Management Ideas and Management Fads

Roy Jenne
9 July 2001

- Don’t get hammered by management fads

- *The Productive Edge*; a good book

- *The Rise and Fall of Strategic Planning*
  - A book published in 1994

- A series of news stories and book reviews

- There are 7 items and 44 pages here

(Scanned Feb 2002)
Management Ideas and Management Fads

Roy Jenne
30 May 2001

This bundle of papers has information about management ideas and management fads. This collection has been prepared to stimulate thinking, provide some sources of information and to caution people about excessive fads and hype. One paper asks: “Have you consulted a witch doctor lately?” There are a lot of good ideas to think about.

This bundle has 7 items and 40 pages plus 3 pages in front.

1. Don’t get hammered by management fads (Wall Street Journal, May 21, 2001, 1 p)

   - A good discussion of the changes in several US industries

3. Strains at the top (of IMF), (Economist, May 12, 2001, 1 p)
   - The mood at IMF is gloom
   - Management does affect the success of an organization
   - Key people are leaving
   - Events at the International Monetary Fund

4. Outsource Work To Help Service or Help Costs (RJ, Sep 2000)
   - This is another bundle of papers (27 pages) with only 1 page here
   - It is useful to help think about the issues of outsourcing.

5. Postal Service to upgrade technology (ComputerWorld, May 14, 2001, 1 p)
   - This seems like a specific plan and a reasonable plan to improve efficiency and save money.

6. The Rise and Fall of Strategic Planning (book, 1994, 7 p here)
   - A useful book, 458 pages

7. Management Theory and Fads (RJ, )
   - A series of news stories and book reviews
   - About 19 stories and 24 pages
   - There have been many fads about how to improve a company. Some are bad for the health. So be careful.
shareholders in any meaningful sense but are "social institutions". Shareholders are just one of several groups of stakeholders with claims on the firms. Others include customers, employees, suppliers and so on.

This is either trivial or meaningless. Few companies, let alone a monopoly utilities, can afford to have a miserable workforce or disgruntled customers. If that is the reason, they want to be successful. Presumably, that means making money for their shareholders.

Management theory

Downsized


N A M E D G R O U P theory is widely scorned by both the academic and business worlds. Yet every year more than 75,000 students in the United States receive the degree of Master of Business Administration, 15 times the number in 1960, and American business spends $15 billion a year on outside advice from management consultants. Business guruism is itself a boom business.

It is this puzzle that these two journalists on The Economist seek to solve. They set themselves three tasks: to explain the great demand for management gurus, despite their evident failures; to chart the "unique selling proposition" of the chief proponents of the art; and to distinguish what is actually useful from the over-hyped dross that crowds the bookshelves.

They succeed. To explain the demand is simple enough. It is created in part by the insecurity of corporate executives. All about them they see downsizing, rightsizing, restructuring—all those dreadful euphemisms for sacking people—and they want to improve their own performance. And it is created in part by the links between business books and the management consultancies whose employees spawn them: a bestseller generates business for the consultancy. Here it would have been helpful had the authors explored the question of why managers feel themselves so inadequate at the job they are paid to do that they have to hire management consultants to help them do it.

Their section on the gurus rightly gives pride of place to the doyen of management theory, Peter Drucker. Taking the reader through his work and his influence, they outline his particular contributions, for example the idea that workers should be seen as a resource—that their ideas should be used—rather than just as a cost. Mr Drucker's books have flaws: some of the practical advice is dated, some of his later work the authors adjudge to be thin. But they believe that "what makes all this effort worthwhile is the sheer quality of his intellect...his relentlessly curious mind always makes the reader think."

The authors are less kind about the other guru with whom they deal at length, Tom Peters. He and another McKinsey consultant were backed by their employer to study the excellent company and their "In Search of Excellence", published in 1982, sold 5m copies within three years. There were only two snags. First, two-thirds of those "excellent" companies were no longer deemed to be so ten years later. Second, Mr Peters keeps changing his mind about what matters. In 1987, in his "Thriving on Chaos", he announced "there are no excellent companies".

The central portion of this book looks at the other ideas advanced by the rest of the pack and at the debates that their ideas have generated: the appropriate size and organisation of a company; how to manage knowledge businesses; corporate governance; outsourcing and the relationship between core workers and temporary workers; and so on. For the bemused manager, all this is clear, useful, pithy and wise.

Most of these issues exercise American corporations, the most avid consumers of management theory. Is there another way? For a sideways, non-American look at practice elsewhere, they examine management in Japan, the business empire of the overseas Chinese and Britain's National Health Service. The conclusion, unsurprisingly, is that other models have interesting ideas but that there is no holy grail, no single "right" way of managing businesses.

Still, that will not stop the proponents of the art, "the strange but annoyingly wealthy creatures", from continuing to prosper. That irritates the authors. It ought not to. This is a free market, not a rigged one, and the market is signalling that these gurus supply a need. If people want to read about the need to "synergise" or have "emotional bank accounts" that is fine. If companies want to send their managers off on character-building courses in the Andes then that is fine too. The demand has created the supply, not the other way round.

The problem, as with all new disciplines, is "how can we distinguish between the charlatans and the rest?" Alas, the authors pose that question only four pages from the end and give only the briefest sketch of an answer. Still, like their witch doctors, they provide good entertainment. Who knows? Mr Micklethwait and Mr Wooldridge may even become "strange but annoyingly wealthy creatures" too.

HAMISH McRAE

INOHERSTORYOF RISK

A History of Risk

Against the Gods. By Peter Bernstein. John Wiley; 398 pages; $27.95 and £17.99

IN ANOTHER writer's hands, a history of risk might be a banal, dull affair. It might even be intimidating, for it is hard to imagine any useful discussion of risk without some mention of brain-stretching concepts. Peter Bernstein, however, steers skilfully away from both banality and intimidation. Complex ideas are dexterously handled, neatly explained and clearly elucidated in their broader intellectual context.

Probability is a case in point. After sprinting in ancient Greece, the mathematics of risk made slow progress. It was not until the 17th century that a few profound problems in the mathematics of probability were solved, notably in a famous correspondence between Blaise Pascal and the Chevalier de Méré, an inveterate gambler. After their insights were buttressed by Pierre de Fermat, a French mathematician, and Gottfried von Leibniz, a German philosopher, it was possible to calculate answers to previously intractable questions—for instance, how should the pot be divided in a game of chance which ends prematurely with one player ahead? That simple challenge stymied generations of mathematicians. Its eventual solution was a significant breakthrough.

Indeed, Mr Bernstein suggests that the inability of mathematicians to formulate rigorous answers to such questions about risk had been a profound hindrance to commerce. Society needed reliable rules on how risks and rewards should be shared be-
Don't Get Hammered by Management Fads

Manager's Journal

By Darrell Rigby

An estimated 10,000 business books have been published worldwide over the past three years, many touting management "tools" promising to make their users incredibly successful by showing them new ways of doing business. Beware. Gateway's experience shows the dangers of taking advice too freely.

