out among different groups, including "QA [Quality Assurance], product planning, business analysis, code development, site operations, project planning, and user experience," plus many, many others with a vested interest in how the site works and what it does. And while new features have to go through the UX (user experience) team, the experts on how customers will experience the site, numerous others have the ability to "push" content onto

AA.com without any interference or suggestions from anybody else.

"Simply doing a home page redesign" is not the issue, Mr. X explained—that's a "piece of cake." Rather, it's the competing interests that pose the problem. As Mr. X put it, "AA.com is a huge corporate undertaking with a lot of tentacles that reach into a lot of interests." He ended his missive on an optimistic note: "Even a large organization can effect change," he wrote. "It just takes a different approach than the methods found in smaller shops. But it'll happen because it has to, and we know that. And we'll keep on keepin' on, even if most of us really and truly would prefer to throw it all away and start over."

Mr. X's optimism was unwarranted. AA tracked him down by searching company e-mail data from the UX group and fired him, ostensibly because he had revealed proprietary information. Three years later, the AA.com website is better than it was, thanks in part to Mr. X's erstwhile colleagues' efforts, but not good enough to save the company—American declared bankruptcy in late 2011.[3]

Curtis—or Mr. X, apparently, had he been organizationally unfettered—could have made a superior website than American Airlines had, at least as measured in terms of aesthetics and usability. In fact, Curtis's proposed redesign of the AA interface that he showcased on his website as part of his open letter is a work of clarity, simplicity, and appeal. But Curtis most assuredly could not fly anyone from point A to point B, or negotiate fuel prices, or arrange international flight schedules, or deal with labor disputes, or maintain jet engines. Luckily, Curtis doesn't seem to want to—but if he did, he'd have to build an organization that looks an awful lot like American Airlines.

Principal, Meet Agent

The challenges many organizations face are the outgrowth of a pretty simple problem: How do you get people to do what you want them to do? Over the millennia, smart bosses have learned that when it comes to motivating workers, you get what you pay for. It's all about incentives. Getting the trade-offs right in designing these incentives—and figuring out what it is that you're actually paying for—is the art and science that lies behind every successful boss and organization. Owners and managers create *high-powered incentives* (pay for performance) to push employees to work harder, but this might, for instance, motivate employees to push toxic loans out the door as fast as they can (hello, mortgage crisis).

If you're the owner or manager of an enterprise and you can't watch over everyone all the time, how do you make sure your managers are making as much money as possible, and passing it on to you? If you're one of those managers, how do you make sure that your workers are doing what they're supposed to? That anxiety travels down through every level of the organization, through every department. More work, less skimming.

Economists call this *the principal-agent problem*: how to align the interests of those who want things to get done and those who do the work. This starts with the owners of the corporation (the principals), who want to generate profits, and the CEO (the agent) they hire to make money on their behalf. The CEO, in turn, needs to motivate his agents—the division managers—and so on, resulting in a cascade of principal-agent relationships that follow the org chart all the way down to the store manager and her sales clerks.

The most obvious way of motivating employees is to pay them.

Soon after Henry Ford installed the first conveyor-belt-based assembly line in the car factory in his Highland Park, Michigan, plant, he discovered that even as his line workers became familiar with the process and more experienced at their jobs, their productivity remained about the same. Why? Because they hated the boring, repetitive work.

Ford's innovative solution shook the world. He first introduced the $5.00 day in January 1912, a radical and, to his business peers, disturbing solution. Ford recognized that the $2.30 daily wage that Highland Park workers earned before the pay hike was only as good as other manufacturing jobs in nearby plants, yet the assembly-line work was even more mind numbing. By more than doubling the pay to five dollars for an eight-hour shift, Ford inspired his men to work with zeal through the daily grind, regardless of boredom or unpleasantness. The money was just too good to pass up. In fact, Ford later commented, "The payment of five dollars a day for an eight-hour day was one of the finest cost-cutting moves we ever made." Ford saw increased productivity and better retention rates among trained workers (although retention fell by 1916 as other firms' wages caught up with Ford's).

Ford had discovered what economists call *efficiency wages*: the enormous motivation that comes from above-market wages coupled with the threat of dismissal. He also recognized the need for monitoring a labor force given such a generous salary. Ford thus did his best to weed out those lacking the moral fiber to resist the temptations that would inevitably accompany such stratospheric pay: drink and related sources of moral turpitude. He hired up to two hundred detectives (called the Sociological Department) to spy on every aspect of his workers' private lives.

