

ROI or IOU?

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Forces Creating Change

About 22 years ago, when I first met Dr. Deming, I was impressed by the broad sweep of his writings. As I studied his speeches and his books, I realised his comments had global implications. As it undoubtedly happened with other people, his words caused me to reflect on my own beliefs and understandings. Convinced of the significance of what he had to say, I began to write a few essays with the intention of alerting others to his message. In one of my papers, written around 1983, I listed the forces of change which, it seems to me, were going to change the way we lived. Here is a table adapted from that earlier publication¹:

Forces of Change

- **Population Explosion**
Everyone agrees that *other people* should have fewer children.
- **Technological Advance**
No one can keep up with the pace of change; even experts in a narrow field can no longer claim to be 'up with the literature'. Changes in technology cause unforeseeable social changes.
- **Resource Depletion**
Each year we dig deeper and go farther afield for resources. We apply more sophisticated techniques. Living resources, such as fish or wild fowl, have to be protected from extinction.
- **Rising Expectations**
Because of technical advances in communications, people everywhere are now aware of possibilities. They want more and want it now.
- **Interdependent Economies**
No nation can 'go it alone'. A financial crisis in Argentina affects the markets in the USA.
- **Unstable Governments**
We do not know, from day to day, who will emerge as a friend and who will be an enemy.
- **Uncertain Supplies**
Because of our interdependence, the stability of governments elsewhere affects our own economic stability.
- **Shared environmental decay**
Air pollution from one country sweeps over another. Ocean pollution threatens the food supplies of many nations.

Some of these forces have already created social changes.

Some Consequences of Technological Change

- **Money now travels around the world at the speed of light.** Electronic funds transfer makes possible silent, uncontrollable flows of cash. Corruption in Indonesia caused thousands of investors, world wide, to remove their funds and created a financial crisis

¹ Tribus, Myron "Managing to Survive in a Competitive World" 1983, Center for Advanced Engineering Study, MIT, Cambridge, MA. Reprinted in Quality First (National Institute for Engineering Management and Systems, National Society of Professional Engineers, 1420 King Street, Alexandria, VA 22314 March 1992, Publication #1459)

throughout Asia. No government authority could control this outflow of money.

- **Technical information travels at the speed of the Internet.** Even relatively uneducated people, hiding in a cave in Afghanistan, could download instructions for bomb-making from their Internet connections.

- **Television is everywhere.**

People in remote places now can feel connected to the same world. They can also influence it.

People are informed and misinformed on a grand scale with unprecedented speed. Fewer and fewer people now control the channels of information.

As a result of these influences and social changes, we may predict general trends:

Some Predictions

- Those who *have not* will try to get.
- Those who *have* will try to keep.
- Local leaders will arise to exploit the situation.
- All forms of competition will increase:
 - Commercial
 - Ideological/Religious
 - Military
 - Terroristic

These are the observations and predictions I made about 20 years ago and they seem, unfortunately, to be borne out. I see now other consequences I did not predict. One of these consequences is a general disillusionment with big enterprises.

Example: At the recent “Sundance Festival” where independent film-makers show their creations, the talk was about the difficulties of making meaningful films in the big studios. Many had forsaken good paying jobs for the possibility to be creative.

Example: Radio and television news reporters write and discuss the decline of the independent news room, saying that the pressures to show a profit make it difficult for them to live up to their professional obligations.

Example: The demise of the “social contract” between employer and employee. Very few employers and employees speak about loyalty to or from a firm today. At the time of the great depression, the employees of the General Electric Research Laboratories agreed to go on a 4 day work week and take 20% pay cut, to prevent their colleagues from being laid off. Such an arrangement seems unthinkable today.

My motivation in writing about such dreary predictions was to underscore the importance of a change in management style along the lines advocated by Dr. Deming. Our difficulties, as Dr. Deming said, are all traceable to the *style* of management adopted in our large enterprises (Government included).