In 1998, the company ranked number one in revenues in the U.S. consumer market for personal computers, and it appeared strong even during the tech slump last year. Management gurus credited several fashionable tools:

- **Market Disruption Analysis.** Gateway foresaw PCs going the way of pagers—slow growth, unacceptable margins. Disruptive technologies, such as Net appliances, offered greater opportunity. "I'd be totally happy," said chairman Ted Waitt, "if I didn't sell a PC five years from now."

- **Corporate Venturing.** Gateway created a venture-capital arm to invest in new, diversifying businesses. The investment portfolio soon grew to $1.5 billion, about one-third of Gateway's total assets.

- **Customer Relationship Management.** Gateway sought "life-long relationships" with customers. It expanded product variety to satisfy personal preferences. It spent hundreds of millions of dollars building more than 300 retail outlets, then set out to make Gateway the biggest non- vocational computer trainer in the country within a year. It sent out "technology ambassadors." To further cement relationships, Gateway allowed customers to buy on the installment plan.

Yet by January of this year, Gateway had significantly missed its forecast, fired its CEO, sharply reduced product options, and announced a layoff of 5,000 workers.

The stock price fell to $15 from $50. Mr. Waitt, Gateway's co-founder, claimed his former job as chief executive and set about restoring profitability in its traditional computer products.

Obviously, it wouldn't be fair to blame Gateway's failures on the aforementioned management tools—any more than it was fair to credit those tools for Gateway's earlier successes. Tools are just tools. Wal-Mart's numbers will probably best Kmart's regardless of who writes the best mission statement. But tools do have an impact. Just ask CarsDirect.com. CarsDirect is suing its provider of customer-tracking tools, claiming they have "substantially impaired" its ability to meet customer demand and created "significant operating losses"—estimated at $50 million.

Too often the primary impact of management tools is bouncing companies from guardrail to guardrail—from centralization to decentralization, from focus to diversification, from loyalty to layoffs—without much forward progress. Gurus ridicule modest course corrections, clamoring for radical revolutions that will turn conventional wisdom on its head. Title the titles among Amazon's most popular business books: "Leading the Revolution," "The Customer Revolution," "New Rules For the New Economy: 10 Radical Strategies For a Connected World." And who can forget "Reengineering the Corporation: A Manifesto for Business Revolution?"

Until recently, there has been no Consumer Reports to evaluate such tools. But over the past eight years, Bain surveyed more than 5,600 senior executives around the world, tracking their needs, attitudes, usage rates and satisfaction with management tools over time. While 72% believe it is important to stay on the cutting edge of tools (the average company used 10 of the top 25 tools in 2000), a whopping 81% feel that most management tools promise more than they deliver.

Most tools set unrealistic expectations. They overstate benefits and understated costs. Over time, employees grow fatigued as they are whipsawed from one tool to the next. As one weary store manager recently confided to me, "If I'm told to jump on more bandwagons, I'm jumping ship."

Which tools create the most pain for the least gain? It seems to be those getting the most hype: Corporate Venturing (45% of users actually abandoned this tool—one of the highest defection rates in the survey's history), Market Disruption Analysis (satisfaction scores are barely above those for Corporate Venturing), and Customer Relationship Management (the fastest growing tool, with the third-lowest satisfaction score).

Meanwhile, no one really talks about the most successful tools. They're old news. But executives rate Strategic Planning as the most valuable tool in their workbench. It is the most heavily utilized of all tools (used by 80% of respondents, compared to 8% for Market Disruption Analysis), is always in the top five satisfaction scores, and garners the most loyal users. Mission and Vision Statements, Pay for Performance, and Cycle Time Reduction are other classics that consistently receive strong reviews.

That's not surprising. Pick a tool, any tool, and I can cite an age-old truism that has advocated that tool's primary point for generations. Then again, for every saying (and tool), there is an equal and opposite saying (and tool) that makes just as much sense.

For example: Stick to your knitting (In Search of Excellence), but don't put all your eggs in one basket (Real Options Analysis); nothing ventured, nothing gained (Corporate Venturing), but remem-

ber, better safe than sorry (Strategic Planning); he who hesitates is lost (First Mover Advantage), but look before you leap (Scenario Planning).

Tools do evolve, but it's hard to call their fundamental principles revolutionary. Managers who jump on new-tool bandwagons presuming to boldly go where no one has gone before are doomed to repeat perilous mistakes of the past. In turbulent times such as these, especially after 30 years of record-breaking prosperity that did little to hone management's skills in navigating a downturn, executives appeal unusually susceptible to the siren songs of intrepid tools.

According to survey respondents, success demands a longer time horizon. Seventy-eight percent advise that once you find a tool that works, use it over and over again. Recognize that every tool has strengths and weaknesses. Learn to apply the right tool to the right problems in the right way. Use proven tools prudently rather than trendy tools hastily.

Astute readers will note that these are not new insights. Nearly 2,400 years ago, Aristotle pointed out that prudence lies at the golden mean between extremes. Well, we now have 5,600 survey responses supporting Aristotle's position. And as Epictetus used to say "You understand this, how long will you delay to be wise?"

Mr. Rigby, a director of Bain & Company, founded and directs Bain's Management Tools & Techniques survey.

THE WALL STREET JOURNAL

May 21, 2001
THE
PRODUCTIVE
EDGE
How U.S. Industries Are Pointing the Way to a New Era of Economic Growth

Richard K. Lester

A useful discussion of the changes in several industries.

- Royanne

W. W. NORTON & COMPANY
New York  London
“The Productive Edge is a fascinating tale of America’s industrial comeback—how it happened, where it happened, and what must be done to make it last. An artful blend of facts, analysis, and storytelling, it is a must read for corporate leaders, investors, public officials, and anyone else concerned about America’s future.”

—Jeffrey E. Garten, dean of the Yale School of Management

“If you want to understand the fundamentals of America’s economic and competitive status, where it’s been, and where it could (and should) be headed, this book is required reading. Lester has written a stunningly readable book, the single best source I know of about the issues and dilemmas facing U.S. industry as it approaches the millennium.”

—Warren Bennis, Distinguished Professor of Business, University of Southern California, and author of Organizing Genius: The Secrets of Creative Collaboration

“An important book on a critical issue by a particularly clear writer and thinker. Anyone interested in America’s future competitiveness in world markets should read Richard Lester’s thoughts on productivity, and discover why this measure of industry is the key to continued economic success.”

—William Spencer, chairman, SEMATECH

“A nation’s standard of living depends mainly on its own productivity. Richard Lester takes a fresh and penetrating look at how some American firms have turned themselves into highly productive competitors. There are vital lessons here for everyone.”

—Robert M. Solow, Institute Professor of Economics, Emeritus, MIT (Nobel laureate, 1987)

“The Productive Edge, by Richard K. Lester and his team at MIT, points to the need for flexible and ‘creative’ organizations in the fast-moving global markets of the twenty-first century. American industry, which has an amazing capacity to reinvent itself, would do well to study this book and implement its recommendations.”

—Gordon E. Forward, president and chief executive officer, Chapparral Steel
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national strategy for economic growth. Taken together, these reports from the front lines of American industry point to a new agenda for growth, tailored to the volatile, unpredictable conditions that will persist in the economy for the foreseeable future. At the heart of the agenda is a proposal for a “new economic citizenship”—a new view of the rights, responsibilities, and resources that should be accorded to those who will contribute their ideas and labor to the new century.

