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At the core of your company, there is a group of people who seem to call the shots. More precisely, all the shots seem to be called for their benefit. It's as if the organization, beneath its formal statements of mission and purpose, has actually been set up to fulfill this group's needs and priorities. Everything else that the organization does comes later: satisfying customers, creating wealth, delivering products or services, developing employees' talents, returning investment to shareholders, and even insuring the company's own survival. They are means to the end of keeping the core group happy.

The core group won't be found on any formal organization chart. It exists in people's minds and hearts—indeed, the root of the word “core” is probably the Latin word *cor*, for heart. It comprises the cluster (or clusters) of people whose perceived interests and needs are taken into account, consciously or not, as decisions are made throughout the organization. In most organizations, talking explicitly about this group is taboo; its existence is a

dirty secret that contradicts the vital corporate premise that we all have a common stake in the company's success. In fact, all employees *do* have a common stake in the company's success, but the company has a greater stake in the success of some employees than of others.

All organizations have core groups, but different organizations, depending on their histories and natures, have different types of core groups. In small start-ups, for example, the core group often consists of just the entrepreneurial founders, an angel-mentor or two, and a confidant. By contrast, a large and complex organization such as General Electric or Procter & Gamble can have hundreds of interlocking core groups, each active in its own division, department, or region. They vie with one another for the attention of the ultimate core group, the people in the CEO's kitchen cabinet. This group generally (but not always) includes the people at the top of the hierarchy. But it may also include people who—because they are respected, popular, successful, or manipulative, or because they control access to

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Art Kleiner is the research director of Dialogos, a consulting firm in Cambridge, Massachusetts, and a faculty member at New York University's Interactive Telecommunications Program. He is the author of the forthcoming book *Who Really Matters: The Core Group Theory of Power, Privilege, and Success* from Doubleday/Currency. His Web site is www.well.com/user/art.

some critical bottleneck—have gained the loyalty and attention of others throughout the company.

When taking over a new company or division, smart leaders are quick to sort out who belongs to this in crowd. They recognize that an organization can be led only in a manner that is consistent with the perceived attitudes of the core group. Anything considered to run contrary to the group's interests will be resisted (because employees will assume that their jobs require them to resist it)—even if the group members themselves say otherwise. Thus, if you do not know who constitutes the core group in your organization, or what they stand for, you may find that leading will be extremely difficult—even if you are ostensibly the person in charge. And if you want to move the organization in a new direction, you may need to explicitly challenge the core group first, perhaps by removing some of its key members or persuading them to publicly and consistently embrace your goals. Otherwise, the rest of the organization will not go along.

For better and for worse, core groups are as inevitable as human nature. Where they function well, the entire organization moves naturally and smoothly toward high levels of performance, responsibility, and creativity. But, of course, with so much influence over decision making concentrated in the hands of such a powerful group, the possibility of abuse is real. In some cases, the core group becomes a kind of internal mafia that effortlessly (sometimes despite its own intentions) exploits the rest of the organization. This phenomenon explains why some companies can spend years scrabbling frugally for profit only to squander it all on ill-advised mergers. It also explains why, at some companies, the in-group lavishes upon itself pay and perks that are entirely out of line with the firm's success.

This is not to say that core groups are inherently bad. In fact, behind every great organization is a great core group. The core group is best seen as an organizational resource, invisible but tangible. Executives who fail to take the core group's priorities into account risk not only their organization's performance but their own goals and, in some cases, their careers.

Consider Lothar, a senior manager and innovative researcher at a consulting firm that had recently split off from a much larger elec-

tronics corporation. The new board was still working out the details of the separation when Marianne, the CEO, made an exultant speech at a company celebration, thanking all the people who had helped launch the new firm. Brad, the head of human resources, followed her, colorfully recounting the details of the transition. During their toasts, neither Marianne nor Brad mentioned Lothar; they honestly forgot him. Somehow, during the spin-off (which Lothar had initially opposed), his status had changed. Indeed, only a few months after the festive evening, Lothar learned that he had been passed over for the job he had been promised as the head of research, and he had to scramble quickly to find another position at his old corporate parent.

