John P. Kotter

THE NEW RULES

How to Succeed in Today's Post-Corporate World

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1. INTRODUCTION

Success at work for most people means a job that is economically and psychologically satisfying, that makes a contribution to society, and that supports a healthy personal or family life. "The New Rules" describe how the path to succeed at work is changing, and why it is changing.

John Kotter argues that the globalisation of markets and the increasing competition have permanently changed the rules for success at work. He describes how this shift in the world economy is altering career paths, wage levels, the structure and function of corporations, and the very nature of work. He shows that conventional career paths through large corporations no longer lead to success, as they once did. Globalisation is creating larger markets and enormous new opportunities for those with education, motivation and talent - and equally large hazards for those who fear competition and over-value security.

Kotter systematically explored the career paths of 115 MBAs that graduated from the Harvard Business School (HBS) in 1974 (→ Class of '74), in order to identify key factors that determine their professional and personal success. He collected a large amount of longitudinal data that included a twenty-year period, using questionnaires and interviews.

Kotter argues that the greatest opportunities have shifted away from large bureaucratic companies to smaller or more entrepreneurial ones, and away from professional management in manufacturing for consulting and other service industries, where leadership matters. He shows that succeed in the new economic environment of the end of the century requires high personal standards, a strong desire to win, and a willingness to continue to learn over an entire lifetime. He summarises the key learnings as eight "New Rules". The rules are "New" since they are distinctively different from what their parent experienced in terms of forces affecting their success at work in the post-war period of prosperity and economic growth.

In June 1974, the Class '74 graduated with an MBA from HBS, and re-entered after a break of two years, professional life.

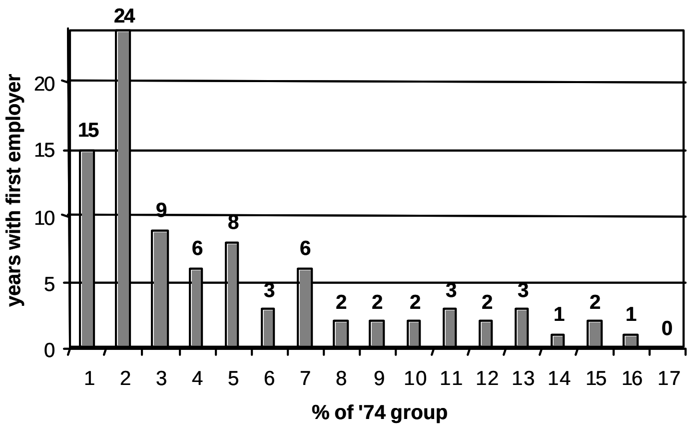

Figure 1: *Number of years the graduates from Class '74 stayed with their first employer, as of 1992.*

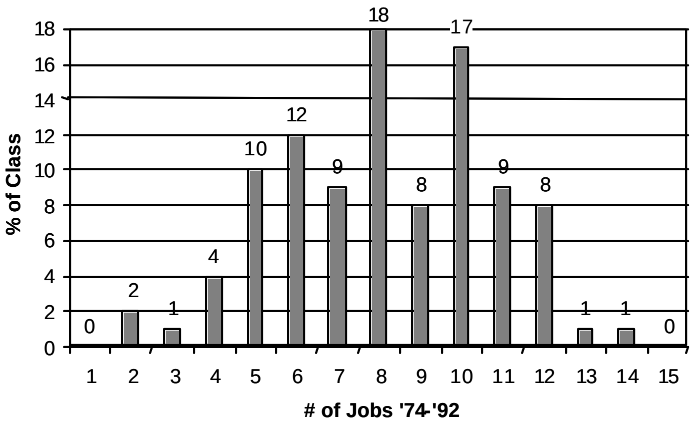

Figure 2: *Number of jobs hold by the graduates from Class '74 for the period 74-92.*