We were warned by Deming in 1985 when he listed his “Forces of Destruction”

Deming’s Forces of Destruction (1985)²

- Lack of Constancy of Purpose
- Emphasis on Short Term Profits
- Personal Review Systems
- Mobility of management (job hopping)
- Management by use of “Visible Figures”
- Excessive medical costs
- Excessive costs for liability

² From “Out of the Crisis”, MIT Center for Advanced Engineering Study

In 1993 Leonard Sayles attacked this problem in a different way. He identified classic assumptions (which he called MBA myths) taught in schools of business.³ While Deming attacked the *behavior* of people in top management, Sayles attacked the *belief* system of most managers, the concepts they had been taught in business schools or the concepts they taught one another. Here are some of the *myths* identified by Sayles.

Sayles' List of MBA Myths

- The primary managerial activities are (should be) *command and control*.
- The following problems are distinct and require unique solutions
 - ✓ Efficiency
 - ✓ Excessive overhead
 - ✓ Product Quality
 - ✓ Innovation
- Managers may be categorised in two groups
 - ✓ Administrators
 - ✓ Leaders
- Best managers manage by results and do not get involved in work or technology.
- Management represents generic skills, transferable from one organization to another without significant start up costs
- Leaders have two kinds of work
 - ✓ “People” work
 - ✓ “Work” work
- A manager’s primary task is to gain credibility with the boss
- Good management is synonymous with:
 - ✓ Clarity
 - ✓ Well defined responsibility
 - ✓ Clear authority

Sayles’ list of “myths” reflects the *belief system* of many managers and, for me, describes why many managers have so much difficulty in following Deming’s advice. Believing in Sayles’ myths, they judge others by them. More importantly, they promote their subordinates according to these beliefs. They share a common belief system, making their enterprises extremely resistant to change.

How Do You Want Your Company To Operate?

My teacher, Professor Yoshikazu Tsuda, once drew a diagram, which I have overlaid on a photograph, to depict how a company looks to people outside the company. What outsiders see is just the tip of an iceberg.



Figure 1. The Outsider’s View of the Company

The view is completely different from inside the company.

³ Leonard R. Sayles, The working Leader : The Triumph of High Performance over Conventional Management Principles , (Free Press ; New York : Toronto : Maxwell Macmillan Canada, c1993)

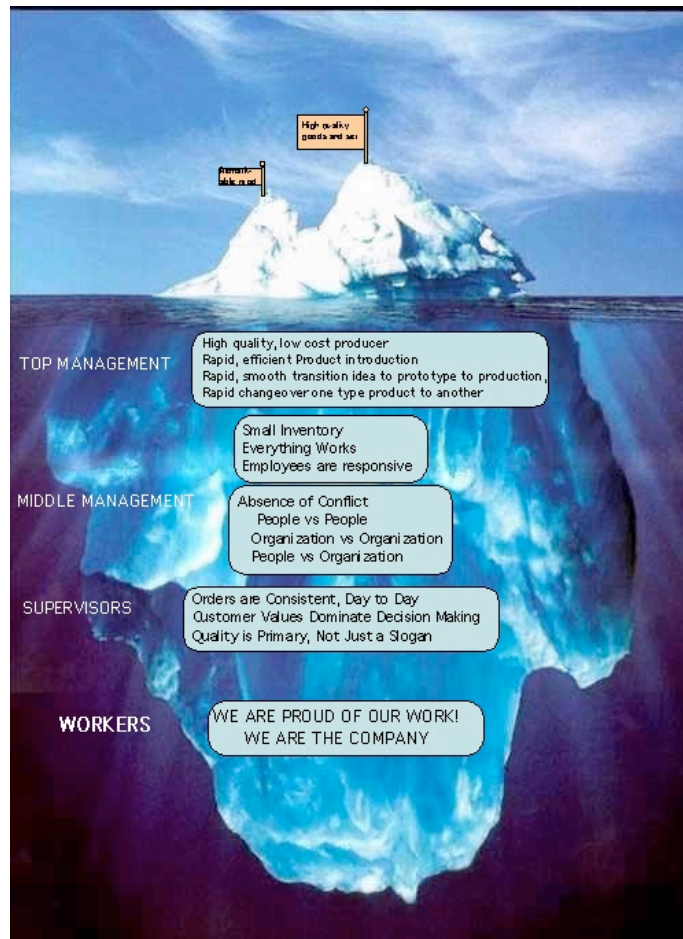


Figure 2. An insider view

I believe that the picture Professor Tsuda drew represents the ideal organization, desired by just about any manager. Few, however, will agree that this picture describes *their* organization. The question becomes: “What do you have to do to create such a company?” Well, what you intend to do depends upon the purpose of the enterprise.