Richard K. Lester is director of the Industrial Performance Center at the Massachusetts Institute of Technology. He was coauthor of the 1989 bestseller Made in America: Regaining the Productive Edge.

Printed in the United States of America 5-98
What happened? How can we explain all this good news, so close on the heels of predictions of irreversible decline? Were things never really as bad as they once seemed? Or did we only seem to be doing so much better because countries like Germany and Japan were looking so much worse? Or had American industry indeed staged a miraculous recovery? If so, what was responsible?

It is true that the U.S. manufacturing workforce has shrunk by 1 million workers since 1980, and at 18.5 million is now no bigger than it was in 1950. But since 1950 the nation's per capita expenditures on manufactured products have increased threefold in real terms, and even since 1980 have grown by nearly 30 percent—hardly a picture of a sector in decline. Indeed, despite all the talk about the United States becoming a "postindustrial" or service economy, for the last twenty-five years personal expenditures on durable manufactured goods have actually been increasing at a faster rate than expenditures on services, albeit from a smaller base.²⁰

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**Table 2.3: Labor Productivity in Manufacturing in OECD Countries**

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The Rise of Service-Enhanced Manufacturing

The distinction between manufacturing and services has actually always been rather artificial. Many important activities carried out by manufacturing firms—marketing, distribution, engineering, design, maintenance, accounting, and so on—would be counted as services if they were supplied externally, by firms engaged exclusively in these activities (as, indeed, they are in many cases). For most manufacturers, in fact, these service inputs, whether internally or externally produced, account for a large fraction of overall production costs.

On the output side, too, the distinction between manufacturing and services is blurring. Traditionally, the essential difference between a service and a manufactured product has been that the former cannot be stored and therefore must be produced where it is consumed. (Janitorial services are an example.) But in many fields this distinction is becoming less and less clear-cut. Think of the services that used to be provided by bank tellers but now are available from automatic teller machines.

The trend toward service-enhanced manufacturing extends to the industrial goods sector, too. Think, for example, of the machine-tool industry, the archetypal manufacturing business. Machine-tool manufacturers today sell not just hardware but integrated systems, consisting of the tools themselves, electronic controls, information systems, software packages, reliability guarantees, and operating and maintenance support. (It is not unusual for such firms to second their employees to their customers' factories for a year or more at a time to help operate and maintain their products.) They see themselves as providing "processes" and selling "solutions," rather than as selling hardware.
Strains at the top

Washington, DC
In losing its number two, the IMF is starting to look careless

Pity Horst Köhler, managing director of the International Monetary Fund: his senior staff seem to be deserting him. On May 8th Stanley Fischer, the Fund’s highly regarded number two, announced that he was leaving as soon as a replacement could be found. After playing a key role in every emerging-market financial crisis, from Mexico in 1994 to the recent messes in Argentina and Turkey, Mr Fischer has an enviable reputation for economic rigour and political deftness, both inside and outside the IMF. His departure will leave a huge hole.

Nor is he the only loss. On March 7th Michael Mussa, long-time head of the research department and another intellectual powerhouse, announced that he was leaving. Rumours are rife that Jack Boorman, head of the policy review department and perhaps the third most powerful man in the Fund, is also about to quit.

For a hierarchical institution run by a small number of top people, these are big losses, and they come at a tricky time. George Bush’s administration has taken a noticeably more hands-off attitude towards the IMF than did the Clinton Treasury. With several emerging markets in trouble, the Fund needs all its experienced hands. Coming barely a year after the arrival of Mr Köhler, the losses of such senior people smack of troubles at the top.

In public, nobody will admit anything of the sort. Mr Fischer talks of its being a moment for “other challenges”. He has done the job for seven years; it is time to move on. Personal considerations have played a role with the others. Yet privately, insiders admit that the departures have much to do with the Fund’s new boss.

Mr Fischer’s relationship with Mr Köhler was tricky, for Mr Fischer had temporarily run the Fund before Mr Köhler’s arrival and, at the behest of many poor countries, himself stood for the top job. His failure to get it owed much to political horse-trading: the job traditionally goes to a European, and Mr Fischer is a naturalised American. On merit alone, Mr Fischer was widely judged to be a better candidate than Mr Köhler, a point not lost on the boss. Still, their personal relationship was not acrimonious. The problem was Mr Köhler’s style.

Mr Köhler came to the IMF from the European Bank for Reconstruction and Development (EBRD) with a reputation for being difficult to work with: he frequently yelled at and hectored staff. That style, it appears, has continued at the Fund and is viewed askance by senior staff who pride themselves on being collegial. (Mr Köhler suffered some of the same consequences at the EBRD. Nick Stern, now the World Bank’s chief economist, resigned as the EBRD’s chief economist one year after Mr Köhler’s arrival.)

It is proving hard to recruit a top academic to succeed Mr Mussa. Olivier Blanchard, a respected economist from MIT, was tipped for the job. He has now decided he is not interested: since Messrs Blanchard and Fischer are close friends and former colleagues, Mr Fischer’s resignation was almost certainly a reason. The mood at the Fund this week was gloomy. Economists across the organisation bemoan the loss of its intellectual leadership and fret that they may get second-raters instead.

In looking for replacements, Mr Köhler is said to favour Tim Geithner, formerly an undersecretary in the Clinton Treasury, for either Mr Boorman’s or, now, Mr Fischer’s job. But the Bush Treasury department, which has a veto on the number two job, may disagree. Although Mr Geithner has worked for Republicans as a career civil servant, he may be tainted by his close association with the Clinton mob. Whatever, to dispel the impression that his management is in trouble, Mr Köhler needs to make sure that good people are found fast—and that they stay.
THE PROMISED LAND FOR OUTSOURCING?
As Connecticut moves to farm out info tech, suppliers drool

Don't outsource your common sense. Not like last time...

Motorola Joins Technology-Outsourcing Wave

A typical purchase order costs Ford $150. 
A real-time order on the Exchange will cost around $15.

The Outlook

Why Making Things Is Out of Fashion

U.S. and European companies are outsourcing service jobs to English-speaking workers around the globe. White-collar workers left behind will be forced to retrain

1. Shift jobs to lower cost places.
The Internet is a big deal, but electricity was bigger. Building a great company requires adherence to principles predating both

As other companies shed manufacturing, outside contractors are becoming global giants

Aug 28, 2000
Postal Service To Upgrade Technology

BY LINDA ROSENCRANCE

The U.S. Postal Service is planning to upgrade its letter-recognition technology, a move that the service says will save more than $92 million per year.

Postal Service spokesman Mark Saunders said the improvements will increase the rate at which current optical readers are able to read handwritten and poorly machine-printed letters from the current 75% to 93%. Just five years ago, the equipment, called Optical Character Readers and Remote Computer Readers, could read only 5% to 10% of those letters, he said.

Saunders said the new technology enhancements are part of a program introduced in 1996 that will save the agency $92.5 million when it's fully implemented in 2004.

According to the Postal Service, mail that can't be sorted by high-speed automation has traditionally been sorted manually, at a cost of more than $55 for every 1,000 letters. Sorting the letters using optical readers costs only $5 per 1,000 letters.