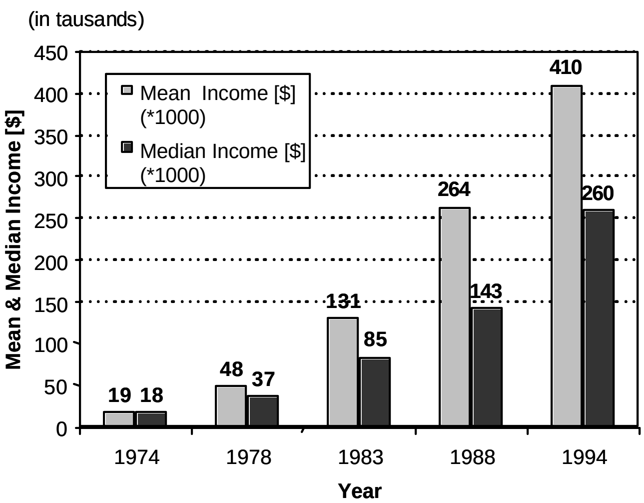

Figure 3: *Changes in income for 115 MBAs from Class '74, as it evolved over a 20-year period, from 1974 to 1994*

Initially the majority joined big corporations such as Citicorp, Ford Arthur Anderson, General Motors, Exxon, Goldman Sachs, Proctor & Gample, Baxter, McKinsey, IBM and Hewlett-Packard. On average they stayed for 3 ½ years with the same employer (Figures 1) and 18 months in the same position (Figures 2).

Their first job titles were modest and fewer than 5% held jobs in which they were responsible for more than a dozen people. Their jobs were mostly professional in nature, where they applied expertise learned in school. Looking at their career form 1975 and 1992, they moved out of their professional roles, first into managerial, then into entrepreneurial or executive situations.

Their titles, the budget they controlled, the number of subordinated, their powder and income strongly increased over the same period. The typical person's income increased more than tenfold going from $18'000 to $195'000. If current trends continue, the typical Class '74 graduate will retire with a net worth of eight million dollars. The top 5% will have over $100 million.

Besides data on job changes and salary, Kotter also investigated the subjective rating (self-rating) of satisfaction in the job and in non-professional areas. In 1992, over 40% reported they were extraordinary satisfied or very satisfied with their jobs, while only 3.2% said they were extraordinarily dissatisfied. 90% of the Class ’74 was married in 1993, most often with children and happy with their family life. Asked to asses the satisfaction in the own family life the following self-assessments were made.

Extraordinarily satisfied	28.1%
Very satisfied	33.3%
Satisfied	24.0%
Somewhat satisfied	5.2%
Dissatisfied	10.4%

Striking was the high correlation between satisfaction in professional and private life, as shown in Figure 3. Overall they were quit satisfied with non-work aspects of life (less than 12% reported they were dissatisfied).

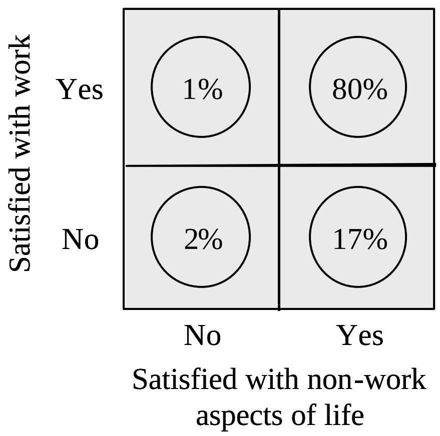

Figure 4: *Work and non-work satisfaction in 1992 among 115 Class of ’74 MBAs.*

Overall, the Class ’74 has done were well, in spite of a difficult economic period with less opportunities and less growth in terms of GDP than their parents. In fact they have done even better than the generation of their parents, who had profited from a fantastic period of strong economic growth than ended around the 1973 with the oil crisis. So it is the more surprising that they have done so well. Why is that so?

Part of the answer to their success is that they had the advantage of a degree from Harvard in their CV. But what really mattered was that they all went through a though selection process to enter HBS. Intelligence and educational privilege explain less than one might expect. Regular Harvard student (non-MBAs) scored better on intelligence but earn much less today. Even within the Class ’74 intelligence (IQ score) did not correlate with income. The GMAT score even was inversely correlated with salary: those who had scored lower on the GMAT appeared to earn more in 1992. The economic success was not explained by the privilege of their family background, parental wealth or parental education. The story of their success is both more complex and less conventional. In fact unconventionality is a key part of the success stories.