Some Fundamental Questions of Purpose

The people who organized this conference had a purpose in mind. They wanted to raise some fundamental questions about measurements of organizational performance. But what you decide to measure depends upon what you are trying to do. These considerations bring us to the question of the purpose of an enterprise. If you are trying to save or improve an institution or an enterprise, it seems fair to ask, “Is this enterprise really worth saving?” “Why does it exist?” “For whose benefit does it operate?” While these questions may be appropriate at any time, it seems to me that they are more significant today, at the beginning of this century.

Are the answers to these questions always based upon economics? Whose economics? When we account for the economics of a system, where do we choose to draw the boundaries of the system? Who is left out?

At the very last conference sponsored by the Ohio Quality and Productivity Symposium, David Maley presented an analysis of various factors essential to business success. He pointed to three significant factors which could be arranged in three different ways, depending upon what the management thought was the aim of the enterprise.

The first arrangement corresponds to the dominant mode in most countries:

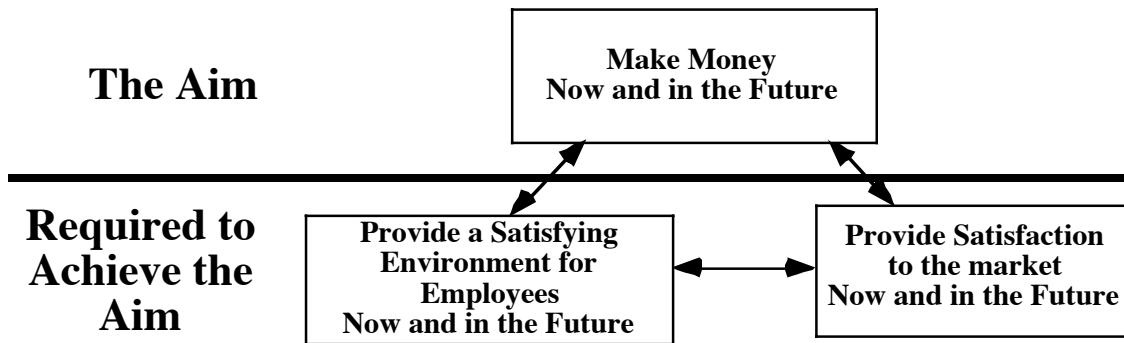


Figure 3: Shareholder dominance

In this view the most important objective for the company is to make money. It is the main reason for the company to exist. "Increase shareholder value" is the watchword. The second arrangement corresponds to the recommendations of people in the quality movement. "Put Quality First" is their slogan.

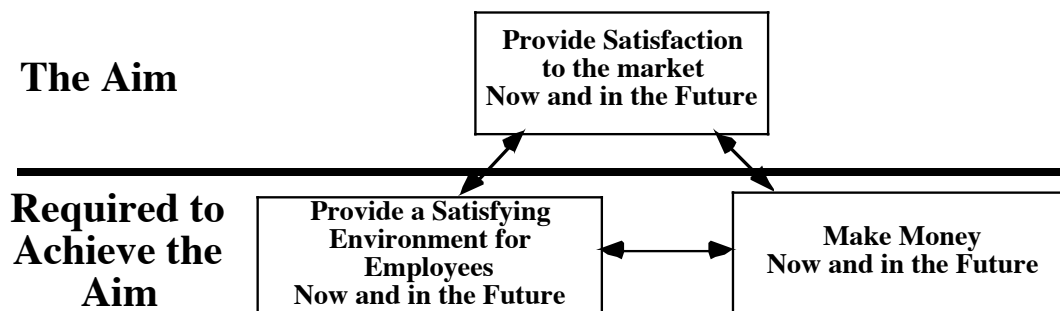


Figure 4. "The Customer Comes First"

The third possible arrangement, according to David Maley, is to make the welfare of the employees the first consideration, as shown in figure 5.