Now, mail that's so illegible that it can't be read by this automated sorting equipment is scanned and the scanned image is sent off-site to remote encoding centers, Saunders said. At these centers, Postal Service contractors read the scanned image of an envelope, manually type in the address information and electronically transmit this data back to the mail processing plant, where a bar code is applied to the mail, which is then re-sent to the automated readers.

The Postal Service has about 35 of these centers, down from an initial 55. The service expects to close more sites as the technology improves. "The primary benefit from increased read rates will be reductions in the need to manually key address information through the remote encoding centers," said Thomas Day, the Postal Service's vice president of engineering, in a statement.

As well as upgrading its optical readers, the Postal Service plans a $16 million upgrade to its Integrated Data System, an information collection and management system. The project will be headed by Lockheed Martin Distribution Technologies in Oswego, N.Y.

...This sounds reasonable...

...It appears that they will do the job to make a real improvement...
The Rise and Fall of Strategic Planning

Reconceiving Roles for Planning, Plans, Planners

HENRY MINTZBERG

$32.95

THE FREE PRESS
New York  London  Toronto  Sydney  Tokyo  Singapore
The Rise and Fall of Strategic Planning

In this definitive and revealing history, Henry Mintzberg, the iconoclastic former president of the Strategic Management Society, unmask the process that has mesmerized so many organizations since 1965: strategic planning. One of our most brilliant and original management thinkers, Mintzberg concludes that the term is an oxymoron—that strategy cannot be planned because planning is about analysis and strategy is about synthesis. That is why, he asserts, the process has failed so often and so dramatically.

Mintzberg traces the origins and history of strategic planning through its prominence and subsequent fall. He argues that we must reconceive the process by which strategies are created—by emphasizing informal learning and personal vision—and the roles that can be played by planners. Mintzberg proposes new and unusual definitions of planning and strategy, and examines in novel and insightful ways the various models of strategic planning and the evidence of why they failed. Reviewing the so-called “pitfalls” of planning, he shows how the process itself can destroy commitment, narrow a company’s vision, discourage change, and breed an atmosphere of politics. In a harsh critique of many sacred cows, he describes three basic fallacies of the process—that discontinuities can be predicted, that strategists can be detached from the operations of the organization, and that the process of strategy-making itself can be formalized.

Mintzberg devotes a substantial section to the new role for planning, plans, and planners, not inside the strategy-making process, but in support of it, providing some of its inputs and sometimes programming its outputs as well as encouraging strategic thinking in general. This book is required reading for anyone in an organization who is influenced by the planning or the strategy-making processes.

HENRY MINTZBERG is a visiting professor at INSEAD in France and a two-time winner of the prestigious McKinsey Award for the best Harvard Business Review article. A fellow of the Royal Society of Canada—the first fellow elected from a management faculty—he is the author of several seminal books including Mintzberg on Management (Free Press, 1989).

THE FREE PRESS
Introduction: The "Planning School" in Context

"I was in a warm bed, and suddenly I'm part of a plan."
Woody Allen in Shadows and Fog

This is a history book of sorts about so-called strategic planning. Through its literature we trace the story of that concept, from its origins around 1965 through its rise to prominence and its subsequent fall. In so doing, we seek to learn about planning, about strategy, and about the relationship between the two. We also seek to understand, more narrowly, about how the literature of management can sometimes get so carried away; more broadly, about the appropriate place for analysis in organizations; and more practically, about the useful roles that can be played in today's organizations by planners and plans as well as by planning. The story of the rise and fall of strategic planning, in other words, teaches us not only about formal technique itself but also about how organizations function and how managers do and don't cope with that functioning, also about how we, as human beings, think and sometimes stop thinking.

This book began as one piece of a larger work. In 1968, I set out to write a text called The Theory of Management Policy, to draw together the research-based literature that helps to describe the
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THE RISE AND FALL OF STRATEGIC PLANNING

"[T]he field of planning needs a strategy of its own, a viable niche that makes the best uses of its true comparative advantages."

"So a fundamental dilemma arises: how to couple the skills, time, and inclinations of the planner with the authority, information, and flexibility of the manager, to ensure a strategy making process that is informed, responsive, and integrative."

"For nowhere in the planning literature has there been any indication whatsoever that efforts were made to understand how the strategy making process really does work in organizations."

"The work of creating strategy cannot be programmed like that of shoveling coal."

"Even the best of intended strategies have to be tailored to all kinds of circumstances inconceivable in their initial formulation."

"Effective strategists are not people who abstract themselves from the daily detail but quite the opposite; they are the ones who immerse themselves in it, while being able to abstract the strategic messages from it."

"Western planners were spoiled by the munificent conditions of the 1960s, when planning first cut its teeth."

"In effect, planners had cried wolf for so long about turbulent environments that when something faintly resembling that condition finally came along, it consumed planning, leaving only the entrails of budgeting behind."

"While the planners ran around plugging up the holes in their practice, everyone else had to pay the bill."

"[W]e are now ready to extract the planning baby from all that strategic planning bathwater."
Management Theory and Fads

- This is a collection of news stories
- 19 stories and 24 pages follow

Roy Jenne
June 2001
Have you consulted a witch doctor lately?

Management Theory—or Fad of the Month?

Management by belly button

Who stole productivity?

Too many experts, not enough expertise

Profiles of Leaders and Successful People

Sometimes Behind A Big Success Is A Very Simple Person ...
Dancing with gorillas

BY JOHN RUTLEDGE

Over the years I have learned that every new management buzzword brought into the boardroom reduces shareholder value by 10%. Last year’s buzzword was paradigm shift, which basically says that everything we did before is wrong now, but it isn’t our fault.

This year’s phrase is strategic partnering or, as they say in California, becoming one with your customers. All over the country managers are embracing their large customers, sharing information from their financial accounts and agreeing to multiyear sales agreements at profit margins of one-third to one-half lower than normal.

Partnering with a gorilla is the quickest way to increase sales, but when you dance with a gorilla, the gorilla always leads.

Wave after wave of downsizing, restructuring and consolidation since 1980 has left many industries dominated by a few large companies. Those big companies want to exercise their enhanced market power every way they can. One way is by reducing the number of suppliers, sometimes to only one or two and to work with them intensively to get quality and delivery schedules right.

For good or bad, strategic partnering is not going to go away, but if your company finds itself propositioned by a gorilla, here are some lessons I have learned that may be useful to you.

Lesson one: Don’t let him squash your margins. When a big customer approached one of our companies to submit a proposal to become its sole supplier, our managers came up with a plan. We could reduce our normal 23% gross profit margins, do the extra business for only 16% and still earn over 30% on the additional capital employed.

Fortunately, we looked deeper. The managers were counting only the marginal costs of doing the extra business. For example, if the project utilized an expensive machining center at less than full capacity, they counted the costs of the additional operator hours but not the capital costs of the machine.

This is good thinking for short-term work, but it is deadly for long-term contracts. All resources used, including administration and capital charges, need to be included when you price long-term contracts. When figured correctly, the returns failed our company’s internal hurdles. We raised the bid to the customer. It’s still our customer.