2. NEW RULE #1: UNCONVENTIONAL CAREER PATHS

The public often links successful MBA graduates with top management jobs in large manufacturing companies. The big-corporation are both present in the minds and the case studies of the professors, have a prime position in textbooks, are often solicited for conferences to MBA classes, and are often admired by MBA students, professors and the public at large. In contrast, small organisations were almost invisible in the Class '74 curriculum and in the formal on-campus placement process. In fact the whole educational process at HBS was focused on big corporations, and very often this involved manufacturing firms.

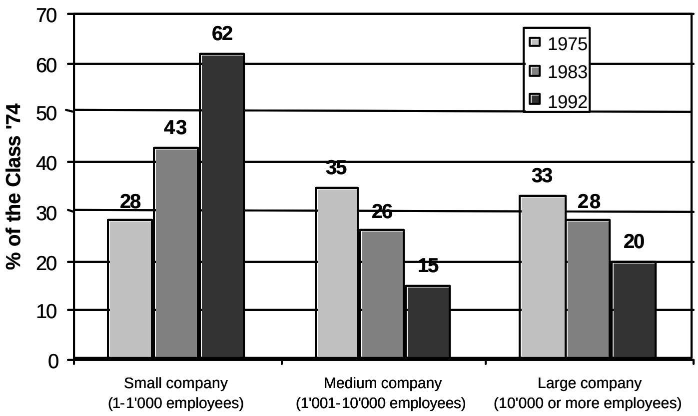

Figure 5: *Size of employers for graduates of Harvard's MBA Class of '74, and how these have evolved from graduation year until 1992.*

The role models for success, as it transpired through the whole MBA period, were senior executives in manufacturing firms. Hence, it was surprising that only 33% of the MBA graduates took jobs in large organisations. From Figure 5 we see that not only was the number of MBAs joining big corporation modest. They have also increasingly turned to small businesses as they have advances in their career.

Comparing manufacturing companies to those who do not manufacture physical goods, Figure 6 shows that fewer graduated joined manufacturing firms than non-manufacturing. Furthermore, this number had shifted in 1991 further in favour of non-manufacturing firms.

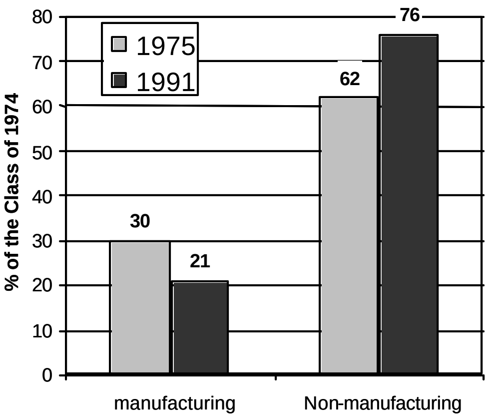

Figure 6: *Industries in which the Class of '74 work .*

The trend away from big manufacturing corporations towards (i) non-manufacturing, (ii) small business and (iii) entrepreneurial situations was strong. While the numbers are clearly supporting the trend, one might wonder why Class '74 MBA have opted so consistently for non-conventional career paths.

One very successful MBA wrote in a questionnaire that "*his talent and hard work were simply wasted"* in a big firm. Overall, the answer is that the small firm, non-manufacturing entrepreneur path led to faster professional progression and higher salaries. This will be developed in more details in the forthcoming chapters.

New Rule #1: *The location of opportunities is shifting. Succeeding at work today demands strategies and career paths that are often different from the mid-20th century norms. Increasingly, the new rule is: beware of the conventional and traditional. In a time of rapid change, the unconventional often wins.*

3. NEW RULE #2: THE POST '73 ECONOMIC ENVIRONMENT

Why traditional careers in big manufacturing firms are not paying off any more is due to a change in economy. Kotter divides the development of world economy into three major phases.