Who sabotaged Lothar's career? No one did it deliberately. It's just that in the two years since the leaders of the consulting department had decided to form their own company, Lothar had gradually become a symbol of a past that the core group had rejected. Lothar had been one of the highest-performing managers and an emphatic advocate of the new company's values, but most people did not see him as enthusiastic or interested in the new firm. That was enough for the system, as a whole, to deny him legitimacy. Had Lothar understood this perception better—and earlier—he would have had time to carve out a new core group identity for himself and negotiate a new relationship with the organization. Although they may not know when they're part of the core group, people find out fast when they've been dropped.

Stories like Lothar's unfold in organizations all the time. Over the past 15 years, I have conducted interviews with dozens of senior executives who have found themselves enmeshed in what seem like mystifying organizational dynamics. To unpick those dynamics, it is necessary to examine the reasons for core groups' extraordinary influence in organizations. We must understand, for example, the forces that legitimize core groups, as well as the factors that guarantee their continuity. It is also important to grapple with what makes core groups dysfunctional and explore what can be done to make them healthier.

There's Always an In Crowd

No matter how large a core group may be, it always consists of a minority of the people in

an organization. Indeed, in most organizations, it's unlikely that more than 5% of the people ever become members of a core group. Such groups vary dramatically from organization to organization. At the Body Shop, the core group is almost entirely composed of women; at Patagonia, it consists largely of mountain climbers. At most magazines I've known, either the production staff has core group status (in which case deadlines are sacrosanct and unchangeable) or the editorial staff does (in which case the magazine is exceptionally tolerant of last-minute changes).

In the best organizations, the core group

members represent the unique values and knowledge that distinguish their companies from the rest. For example, only a few Coca-Cola executives have access to the vault where the secret syrup formula is kept. Of course, no one is worried that anyone will actually steal and use it. But the Coke formula has tremendous value as a talisman that separates Coca-Cola's core group from other members of the organization—and from the core groups of other companies. To have seen the Coke formula is truly to be part of a powerful and envied secret society.

Whatever the oil of anointment—whether it's seeing the Coke formula or getting invited to the CEO's house—the inner circle derives its power from the fact that life is too complicated without some such group to act as a symbolic lodestar. Think about it for a minute. The basic building block of organizations isn't the job, the team, the process, or even the share—it's the decision. People in organizations collectively make hundreds of thousands of decisions each day, usually without knowing exactly what the results will be. These decisions are made amid a maelstrom of competing jurisdictions, commitments, desires, and needs, including each decision maker's own self-interest. We make sense of a particular decision by asking ourselves, consciously or not: "What would so-and-so think of this?" The organizational core group consists of the aggregate of all these individual so-and-sos.

Indeed, in some organizations you can hear the core group named in the decision-making process. When debating a new plan, for example, people will say, "John is really excited about it." Or, "Larry has a lot of heartburn about it." Or, "I don't want to be the one to tell Kevin we can't make it happen." (These are real quotes from a Cisco Systems employee who was describing how decisions at the company were made on behalf of core group members CEO John Chambers, chief financial officer Larry Carter, and then-senior vice president Kevin Kennedy.) These statements sound like comments about emotions, but they are actually hard-nosed assessments of the core group's readiness to act. It doesn't matter how good the plan is; if Larry has heartburn, it's not going to happen. That's not just because as CFO, Larry Carter has power. It is also because he is part of the group that matters in the company's decision-making pro-

Does Your Company Love You?

Welcome to the core group. There is no formal initiation, not even a celebratory lunch. There are no forms to fill out, and there's probably no change in your official job description. But everything is different now. The organization suddenly sees you as central to its fate. From now on, it will pivot and twist to give you what it thinks you want and need.

If you need a high-status position, the organization will find you one. When you travel, someone will meet you at the airport. The organization will boost your pay without waiting for you to ask for a raise. And if you have children who need watching, your company will set up a child care program. You won't even have to request it; it will be justified as a general benefit for all employees.