Lesson two: Think return on capital, not margin. Many partnering arrangements begin by establishing an agreed-upon gross margin based on the benefits of bigger volume. But more volume requires more plant, equipment, inventories and the like. Make sure an adequate return on this capital is figured in your price.

Lesson three: Be careful of formulas for setting prices. Lots of partnering agreements include language designed to allow the seller to pass on a portion (usually half) of cost increases to the customer, and requiring that all cost reductions be passed along as well. Unfortunately, government price indexes are notoriously inaccurate measures of your costs. Don’t build them into your pricing agreements.

Lesson four: Just say no to blackmail. The managers of one company I know thought they were doing a very good job supplying a big customer with products at reasonable prices. Then, just as they were ready to close a merger that involved valuing the company using its recent cash flow numbers and book value of inventory, the customer pulled the rug from under them. It demanded an immediate 12% across-the-board price reduction and a rebate of more than $2 million on past business—or it would take its business elsewhere. The customer knew the announcement of the lost business would kill the merger. The board just said no to the blackmail. It didn’t lose the business.

Lesson five: Keep your books private. Once a customer becomes your partner, he may ask to see your financials or to audit your costs. In a friendly voice, tell him no. Your records are private. If you find a way to drastically lower your costs, and can sell products to your customers at prices lower than your competitors, you are entitled to make high returns on capital.

Lesson six: At the end of the day, there is only one sure way to defend against price pressure from a large customer: Have the lowest costs in town, the best products and the best service. That way you’ve got the gorilla where you want him. You’ve also got a happy gorilla.

This year’s buzz phrase is strategic partnering. If you do it, watch your wallet.

Forbes • December 2, 1996
COMMENTARY

By John A. Byrne

MANAGEMENT THEORY—OR FAD OF THE MONTH?

Five years ago, Darrell Rigby was sitting at his breakfast table perusing Consumer Reports when he had a brainstorm. “In Consumer Reports, you could get a scientific rating on the best peanut butter, a $2 or $3 purchase,” says the Bain & Co. consultant. “But there was no information at all on the success rate of management ideas. Yet companies were spending millions of dollars on them.” The thought led the Bain director to poll managers and executives on the latest management theories.

Now four years old, his annual study on management tools and techniques has become the Billboard chart for theories. Drucker-wannabees lobby him relentlessly, hoping to get their newest incantations into his survey. Exe-es pore over the results to ensure they’re not missing anything.

QUICK FIXES. Of course, a list of the most popular management ideas is all very nice. But managers need to be wary of jumping on a bandwagon that often leads nowhere. Many theories degenerate into little more than fads because they appear to be quick fixes for a topical problem. The boss hears a fast-talking guru or reads about the latest fashion, maybe even in this Bain report, and then orders his executives to look into it.

They do, and before you know it, the company sends hundreds of managers off to seminars and hires consultants to make it happen. Yet chasing the latest fads risks undermining the confidence of employees who begin to greet every new buzzword with increasing skepticism. “You need to be fairly selective and consistent over time with these things so you’re not [upsetting] your organization over the tool of the month,” cautions Daniel G. Simpson, director of strategy and planning at Clorox Co.

Moreover, when companies all start to follow the same theory, there’s usually trouble ahead. In fact, the Bain survey shows that some of the most popular management remedies draw the highest rates of dissatisfaction. The least successful, according to the Bain survey, is reengineering. Some 17.3% of respondents say they have been dissatisfied with the results from the once wildly popular strategy.

The theories in fashion today, such as “market migration” and “knowledge management,” are also failing to score well in terms of effectiveness. Knowledge management—the idea of capturing knowledge gained by individuals and spreading it to others in the organization—is “one of the newest ideas, and a lot of people have just jumped on the bandwagon,” says Alan Kantrow, chief knowledge officer at Monitor Co., a consulting firm. “They don’t really understand what to do about it.”

Besides knowledge management, what’s as hot as Beanie Babies? From “agile strategies” and “competitive gaming” to “core competencies” and “market migration analysis,” today’s most popular ideas focus on good, old-fashioned strategic planning. Anything related to customer satisfaction is also hot, and benchmarking remains strong.

What’s as dead as a pet rock? Little surprise here: It’s total quality management. TQM, the approach of eliminating errors that increase costs and reduce customer satisfaction, promised more than it could deliver and spawned mini-bureaucracies charged with putting it into action.

So what’s the harm in a little fad? Rigby says fads can waste energy and resources, create unrealistic expectations, and often prove divisive. Smart companies tend to customize ideas, win top-down support for them, and devote considerable effort to making them work.

Limited attempts at using new techniques tend to produce poor results—regardless of the concept. All in all, rating management theories is a decidedly sticky business. Getting them to work, however, is even tougher.

Byrne is a senior writer covering management for Business Week.
Too many experts, not enough expertise

The digital future has fallen into the clutches of the schmooze-oiise — pseudo experts engaged in content-free opinionizing.

The life and career of every CIO, technologist and end user is affected by wave after wave of high-priced, frequently wrong and rarely value-producing “expert” opinion. Survival in the high-hype economy requires that we figure out what to do about the experts who aren’t.

The half-life of expertise has compressed. Every month, organizations must assimilate modest product line extensions into their technology base. Every six months, a major systems upgrade is required. Every nine months, a fundamental technology mutation emerges from the vendor community. In this rapidly recompiling world, one wonders how the experts keep up — what magic process do they use to stay on top of the intellectual food chain?

The pace of change, combined with corporate America’s reduced head count (i.e., fewer heads to figure out the business implications of discontinuous technological developments), produced a period of good living for phrase-meiStering industry analysts. But of late, the punditry market has balkanized into a confusing labyrinth of subspecialties and micromarkets.

The trade journals and rubber-chicken conference circuits are awash with experts for hire. Serious managers who seek to solve serious problems can’t be sure who’s worth paying attention to. So a new breed of expert has emerged: the expert on experts — the meta-expert.

This goes too far.

The expert biomass has reached a point of Malthusian unsustainability. Empirical evidence is pretty damning. Though the experts don’t agree on much, they do share an inability to get the future right. Remember: The PC was supposed to make our lives simpler, client/server technology would reduce the total costs of computing and the World Wide Web would be used to sell things. The sad reality is that large organizations will spend billions of dollars on bad consulting advice.

Call to action

American CIOs, the sheriffs of the new cyberfrontier, are no longer standing by passively while noisy, matrix-toting child-gurus assault rationality, obfuscate technology futures and consume scarce corporate resources. The CIOs are saying, “Give us value or get thee gone, sound-bite-rich parasites!”

Successful organizations — which deliver supernatural returns to shareholders and above-expected service to customers — have concluded that we live in a world with no Solomons. Smart companies are taking responsibility for figuring out the new value equation by themselves.

World-class companies have ceased the pursuit of gurus and are concentrating on demonstrating unambiguous progress toward their business objectives. They are rooting out the vestiges of non-producing expert worship and setting up “mind share firewalls” to keep out the charlatans.

With expertise comes responsibility. Insightful organizations require their experts to take an equity participation in the rollout of their guidance. Indeed, several organizations now require that benefits actually materialize before the experts collect their fees. Real experts guarantee their work.