Phase I	Phase II	Phase III
The industrial revolution	Government action	Globalisation and competition

1860 → 1930 → 1970 →

He argues that the changed in the overall economic environment led to shifts in the optimal career path and hence to changes in the rules for professional success ("The New Rules"). The business world of today is significantly different from ten years ago.

Phase I: The first phase run from 1860 to 1930. By many standards, Phase I of big company capitalism was a phenomenal success. In this area, a huge number of manufacturing enterprises were launched. Between 1980 and 1930, more important innovations were made in the US than in any other fifty-year period. Life expectancy rose from 39 to nearly 60, and income generally increased a great deal. But one also experienced a growing distance between rich and poor and many abuses of corporate power that was difficult to control, since no adequate legislation existed. One of the big political challenges at the end of phase I was to ameliorate the social disparities and abuse of power of big company capitalism, without abandoning capitalism itself.

Phase II: The end of phase I is associated with the 1929's Black Tuesday, the Great Depression, and thus the destruction of the credibility of the phase I form of laissez-faire capitalism. An unprecedented amount of government interventions, and the application of Keynesian economy were the first reactions. Literally millions of rules from government, unions and corporations created huge bureaucracies. This led to additional costs, reduced the pace of innovation, slowed down costumer response, was expensive and made big firms inefficient.

Phase III: The trigger for the transition from phase II to III was the oil crisis in October 1973. But the underlying forces that started to increasingly shape our lives were globalisations and rising competitions. Globalisation is the product of many forces. Some a political (no major war since 1945), some are technological (faster and cheaper transportation and communication) and some are economic (mature firms seeking growth outside their national boundaries). The response to this new economic area has been to reluctantly shed rules, regulations and bureaucratic mind-sets in order to better compete. The results of recent economic changes have been threefold: First, the sheer increase in global competition has slowed wage growth. Second, the distance between the highest- and lowest paying jobs has grown. Third, the location of the biggest opportunities has shifted: away from large bureaucratic companies to smaller or more entrepreneurial ones, away from manufacturing to non-manufacturing industries, and away from professional management to entrepreneurial, leadership and deal-makers roles.

Globalisation has added significant new levels of complexity. Those able to handle that complexity increasingly seem to be individuals with a good education. They have found more economic opportunities than were available to their parents, and some of these have been exceptionally successful in capitalising on these new opportunities.

As a consequence of globalisation and increased competition, all kind of rules limiting competition dissolved. Some barriers were formal (by governments, unions), others were informal ("I won't hit you if you won't hit me"). Fewer barriers to competition have usually increased fighting, instability and speed of change.

New Rule #2: *The globalisation of markets and competition is creating enormous change. The new rule is: to succeed, one must capitalise on the opportunities available in the faster-moving and more competitive business environment while avoiding the many hazards inherent in such an environment*

4. NEW RULE #3: FOUNDING AND GROWING SMALL BUSINESSES

The increasing attractiveness in small businesses and entrepreneurship is in part due to the decreasing attractiveness of many big established firms, part is due to the comparative advantages that small firms have in a faster-moving business environment, and still part is due to the increasing ease of setting up a business (in particular non-manufacturing businesses). This shift towards small businesses is directly related to the trend away from manufacturing. In 1992, the typical MBA from Class ’74 worked for a firm that employed, in all its businesses and in all its locations worldwide, a total of 550 people. And that firm manufactured nothing.

When asked questions about job satisfaction a picture emerged that was in many aspects surprisingly clear. The Class ’74 found in smaller firms more opportunities for broader, less bureaucratic, more influential, and hence more satisfying work. Small firms were reported to give people more feedback, more autonomy, more ability to see work through from start to finish, and more chances to use their own judgment. Likewise asked about problems, those in small firms reported fewer, while people in large firms were more likely to complain. But not only did the graduates of Class ’74 strongly tend to join small companies with an entrepreneur spirit or even create their own companies, their was also a shift towards non-manufacturing companies. They have gone were entry barriers are lower and where opportunities are more numerous.

Analysing whose who has made this changes in their professional life, Kotter identified several critical dimensions. These people tend to more independent and hard working, have a greater need for autonomy, and a lesser need for security. Further examining this rush of talented MBA away from big firms, especially large manufacturing companies Kotter put forward three additional reasons.