And the more you ask of your organization, the more it will do for you. It's as if the organization has fallen in love with you—a passionate, head-over-heels kind of love in which you are never far from the center of its thoughts. If you have ever started an organization, or if you have become part of the core group of an existing one, you know how exhilarating this kind of treatment can be. Drinks in the chairman's office after work...an invitation to join the golf club...the quiet extension of perks into retirement. Tony O'Reilly, when he was head of Heinz, used to give parties for his staff at his castle in Ireland. There

would be plenty of drinking, and O'Reilly, who was famously clever, would lead the group in making up extemporaneous limericks. An invitation was a sign that you were in the core group. At GE, Jack Welch got key lieutenants to buy houses near him in Florida.

And yet the most significant and irresistible benefits are the intangible ones. Core group members are taken seriously in a way that few other people are. They are invited to solve problems, even when they don't have any special knowledge or skill. They are magically "in the know." They hear early—maybe earlier than their superiors—about new projects in other divisions that the CEO is championing. Their solutions are deemed brilliant because everyone sees to it that their solutions work. In fact, core members routinely receive credit for others' insights. "Nobody at Citibank was interested in anything," wrote Charles Ferguson in *High Stakes, No Prisoners*, "unless John Reed thought of it first." The lives of core members are a succession of peak experiences—often the kinds of epiphanies that money can't buy, that come only from access to remarkable people or once-in-a-lifetime events. Few of us get to experience it. We only hear stories from afar, glimpses of fairy-tale-like perks and privilege, where the organization lays the world at its lover's feet.

cess. In this way, the core group becomes involved in decisions even when none of its members is present.

Of course, at any given moment the organizational rank and file could conceivably shift its choices against one of the member's interests, and this would push him or her out of the core group. (This happens, sometimes, with lame-duck leaders whose tenure at the organization is clearly limited.) Even in the most authoritarian organizations, the people in command know they can't rule through the power of their positions alone. Young U.S. Army lieutenants, fresh from West Point, discovered this during the Vietnam War when they tried to pull rank. The veteran troops razed these new guys, openly disobeyed them, and sometimes even killed them. In most organizations, the stubborn fact is that we can confer legitimacy on anyone but ourselves. Indeed, what people conventionally call leadership is, at bottom, the ability to get others to confer legitimacy on us—and thus to get others to put us in the core group.

That can be a complicated process. Different kinds of organizations confer legitimacy on different types of leaders, and a would-be core member must read his or her followers accurately. I recently learned of an editor at a small community newspaper who continually snapped at his subordinates. Finally, one of his assistants sent him an e-mail with an ultimatum: "Don't you ever tell me to shut up like that again." The next day, she walked in on him while he was chewing out another staffer. He snarled at that person and then without missing a beat turned to the assistant and said, "And you—shut up!" Sure, the editor apologized. Sure, the assistant forgave him. And, yes, they're both still working at the newspaper. The editor's formal power is intact, but his influence has been compromised. In a commodities trading company, his behavior wouldn't have affected his legitimacy. But in this context, the editor's rage was disastrous for his career. In fact, the word went around the office: A few more lapses and he would, in effect, be kicked out of the core group. He would no longer be able to get anyone to do what he asked them to. The core group can govern only with the consent of the governed. That's why smart core members understand that the connection with their followers requires deliberate attention and design, and

they work at it. Otherwise, the organization is vulnerable to dysfunctional core group relationships.

How Core Groups Go Bad

Enron's collapse was compelling not just because of its speed and magnitude but because of what it revealed about core group dynamics. Enron's employees were unusual in the pride so many of them took in seeing themselves as part of the core group. Then in November 2001, it suddenly became clear that there was an inner core group—the people who were distinguished not by their ownership of stock but by their knowledge of the illicit partnerships that masked Enron's losses.

Enron may have been anomalous in the extent of the corruption in its inner circle, but if the truth be told, it's disturbingly easy for core groups to become dysfunctional. There are powerful dynamics at work in these groups that can tear at the very fabric of the organization. Most notable among them is a phenomenon that psychologist and management consultant Charles Hampden-Turner has labeled amplification. Amplification is the process by which a core group member's remarks, actions, and even body language are automatically magnified by his followers. In other words, the leaders' comments come across to others in the organization as louder, stronger, and more commanding than they seemed to him when he uttered them.