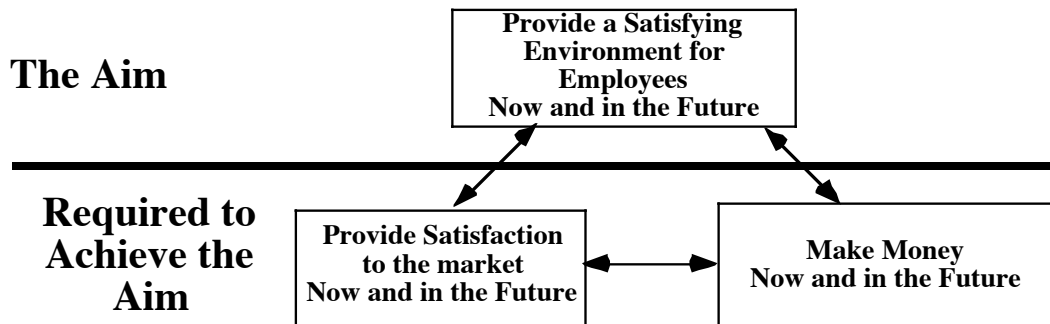


Figure 5. Employees First.

There are not too many companies following this third choice of aim. Pacific Southwest Airways in California advertises itself as looking after employees first, on the basis that if they do so, the employees will look after customers. PSA grew with astonishing rapidity and was very successful until it was bought out in 1988.

Semler has carried this concept to an extreme, letting the employees run the company, even to the point of setting their own salaries!⁴

Thomas Bata, about whom I shall say much more later, followed a different aim, as suggested in the following diagram.

Figure 6. Bata's aim

⁴ Ricardo Semler, Maverick! Arrow Books (1994) London

Bata found that “Serve Society” was an aim that could unite everyone in his company. The Bata Shoe Company grew from 50 people in 1894 to over 18,200 in 1932 at the time of his death. By then his company produced and sold more shoes, worldwide, than all the other shoe producers in the world combined. The low cost and the high quality of his shoes beat all of the competition. How did he do this? It began with his belief system. Here are some of his statements of belief:

Do not pursue money! He who pursues money will never achieve it. Serve!
If you serve as best you can, you will not be able to escape money.

During my work my intention was not to build the company, but people. I have built a man to be more proficient and effective and to serve better the customers so that later he could build the company

We think that our products are still too expensive and worker’s salary too low. We want to reach the situation that the shoes are cheaper and workers earn even more.

It is interesting to see how Bata handled the question of employee “attitude”. First of all, he put his employees in charge of the work by creating an internal market.