First, money is less of a factor than is responsibility and authority. Those in small firms do earn more, but not much (Figure 7a). The difference comes in the job title (Figure 7b). Nearly three times as many people in small businesses have titles signifying position of real power.

Second, statistics shows that most managers in large organisations are shrinking employment, while small business people account for all new job growth. While big firms killed 2’236’000 job in the US between 1987 and 1992, small companies created 2’296’000 job in the same period. Small organisations also produce much more innovations per employee or dollar than large firms. Small companies create 2.5 times more innovations per employee than large firms, two times as many innovations per R&D dollar, and two times as many innovations per scientists.

Finally, although most of the Class ’74 are not working in big firms, most are involved in one way or another with efforts to help large businesses become more competitive. They do so not as employees but as consultants, suppliers, distributors, and financiers.

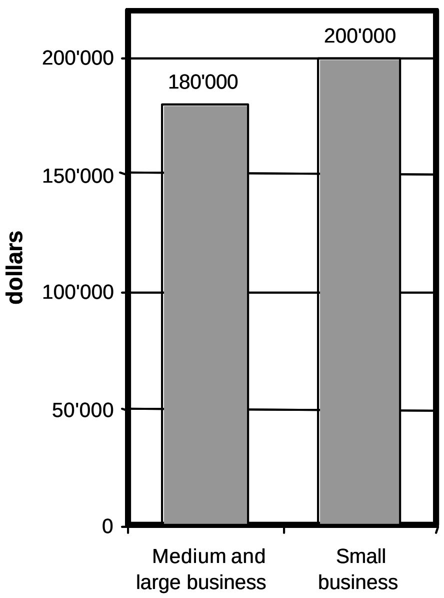

Figure 7a: Difference in median income in 1992.

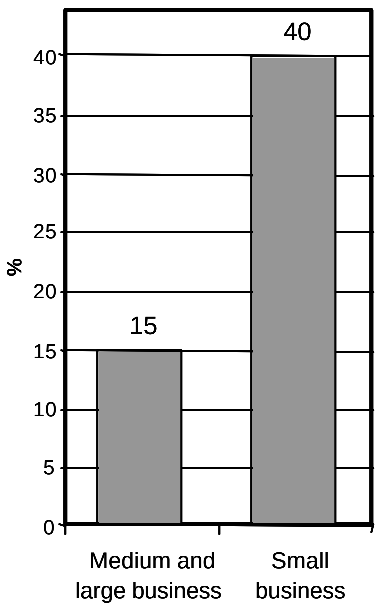

Figure 7b: Percent with titles of Chairman, President, CEO or COO in 1992.

New Rule #3*: Increasingly, success is going to the small and entrepreneurial, not the big and bureaucratic. The new rule is: people who found and grow small organisations are often receiving both more job satisfaction and more income than most of those in traditional large organisations*

5. NEW RULE #4: CONSULTING TO AND ASSISTING BIG BUSINESS

The résumés seems to say that they have abandoned big business, especially large manufacturing companies. Yet an examination of their actual work shows something different. The vast majority of Class ’74 small business people are very much involved in big business. But instead of acting as employees, they are suppliers, distributors, bankers, landlords, and consultants. And most of them thing they add more value working from the outside rather than on the inside.

Most big corporations have responded to the new economic climate of increased globalisation and competition. In successive waves or reorganisations, outsourcing and while moving towards leaner, flatter and more flexible hierarchies, they have decreased employment inside and increased employment outside the firm. The company is no longer a huge and rigid pyramidal organisation, but more a coalition of smaller and flatter units inside and outside the official firm boundaries. In a more competitive and faster moving world, hierarchies have to become shorter, smaller, and less rigid. Conventional notions about the location of a company’s boundary will also have less relevance. All this is driven by the need to be more flexible, cost-competitive, and innovative.

These changes create all kind of resistances within the managers and employees of big firms, since they are often related to loss of power and the disappearance of a comfortable way of life. This also explains the drain of talented and motivated people, such as the graduates from Class ’74. Big corporations need help from outside to adapt to the new economy.