The phenomenon is universal. Recent psychological research has shown that children are uncannily in sync with their mothers' moods and expressions and even their unconscious wishes. In a similar way, employees tend to pick up on the unspoken true interests of core group members. This has a positive side, of course. It is the reason, for example, that core group members can play big roles in fostering creativity: Core group members' attendance at a design meeting, even if they don't say anything, matters enormously in stimulating participants' creative output. Similarly, it matters which prototype cars auto executives seem most interested in driving, which software demos computer executives linger at, and which ideas executives in all industries mention to their peers. Others in the organization register these cues and act accordingly.

Unfortunately, it's not just creativity that

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can be rewarded this way. Deceit, inefficiency, moral cowardice, and general unaccountability can be rewarded, too. The core group reinforces whatever it pays attention to. A core group member who casually mentions a product might well discover three weeks later that someone has spent \$1 million introducing it. At one energy company, a boss was heard to remark in passing that it would be nice to have more open office space. Within a few days, contractors were tearing down the walls. A week later, the same boss complained that the place looked flaky, and the walls went up again.

In an organization where people eagerly try to smoke out the core group's needs and wishes—and then anxiously withdraw when they guess wrong—those in power infer that the organization lacks individuals who can take initiative. Or the core group simply concludes that staff members can't think for themselves. The rest of the organization, meanwhile, comes to believe that the core group members are self-centered, arbitrary, and oblivious. In such organizations, as the two sides lose their trust in each other, direct communication disappears. The only way to know where you stand is through the trappings of organizational politics: Who has the largest office or the largest staff? Who is invited to speak at a meeting? Who gets credit? Who gets publicly criticized or reprimanded? These bits of data are important indicators of whom the core group may or may not be grooming as potential members.

It's almost as if both sides are deliberately colluding to perpetuate a system in which they don't have to confront their stereotypes of each other, so they can spare themselves the difficult work of talking about the organization's real needs. In the endless (and often underground) bickering that ensues, various factions of the core group and their followers can get trapped in a vortex of suspicion and self-righteousness ("They just don't get it") that can escalate into paranoia and eventually into warfare. That's when the organization becomes truly dysfunctional; it is liable to damage its prospects because it is too torn by infighting to serve customers.

Getting the Group on Track

It's easy to dismiss that kind of toxicity as an inevitable by-product of core groups. But the

core group can use its enormous power to shape the creativity, efficiency, and accountability of an organization for good as well as ill. There are many examples of organizations where the leaders make decisions better because they can draw on a well-functioning core group as a resource. This is not because the core group sets policy but simply because of the group's potential to establish an example for the rest of the organization. If the core group is going to be the means to move the organization forward, we need to know how to clarify its priorities.

A first step toward improving any core group involves reducing the level of distortion in the signals that are amplified. Politicians, diplomats, and psychiatrists have long been aware that they have to be exceedingly careful with even their most offhand remarks, because these can have huge effects on their listeners. Every U.S. president and treasury secretary quickly learns, for example, not to make casual remarks about currency exchange rates. And aristocrats have long practiced elaborate protocols for reducing misunderstandings when they interact with people of lesser status. A friend of mine once had dinner with England's Princess Margaret and a group of visiting Americans. A professional ambassador, Princess Margaret arrived at the gathering and quickly asked for a drink. She then lit a cigarette and immediately stubbed it out. She knew that her hosts would not feel free to drink or smoke until she had done so first.

Few business leaders have that instinct of noblesse oblige. To compensate, therefore, they need to make themselves more aware of the signals they send, both intended and unintended. This means not only knowing what messages they unconsciously convey about the types of programs they favor and the ideas they want. It also means being cognizant of how those messages are communicated. In many organizations, conversation up and down the hierarchy is limited to sports talk and superficial inquiry. News of business realities travels only through projections and forecasts, which sends the message that if you see a discrepancy in these numbers, you may correct it—but don't try to talk about the reasons why a discrepancy appears. That would be getting too personal.