Experts have a responsibility to create knowledge, whether in the library, the laboratory or the workplace. Experts should be dedicated to developing the capacities to reflect, create and understand. Whereas today’s measure of expertise is how much you charge for a speech, in the post-hype economy, we need men and women who can elevate our sights and ennoble our efforts.

May is vice president of research and education at Cambridge Technology Partners, Inc. in Cambridge, Mass. His Internet address is tmay@ctp.com.

(www.computerworld.com) August 26, 1996 Computerworld
Management theory

Downsized

Management theory is widely scorned by both the academic and business worlds. Yet every year more than 75,000 students in the United States receive the degree of Master of Business Administration, 15 times the number in 1960, and American business spends $15 billion a year on outside advice from management consultants. Business guerdom is itself a boom business.

It is this puzzle that these two journalists on The Economist seek to solve. They set themselves three tasks: to explain the demand for management gurus, despite their evident failures; to chart the "unique selling proposition" of the chief proponents of the art; and to distinguish what is actually useful from the over-hyped mess that crowds the bookshops.

They succeed. To explain the demand is simple enough. It is created in part by the insecurity of corporate executives. All about them they see downsizing, right-sizing, restructuring—all those dreadful euphemisms for sacking people—and they want to improve their own performance. And it is created in part by the links between business books and the management consultants whose employees spawn them: a bestseller generates business for the consultancy. Here it would have been helpful had the authors explored the question of why managers feel themselves so inadequate at the job they are paid to do that they have to hire management consultants to help them do it.

Their section on the gurus rightly gives pride of place to the doyen of management theory, Peter Drucker. Taking the reader through his work and his influence, they outline his particular contributions, for example the idea that workers should be seen as a resource—that their ideas should be used—rather than just as a cost. Mr. Drucker's books have flaws: some of the practical advice is dated, some of his later work the authors judge to be thin. But they believe that "what makes all this effort worthwhile is the sheer quality of his intellect...his relentlessly curious mind always makes the reader think."

The authors are less kind about the other guru with whom they deal at length, Tom Peters. He and another McKinsey consultant were backed by their employer to study the excellent company and their "In Search of Excellence", published in 1982, sold 5m copies within three years. There were only two snags. First, two-thirds of those "excellent" companies were no longer deemed to be so ten years later. Second, Mr Peters keeps changing his mind about what matters. In 1987, in his "Thriving on Chaos", he announced "there are no excellent companies."

The central portion of this book looks at the other ideas advanced by the rest of the pack and at the debates that their ideas have generated: the appropriate size and organisation of a company; how to manage knowledge businesses; corporate governance; outsourcing and the relationship between core workers and temporary workers; and so on. For the bemused manager all this is clear, useful, pithy and wise.

Most of these issues exercise American corporations, the most avid consumers of management theory. Is there another way? For a sideways, non-American look at practice elsewhere, they examine management in Japan, the business empire of the overseas Chinese and Britain's National Health Service. The conclusion, unsurprisingly, is that other models have interesting ideas but that there is no holy grail, no single "right" way of managing businesses.

Still, that will not stop the proponents of the art, "the strange but annoying wealthy creatures", from continuing to prosper. That irritates the authors. It ought not to. This is a free market, not a rigged one, and the market is signalling that these gurus supply a need. If people want to read about the need to "synergise" or have "emotional bank accounts" that is fine. If companies want to send their managers off on character-building courses in the Andes then that is fine too. The demand has created the supply, not the other way round.

The problem, as with all new disciplines, is "how can we distinguish between the charlatans and the rest?" Alas, the authors pose that question only four pages from the end and give only the briefest sketch of an answer. Still, like their witch doctors, they provide good entertainment. Who knows? Mr Micklethwait and Mr Wooldridge may even become "strange but annoyingly wealthy creatures" too.


A history of risk

Dicey

Against the Gods: By Peter Bernstein. John Wiley; 398 pages; $27.95 and £17.99

In another writer's hands, a history of risk might be a banal, dull affair. It might even be intimidating, for it is hard to imagine any useful discussion of risk without some mention of brain-stretching concepts. Peter Bernstein, however, steers skilfully away from both banality and intimidation. Complex ideas are deftly handled, neatly explained and clearly elucidated in their broader intellectual context.

Probability is a case in point. After Sprinting in ancient Greece, the mathematics of risk made slow progress. It was not until the 17th century that a few profound problems in the mathematics of probability were solved, notably in a famous correspondence between Blaise Pascal and the Chevalier de Méré, an inveterate gambler. After their insights were buttressed by Pierre de Fermat, a French mathematician, and Gottfried von Leibniz, a German philosopher, it was possible to calculate answers to previously intractable questions—for instance, how should the pot be divided in a game of chance which ends prematurely with one player ahead? That simple challenge stymied generations of mathematicians. Its eventual solution was a significant breakthrough.

Indeed, Mr Bernstein suggests that the inability of mathematicians to formulate rigorous answers to such questions about risk had been a profound hindrance to commerce. Society needed reliable rules on how risks and rewards should be shared be-
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—Warren Bennis
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May 22 1995  Business Week

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The anti-management guru

Scott Adams has made a business out of bashing business. Why does the hand he bites love to feed him?

FIFTEEN years after Tom Peters and Robert Waterman launched the management-guru boom with "In Search of Excellence" (1982), the best-selling business book in the United States is an anti-management book. Scott Adams's "The Dilbert Principle" (HarperBusiness, $22), has been near the top of the BusinessWeek best-seller list for more than a year, with more than 1.4m copies in print. Mr Adams also has another hit, with "Dogbert's Top Secret Management Handbook" (HarperBusiness, $16).

Mr Adams's cartoons are syndicated in more than 1,500 newspapers around the world, and his web site is one of the Internet's most popular, with 100,000 visitors a day. There are Dilbert dolls, Dilbert calendars and ties, a $20m contract for another five Dilbert books, plus plans for Dilbert-based television programmes and computer software. There is even talk of a Dilbertland theme park, complete with boss-shooting gallery. Mr Adams's only real worry is over-exposure—and, as he happily points out, "you can't get to over-exposure without going through filthy rich first".

Dilbert, the cartoon character at the centre of this craze, is a corporate everyman who labours in a tiny cubicle for a giant company. His boss humiliates him, his cubicle drives him crazy, his fellow employees exasperate him; to cap it all, his dog, Dogbert, sets up in business as a management consultant. Dilbert's dismal life is made more dismal still by a series of silly management fads that make his working hours longer and his cubicle smaller.

Mr Adams says that, whereas most business writers write for the one in ten people who are interested in management theory, he writes for the nine who hate it. He also admits to having more than his fair share of luck. He spent 15 years gathering material in cubicle-land before becoming a victim of "downsizing" in mid-1995—just exactly the same time as Pat Buchanan and various newspapers were lashing the "greed" of corporate America.

Dilbert taps into three powerful currents. One is the mounting obsession with work; the average American now works the equivalent of four more weeks a year than he or she did in the 1960s. Not long ago, Gary Trudeau's "Doonesbury" was America's cartoon of choice, with its focus on political skulduggery and social injustice; now America's work slaves relax to jokes about core competences.

A second current is the growing fear in the workplace. Mr Adams examines the many ways in which bosses lord it over their employees: "densification" (packing more people into the available space by shrinking the size of their cubicles), "hot desking" (depriving people of permanent desks), getting rid of health insurance, parking spaces and so on.