One out of ten from Class ’74 are in consulting. Partially this is because consulting offers a way to get executive positions in firms without having to work oneself up the bureaucratic and political hierarchies. Partially this is because the field is seen as a springboard to entrepreneurial ventures. The popularity of the consultant’s job has grown because talented, motivated and ambitious MBAs do not want to work in large bureaucratic organisations. Many Class ’74 graduates are self-employed, and their work has a strong intellectual component, which is attractive and challenging to well-educated people.

The enormous grow in demand for consulting is directly related to increased global competitive pressure. While a firm’s regular employees could undertake most assignments, done by consultants, corporations tend to use outsiders for at least four reasons. ***First***, outsiders are usually more objective and less caught in the myopia of strong corporate culture and politics. ***Second***, outsiders can more easily be the bearers of bad news than can full-time employees, without having to fear consequences. ***Third***, outsiders can specialize in certain kind of problems in ways that are economically impossible for insiders. ***Fourth***, people who are good consultants usually do not like to work as full-time employees in big organisations.

The graduates joining consultant firm or creating their own consultant company have actually not abandoned big firms, but they have left something behind – the call command and control hierarchies. The most successful members of Class ’74 deal less with vertical relationships and more in horizontal relations to a more divers crowd. In that they offer a preview of the future for many people: a future with less hierarchy and management, but more market-like relations, diversity of players, negotiations among players, and a greater need for leadership.

New Rule #4*: Huge and inwardly focused hierarchies perform poorly in fast-moving and competitive environments. As a result, big organisations everywhere are being forced to slim down, become less bureaucratic, and form closer relationships with customers and suppliers. This trend offers great opportunities – for small distributors, suppliers, and specially business consultants.*

6. NEW RULE #5: PROVIDING LEADERSHIP

Although management was the central task necessary to make tall hierarchies functions, in flexible networks that process is less important, especially in relation to leadership and negotiation skills. While executives must still know to manage, without leadership and negotiating skills their career advancement is increasingly being limited. Outstanding leaders are people who make sure an organisation has a clear and sensible direction, usually by helping to create a vision of the future and strategies for achieving that vision. They are also unusually good at motivating or inspiring people, and at producing change at the individual as well as the organisational level. The capacity to produce useful change is becoming more and more the key to success. And change required leadership.

Kotter analysed the data from Class '74 looking for personal and career dimensions on which leaders are different. Leaders in Class '74 are more oriented to power, recognition, prestige, and growth than their peers. They are also less oriented towards security and leisure time. In terms of career path, leaders are a little bit less mobile, moving through fewer companies and industries.

A question Kotter addresses is: *where do leaders acquire their skills?* Kotter's answer is: *on the job*. Successful leaders picked up the critical assets by watching others and through trial and error. Although they all had at some point worked in big corporations (before or after joining HBS), much was learned in small business settings. It seems that big corporations often had neither sufficient role models nor an environment, which would allow the kind of experimentation needed to learn effective leadership. The most basic elements upon which leadership grows were yet already in place for most of them before puberty. These factors include internal drive, some minimum level of intelligence, a lack of heavy neurotic baggage and integrity.

New Rule #5: *Success in managerial jobs increasingly requires leadership, not just good management. Even at lower levels in firms, the inability to lead is hurting both corporate performance and individual careers. Organisations that stifle leadership from employees are no longer winning.*

7. NEW RULE #6: DOING DEALS

Financially deal-makers existed in large numbers in the 1930-1960, but not nearly as many as we see today, and not nearly as well paid. Today money dealers play a crucial role in matching suppliers and users capital. The need for financial transactions has substantially risen. In an age where many businesses needed to restructure in order to compete, mergers and acquisitions have boomed. In 1993, about 25% of Class '74 are mostly financial deal-makers.

But the problem with this career orientation is that the public looked at deal-makers with some scepticism. People are worried that some transactions serve no socially useful purpose, add no value. They exist only because a small group of people get rich. While deal-makers were considered making a lower contribution to society than those e.g. involved in leadership positions, they made more money than the rest of the Class '74. In 1991 the median total income of deal-making Class '74 MBAs was $280'000 versus $160'000 for the others.