Often, the unconscious message is simply that core group members don't want to be

disturbed or made uncomfortable. It takes a lot to disabuse people of that idea. A core group member's expression of even the slightest irritation has a tremendous impact on subordinates. Some senior executives try to compensate for this by demonstrating that they are willing to be uncomfortable. One consumer-products company CEO, for example, drags his direct reports through arduous mountain-climbing trips and desert safaris to shock everyone out of complacency. The intended message is: Our leaders are so passionate and involved that they will endure discomfort and even pain for the sake of high performance. Sure, subordinates come back talking about the life-changing, team-building experience they've had. But they all know what it means—if you really want to talk to *this* guy, you've got to let him drag you out to the Sahara first.

You can't break a core group pattern by convening a retreat or issuing a policy. You have to set an example and reinforce that example, time after time, action after action, for a year or more. The essential component of communication is trust, and trust is something that has to be earned; there are no shortcuts. One small step you can take is to demonstrate, through continual soft-spoken patience and receptiveness, that you really would rather get bad news than false good news. Once you've done that, you will have taken a giant leap toward ensuring the health of the core group.

Finally, organizational design plays a role in determining how healthy a core group is. In the most effective organizations I know of, the leaders create the largest possible core group, and members work under policies that combine access to inner-circle information with opportunities for taking actions whose results will affect the bottom line. In general, the more widely held financial information is, the less likely it is that the members of the core group will be able to enrich themselves at the expense of an organization's broader interests. Similarly, a core group that is diverse in terms of race, gender, and nationality will tend to operate more capably and with more awareness than one whose homogeneity sends a message that "the only people who count around here are people like us."

Of course, any kind of organizational engineering conducted for the sake of influencing core group dynamics needs a delicate touch


and a deliberate design; a company should not just set up a raft of sinecures for the core group members to keep them happy. Nor is it easy for a core group to suddenly make itself open up to new members. In order for an inner circle to allow different types of people to enter, members must be willing and able to talk about misunderstandings and disagreements—subjects that homogeneous groups can avoid.

The Limits of the Law

Core groups are an inevitable part of any organization; there would never be business as usual without them. At their worst, core groups can become what management author Arie de Geus calls parasites, exploiting the company for their own benefit and generating the kind of corruption and abuse we have become sadly accustomed to. Corporate governance reforms that have emerged in response to those scandals have been designed to make the corporate in crowd more accountable to shareholders. Many of the proposals are worthwhile, but my experience suggests that most will not achieve the desired results unless they take into account the nature and role of core groups.

For a start, while corporations legally belong to shareholders, the psychological truth is that they will always belong to some inner group of managers. An organization's employees will put shareholder value first only if the core group sets an example of doing so and makes it clear that everyone else's job depends on following suit. Because the core group sets the organization's strategic direction, it can even help a company lead, rather than merely follow, the financial markets or its industry. When BP established its "new brand," Beyond Petroleum, the City of London did not approve. The stock price fell, reflecting investors' presumption that an established energy company with 100,000 employees or so around the world could not change its habits. At that point, BP's core group had to choose what kind of stand to take. Employees throughout the corporation could (and did) make personal decisions about how avidly to support the new brand, but only the core group could establish an overall corporate point of view concerning, for example, when a viable infrastructure for distributing hydrogen-based energy was likely to be developed.

When core groups display independence, creativity, and power, the rest of the company follows. The same goes for when core groups take courageous stands; when they talk together openly and raise disputes for the sake of understanding them better; when they are diverse in their makeup and their thinking; when they forgo politicking, empire building, and exploitive behavior; and when they embody a sense of stewardship for the organization. Such behavior on the part of the company, in turn, creates value for shareholders, especially over the long term. But unless you are prepared to remove many of the members

from the organization, these traits can't be engineered into the core group. In most situations, core groups take on such traits when they realize they will be rewarded for them—in part by the approval of regulators, but primarily by the group's own newfound ability to attract employees, customers, financiers, and shareholders. 

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