Who watched the watchers? The detectives of the Sociological Department were making pretty good money as well. Who would ensure that they pursued "thrift, cleanliness, sobriety, family values, and good morals in general," as line workers were expected to? Here's another of the trade-offs that every organization faces. Departments and positions to monitor workers proliferate. Soon you have an organization that looks like the old Fabergé shampoo commercial, where a woman, so thrilled with the shampoo, tells two friends about it, and they tell two friends, and *they* tell two friends, "and so on, and so on . . ." while her image multiplies relentlessly on the screen.[4]

Anyone who has ever had to fill out a travel and entertainment expense report is familiar with the wages of monitoring. The T&E is a way for the employee to request reimbursement from the company for business-related costs: flying to a meeting, taking a client out to dinner, paying for a taxi to an event uptown. In one popular version—different companies have different methods of tracking expenses—the employee covers the costs and then fills out a form (or has an assistant fill it out) to get his money back. There is much photocopying and compiling of receipts and explaining of various transactions and who was there and what was discussed and the looking up of cost centers. By the time you get your reimbursement, it feels a little like the company has built a $10,000 fortress of checks and balances to secure a $20 bill.

Robots: The Perfect Employees?

As far as Ford was concerned, the perfect employee would probably have been a robot. Robots don't drink or slack off, they take no breaks, they don't treat clients to expensive dinners, and they require no monitoring—just some upkeep costs. (Of course, then you need a labor force of robot upkeepers, and you're back to incentives and monitoring. But we digress.) The problem is that robots don't innovate. They just perform the same routine time after time, tirelessly. Robots didn't invent the internal combustion engine. Or Gmail.

Gmail sprang from the fact that Google doesn't hire mindless automatons. It hires very smart people to solve very difficult engineering problems and then allows them to play with a pretty substantial portion of their time—20 percent, or one day a week—banking on the fact that they'll produce something interesting or, more to the point, profitable. In other words, Google bucked the trend of monitoring their employees' every move. And it paid off: about 50 percent of new Google products, including AdSense and Gmail, got their start through the policy of granting employees time for independent creative work.[5]

But even Google gets what it pays for, good or bad (or both). Clearly, Google spends lots of time, money, and effort to hire smart, creative engineers who relish the challenges that Google's business presents. And it pays to keep them, and to keep them happy. Google's campuses are lush places to work. Their fabled amenities—setting the standard for Silicon Valley companies, which were already pretty generous—include restaurants, snack rooms, massage salons, $500 toward takeout food when employees have a new baby, gyms, language courses, laundry facilities, shuttle buses, and motorized scooters. Quite apart from production efficiencies sacrificed in the name of innovation, innovative people are expensive.

Google's engineers are getting ever more expensive in large part because every other tech company in Silicon Valley is trying to hire them away. And despite all the perks, Google does lose employees. The allure is mostly money: The skilled engineer who can get into a promising, yet still privately held tech company early on will probably get at least some compensation in the form of stock options, which stand a good chance of being worth lots of money later on. For instance, Facebook's current valuation, despite its lackluster IPO, sits at around $40 billion. Even a tiny fraction of that amount is a huge payday.

When Facebook first went after Google's talent, Google let the engineers go without making counteroffers. If the engineers were going to be so mercenary as to leave the greatest company in the world, they were welcome to. But this kind of defection really hurt the company, damaging productivity and derailing projects. So, in an effort to stanch the bleeding, Google started to make significant counteroffers. But even these didn't always work. In the fall of 2010, for instance, it allegedly lost a well-paid engineer to Facebook despite a counteroffer that included a 15 percent raise and a $500,000 bonus. In a recent salvo, Google offered one key engineer, who had a string of successes at Yahoo and Apple, $3.5 million in restricted stock. (The engineer stayed but leaked his bonus information to the press and was identified and fired.)[6]

Problem easily, if expensively, solved: you just need deep pockets to play the game.

But that's not the end of the story. Remember, you get what you pay for. While Google was paying for, and getting, retention, it was also setting up clear signals to its entire staff: if you want a big raise, get a Facebook offer and we'll counter. Google was also paying for trolling and disloyalty.[7]

A Machine for Getting Stuff Done

The impulse to create an org represents the best of our optimistic nature: a bunch of like-minded individuals decide to get together to accomplish a shared goal. But designing organizations is hard, and we end up with a gap between expectations ("We're going to be awesome and get stuff done!") and reality ("I can't believe this place gets anything done!"). Yet at some basic level the org really is a machine for getting stuff done—stuff that we can't get done on our own or pay others to take care of on our behalf. Amid the trade-offs and dysfunction, though, it can quickly stop feeling that way. By better understanding the nature of the org, you should be able to bridge, and perhaps even shrink, the disheartening gap between expectations and reality.