New Rule #6: *Today's global business environment offers huge opportunities for financially oriented deal-makers. The new rule is: deal if you can, but be careful. Some of those opportunities are not in anyone's best interest except the deal-maker's. Because some people are capitalizing on those socially questionable possibilities, the public is increasingly looking at all financial deal-makers (and, to a lesser degree, all business people) with suspicion and contempt.*

8. NEW RULE #7: COMPETITIVE DRIVE

Unless you are a very lucky person, you will not succeed at work today without an understanding of where the opportunities lie, in additions to certain talents and attitudes, and above all a drive to compete and win.

But what makes that some have the drive to compete more developed than others. A powerful factor appears to be "parental values". Competitive drive seems to correlate with their fathers being a highly influential and important role models for them. The two biggest factors among parental value were " trying hard to succeed" and "being a good student". While security has been of little importance to virtually everyone in the class, meeting high standards, competing, and winning have been important for most graduates from Class '74.

A very strong drive to excel, even if strongly engrained from the parental home, rarely sustains itself in youngsters without reinforcement. From an early age on, the Class '74 people were put in situations of academic competitions, which they mostly won. Wining produced self-confidence, which became part of their expectations and self-set standards. Academically, few focused on either esoteric or easy subjects and none obtained a degree in a subject where competition was non-existing or very easy. The application to HBS was just one more step in their orientation towards competitive situations.

All the graduates from Class '74 have systematically developed into strong competitors. From the beginning of their lives, they have also been developing the personal assets needed to compete effectively. This included: healthy body, good mind, a solid education, useful role models, a track record of achievements, many potentially helpful friends and acquaintances, and self-confidence. In combination, the competitive drive and the personal assets helped them to deal with failure both on and off the job. Circumstances that can immobilize people did not stop the majority of the Class '74. And those who set higher standards and want more strongly to win are doing better economically than other classmates. The median 1992 earning of Class '74 members who are competitive was around $145'000 versus $250'000 for the those who are *very* competitive. Kotter believes that competitive drive will continue to play an important role in economic success.

New Rule #7 *In the increasingly competitive and fast-moving global business environment, winners reap big rewards while those who are unable or unwilling to compete can encounter huge problems. The new rule is: you have to be an able competitor. Effective competition requires many things, especially high standards and a strong desire to win.*

9. NEW RULE #8: LIVELONG LEARNING

What is interesting about the most successful members of the class is their ability to turn terrible events – even their personal and family troubles – into growth experiences that make them stronger and more able. By not running away from tough times, and by reflecting on their experiences, they grow. That grow, in turn, helps them to succeed. But why don't all people behave this way? Many factors are probably involved, but one stands out. Low standards, a weak drive, and a lack of self-confidence in competing situations undermine lifelong learning. Without ambition, the pain of growth can simply look too big. And with avoidance comes stagnation.

Today, differences in competitive capacity are turning into big differences in income – and lifelong learning has become a major ingredient in stories of economic success.

New Rule #8: *In a rapidly changing and competitive environment, formal university education is very important, but insufficient. Success at work demands huge growth after a terminal degree to learn new approaches, skills, techniques, and more. A turbulent environment offers many opportunities for growth for those willing to take some risks and reflect honestly on their experiments.*

About the Author:

John P. Kotter is a graduate of MIT and Harvard. He joined the Harvard Business School faculty in 1972. In 1980, at the age of 33, he was given tenure and a full professorship (Professor of Leadership). In the past twenty-five years, Professor Kotter has written thirteen business books, the last being *What Leaders Really Do* (1999). His next book, *The Heart of Change*, will be published in 2002. His articles in the *Harvard Business Review* have sold a million and a half copies. Professor Kotter's books have been printed in over seventy foreign language editions, and total sales are approaching two million copies. In October 2001, *Business Week* magazine reported a survey they conducted of 504 enterprises that rated Professor Kotter the #1 'leadership guru' in America.