The third current is America's mounting irritation with the ever-increasing number of management fads (see chart). As the life-cycle of these techniques becomes ever shorter, the average worker's attitude is summed up in the acronym "BOHICA": bend over, here it comes again. Oddly enough, the bosses and management gurus whom Mr Adams mocks adore him for it. Companies invite him to give speeches at corporate retreats; bosses give copies of his books to their underlings at Christmas. Michael Hammer, the father of corporate "re-engineering", has on his wall an autographed original of a Dilbert cartoon that lampoons this technique. Even Pacific Bell, the telephone company that sacked Mr Adams in 1995, reproduces his cartoons in its internal newsletter.

How to explain this paradox? Mr Adams thinks that some bosses see Dilbert as a safety valve, a harmless way for disenchanted employees to laugh off their anxieties. Many management theorists assume that Mr Adams's barbs are aimed at the ludicrous ideas of their rivals, not at their own profound insights. But there is another factor at play, which Mr Adams calls the "China worry".

"You cannot conquer China," he says. "You only think you have—and then you wake up to discover that you too are Chinese." By bashing business, in other words, Mr Adams has turned himself into a successful businessman in his own right—and one who has used many of the tricks of management theory, which he learnt as an MBA student at the University of California, Berkeley, in order to do so. He presides over a fashionably "virtual" operation, in that he employs nobody directly, although 100 people work for him in one way or another. He is a shrewd follower of his own market: the earliest Dilbert cartoons rarely dealt with the office, but those that did aroused the most interest, so Mr Adams gave his customers what they wanted. And he is a brilliant salesman, the first cartoonist to make extensive use of newsletters, web pages and e-mail.

This ability to be both insider and outsider—to swot at his books in the evening but joke with the boys in the back row during lessons—is the secret of his success. The question is how much longer he can maintain this dual identity. Adams the businessman is as enthusiastic about consultants as Adams the cartoonist is scathing. His forthcoming book, "The Dilbert Future", is based in part on the prediction of an Irish management guru, Charles Handy, that, in the future, half the people will be paid twice as much for doing three times as much work. Can a man who hobnobs with gurus like Mr Hammer ("he and I agree 100%") really be the voice of the downtrodden middle manager? Tellingly, Dogbert, the manipulative canine, has never sold as well as Dilbert, the victim of cubicle land.

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Source: Bain & Company
Who stole productivity?

BY PETER HUBER

Since 1980 the U.S. has increased its aggregate computing power by a factor of something like 100 million. Yet worker productivity, we are told, grew sluggishly, 1% or so a year, compared with 2% to 3% annually in the 1950s and 1960s. What happened?

Some of the answers are politically acceptable. Alan Greenspan, for example, acknowledges that statisticians may simply be unable to measure output accurately, especially for service industries. Customized products, better service, higher reliability—qualities like these may be much more evident to consumers than to statisticians. Bean counters count beans, not flavor.

Or perhaps it just takes time to integrate new technology into old production systems. According to this theory, management hasn’t yet worked out how to marry the technology to operations. This perspective is explored in Thomas Landauer’s excellent 1995 book *The Trouble with Computers*.

Others suggest it’s basically a labor problem. You can’t just dump smart machines on workers who don’t know how to use them. The undigital solution: Hire teachers, raise their salaries and construct more community colleges and schoolrooms.

Then there’s the less charitable, goof-off theory. Hand a 7-year-old a calculator and the first thing he grasps is that maybe he doesn’t have to study multiplication tables anymore. Spell checkers have much the same effect. Why memorize a dictionary when the computer has already memorized it for you?

Machines induce laziness. First the machines took over all the heavy lifting and our bodies got flabby. A disciplined minority exercised and stayed trim, but most of us settled on to the couch and reached for the remote. Computers may have a similar effect on minds. We work our gray cells less hard than we used to.

There’s a key difference, however. A potbelly on the driver of a bulldozer doesn’t hurt productivity much because the machine’s power so completely displaces human muscle. Computers haven’t reached that point, and won’t for a long time. Until they do, productivity will depend on the aggregate intelligence, human plus machine, that we put into our work. A flabby mind can still suck the productivity gain right out of the computer it operates.

Much of the downsizing in the 1990s may reflect management’s late recognition of this unpleasant fact. To put it in the harshest possible terms, the productivity mistake of the 1980s may have been failing to move workers out as computers were moved in. Old-guard managers woke up only after new competitors bought their machines first, then hired lean, smart work forces and began taking over the market. Productivity is suddenly rising quite quickly again.

And finally, there’s the explanation that’s politically unspeakable. Most kids get past the temptation of the calculator and spell checker soon enough. Given half a chance to learn, they’re too intellectually curious not to. Not so the political and educational establishments. Despite all their talk about better worker training, dumbing down is what these establishments endorse and deliver.

Public educators and the employment police have waged a two-decade war on standards, test scores and educational rigor. They have done their utmost to outlaw merit. Hiring, firing and promotion revolve around gender, ethnicity, age, handicap, sexual orientation and liability lawyers—everything except ability.

The typical machine in a factory or office contains about 2 million more silicon transistors than it did two decades ago. But for demographic, educational, employment and other reasons, the average brain behind it contains fewer trained neurons—at least 20 points fewer if we use SAT scores as our scale. We measure a computer’s power in “Mips”—how many millions of instructions per second the machine can execute. Perhaps the 1980s just taught us a new version of Parkinson’s Law: The mind contracts to consume the Mips available. Intel giveth. The dumbdown society taketh away.
An emphasis in corporate makeovers is on the importance of quality in the global marketplace. The best barometer of corporate culture is internal communications—how a company talks about itself and to its employees.

If you really want to know what’s going on in this company, you have to listen to the grapevine or read it in the newspaper.”

That’s not a comment you’ll find in the employee orientation manual, but it rings true for a great many corporations. True even as business organizations are remaking, reinventing, or most recently re-engineering themselves. True even when employees have been converted into “associates” who are newly “empowered” and hailed as “our greatest asset.”

Many of these corporate makeovers, and almost all of the terminology, come part and parcel with the emphasis on quality in the global marketplace. While quality may not be the trendiest corporate strategy, it’s certainly pervasive. As we entered the mid-1990s, three-quarters of the North American companies surveyed by the Olsten Companies were expanding quality efforts—42 percent of them substantially. No one doubts the importance and potency of quality, but Total Quality Management may not be a universal fix. Like a new vaccine, it takes time to see if the medicine works. And time is revealing some significant gaps.

A classic failure occurs when the effort to upgrade quality just dances on the surface, while true corporate culture crawls along unaffected. One of the best, and underutilized, barometers of corporate culture is an organization’s internal communications—the manner in which a company talks about itself and among itself. The flow and substance of this information says as much as anything about the company’s real commitment to energize and empower its work force—a primary goal of any quality movement. Here are some key dimensions of credible corporate communications.

Immediacy
Speaking frankly to your employees is a wonderful thing, as long as they haven’t heard it somewhere else first. One company dedicated to providing information when employees “absolutely, positively have to have it” is FedEx. The showpiece: a $10 million internal television network, E4TV. When FedEx purchased Flying Tigers in 1989, the company’s chief executives were on the air with the announcement just minutes after the announcement to the financial wires.