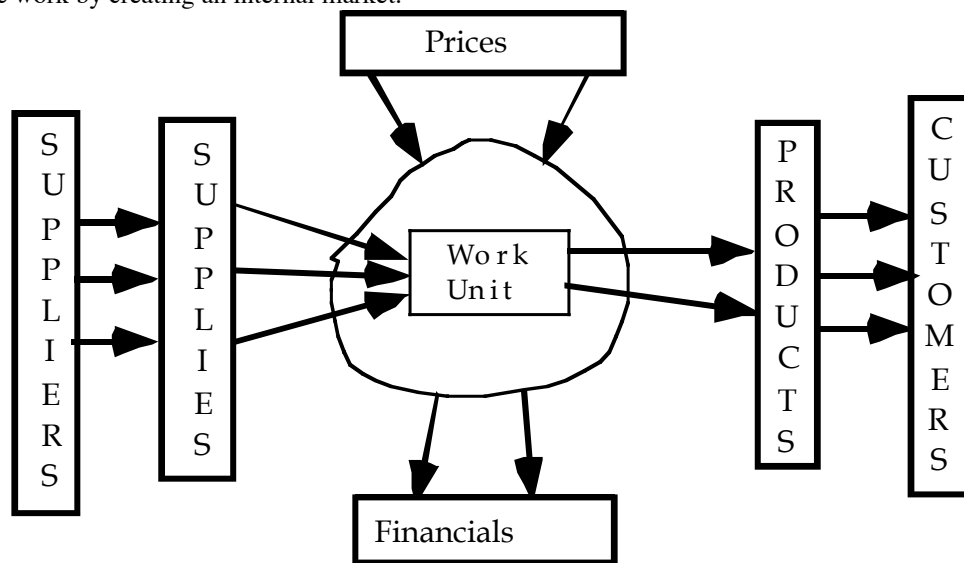


Figure 6 Pricing structure for production unit

Bata told his employees, “The next man in line is your customer”. His staff created a pricing structure at which each unit bought supplies and sold products. He agreed with the workers that if they could make a profit, half of the profit would be shared with the workers and half with the company. He insisted that each week the profit and loss information be made available to *everyone* so that each worker could calculate his share of the profits and relate his share to the work of the unit. Each unit was to be small enough that everyone in it could influence what went on. The basis for setting all prices was made transparent so that if anyone thought it unfair, the matter could be discussed.

There was still the matter of attitude. Bata endeavored to hire people who found joy in work and then made every effort to make it possible to do good work. He was not satisfied that he could find good managers so he created his own business school with the motto: “We teach people how to create value through honest work”. He created his own high school. Each year he took in about 400 boys between the ages of 14 and 16, who could present a good record of attendance and study. The students were each paid a stipend which was sufficient for them to pay for their room and board, clothes, books and tuition with a small amount left over. Each student was required to account for what was done with the money, his object being to teach fiscal responsibility. The students came from homes in which the parents had limited education, as were the conditions in rural Czechoslovakia before WW II. He encouraged the young men to go home and help their parents put their budgets in order. In the second year the students worked at the factory half time and studied half time, but with full salary! It was a rigorous regime, starting early in the morning in the dormitories with inspection of clothing and dress (Fingernails clean? Shoes polished?) Graduates of this program, over the years, became the backbone of his managerial corps.

In 1929 the daily production per worker reached 12.5 pairs of shoes which was 3 times higher than in other factories in the Czechoslovakian republic. In the USA the peak productivity was 5 pairs of shoes daily per worker (Factory Organization, April 1990).

There are many more things I could report about Bata's methods. The point I am making is that Bata did not divide his attention to such things as productivity, quality, employee morale, efficiency, and so forth. Rather, he treated these topics as all part of the *system of management*.

In this presentation I focused attention on Bata. I might just as well have used Ricardo Semler⁵ as an example. He sums up the secret of creating a quality driven profitable company this way:

"All you have to do to build a successful organization is ensure that people look forward to coming to work in the morning."

David Packard, one of the founders of the Hewlett-Packard Company, said to a training group in 1960⁶
I want to discuss why a company exists in the first place. In other words, why are we here? I think many people assure, wrongly, that a company exists simply to make money. While this is an important result of a company's existence, we have to go deeper and find the real reason for our being. As we investigate this, we inevitably come to the conclusion that a group of people get together and exist as an institution that we call a company. Now they are able to accomplish something collectively that they could not accomplish separately – they make a contribution to society, a phrase that sounds trite but is fundamental.

I fear that in this conference you will focus your attention on new ways to measure these individual aspects of the management system. But they are not separate issues, to be dealt with as though separate. If you develop new measures for the different characteristics of the system, they will be as useless as the ROI. You will be generating figures by which to manage and ignoring the things which really matter, which will remain unknown and unknowable.

⁵ Ricardo Semler, Maverick! Arrow Books (1994)

⁶ Reported by Howard Eisenberg in "Reengineering and Dumbsizing: Mismanagement of the Knowledge Resource" IEEE Engineering Management Review Fall 1998 (reprinted from ASQC 1997)