At Hallmark, instant news is flashed across strategically placed television monitors around its Kansas City headquarters. In General Electric’s dishwasher facility, television monitors provide workers with instant feedback by flashing the most frequent defects for each hour.

For many organizations, electronic mail has become as standard a tool as the traditional memo, allowing breaking news to race through a company with neural speed. But speed is not quality. If top executives are out of the loop and are either incommunicative or still relying on traditional, slower communication tools, the results may be nothing more than a high-tech rumor mill. But when harnessed, nothing beats electronic communications for speed and economy.
Management by belly button

As every director knows, synergy is the magic dust that makes one plus one equal three. In practice, synergy is all too often defined in terms of unspecified cost savings that managers add to business projections to get the return numbers high enough so their board will approve an acquisition. In my experience, this is one of the principal reasons so many acquisitions end up producing disappointing results.

After sitting through my share of board meetings playing “wonder where the savings went,” I don’t want to make this mistake again. So when we decided to combine two companies a few months ago, we wanted a state-of-the-art tool to help us get it right. After careful review we rejected such pseudo-scientific mumbo jumbo as TQM, EVA and MBO. My partner, Jerry St. Dennis, introduced me to MBB—Management by Belly Button. Here is how it works.

The belly button is the person whose belly you point your finger at when you want to know how the work is proceeding, i.e., the person who will actually be accountable for each step in a consolidation. If managers expect to save $2 million per year by getting rid of excess real estate, for example, the belly button is the person who will read the lease documents to understand sublet provisions, termination costs and other value points. By placing a manager’s initials next to each line item in the work plan, you have assurance that the savings aren’t mythical.

The belly button is the person whose belly you point your finger at when you want to know how the work is proceeding.

The belly button is not a scapegoat—a person to blame later when things go wrong. He or she is the person who makes sure that things go right. The work of planning and executing a merger should be done by the same operating managers who will be responsible for executing the work once the deal has closed. It should not be done by planners or financial analysts. Only operating managers are capable of making the right judgments.

I like the acquisition team—the top operating managers and supporting staff—to meet every day for 10 to 15 minutes to review our progress. Each day they review and add to the punch list of projects and track progress on the day’s deadlines. The team needs a “war room” near, but not in, the chief executive’s office. It should not be used for other purposes for the duration of the effort. And it needs a full-time chief belly button to act as keeper of the punch list, coordinator of the schedules, manager of the files and scribe at all meetings.

This chief belly button is the hub of the team’s information system. He or she must be able to work with senior managers, must be finance, accounting and spreadsheet literate and must know when to ask for help. (We are fortunate enough to have two such people and, no, you can’t have them.)

The main problem, of course, is that the operating managers have full-time jobs and have to run their business while they work on the acquisition. The last thing you want is to commit shootouts foot to foot by neglecting your current business in order to buy a new one. And since the acquiring company is likely to be more lean at the top than the one you are buying, you are not likely to find many people with idle hands lounging around headquarters waiting for an assignment.

We try to attack this problem in three ways. We work with the acquisition team to break down the work steps into weekly increments during the 6-to-12-month transition to a new stable operating structure. That keeps us from scheduling the chief operating officer to be in three places at once and keeps us from scheduling customer deliveries from a plant before we have opened it.

We encourage the senior managers to delegate where possible, and we use trusted outside advisers—accountants, lawyers, appraisers, real estate consultants, computer systems analysts—where it counts most, to free up our senior people’s time. Overloading senior managers is the surest way to botch an acquisition.

In sports, it ain’t over ’til it’s over. In buying businesses, it isn’t over when it’s over. The day the transaction closes is the day the real work of stitching two companies together starts. There is nothing quite so exhilarating in business as a well-executed acquisition. The secret is to keep your eye on the belly button at all times.
Management consultants and their clients

Princely sums

DANGEROUS COMPANY. By James O’Shea and Charles Madigan. Times Business; 356 pages; $27.50. Published in Britain by Nicholas Brealey: £18

MANAGEMENT consulting is one of the world's most successful professions, acting as a sort of finishing school for future captains of industry, and reshaping not just companies but great swathes of the public sector. Senior consultants frequently earn more than the bosses they advise; and the profession as a whole generates more than $50 billion a year in revenues.

But are consultants worth their fat fees? Do they really help their clients to “become more successful”, as their glossy brochures promise? Or are they just witch-doctors dressed up in Brooks Brothers suits and shirts? Some of the world's leading businessmen, notably Rupert Murdoch, pride themselves on steering clear of consultants; and many of those who cannot resist the witch-doctors' spell have decidedly mixed feelings about the results. AT&T, a telecommunications giant, splurged more than $500m on consultants in the early 1990s. But AT&T remains deeply troubled and has recently shown the door to a pack of them.

A flurry of negative newspaper reports has increased these misgivings. CSC Index, the consultancy that launched the idea of “re-engineering”, was shown to have rigged the sales of books written by its consultants in order to get them on to a key list of best-sellers. Towers-Perrin, a firm that specialises in remuneration packages, sent almost identical reports on how to deal with “diversity” to 11 different clients. Profitable it may be, but consultancy is far from being respected.

With journalists digging for dirt and consultants hyping themselves to the heavens, there is a pressing need for a level-headed account of the consulting business which balances the industry's glaring failures against its successes. Dangerous Company is just such a book.

The two authors are experienced journalists with a mid-western appetite for grubby research and a commendable talent for enlivening a potentially dull subject with sharp prose. They have scoured court records from Cleveland to Jefferson County, Alabama, to throw light on the darker side of the business. They have endured hundreds of hours of interviews with cliché-spewing consultants with only a hint of exasperation. ("Why do you draw so many charts?", they ask at one point. "After a moment of thought, the reply came: 'I don't know. Everyone here does'.") The result is a series of case studies of consulting powerhouses which is required reading for anyone who has dealings with the business.

The most eye-catching bits of Dangerous Company are the ones that dish the dirt. The authors devote a gripping chapter to Figgie International, a Cleveland-based conglomerate that was brought low by a misguided attempt to introduce “world-class manufacturing”, a fashionable consulting nostrum. The firm spent more than $75m on consulting advice in the early 1990s. Figgie managers would arrive at work and find teams of consultants they had never met before wandering around reorganising everything.

Rather than thriving on this huge injection of management theory, however, the firm flirted with bankruptcy. Sales of $1.3 billion in 1989 plunged to $319m in 1994;
REENGINEERING RECYCLED

These are tough days for businesspeople. Profits are hard to come by, and the pace of technological change seems to make planning futile. So it's not surprising that CEOs everywhere turn in desperation to consultants for advice. Unfortunately, many executives end up bewildered. One consultant recommends a dose of reengineering, another points to a tight focus on core competencies, yet another favors boosting economic value-added, and so on.

Now, add to the list a pitch to become "process-centered." That's the quality that characterizes the 21st-century corporation, according to consultant Michael Hammer's latest how-to, Beyond Reengineering. Hammer, who, along with his former partner James Champy, helped spawn the reengineering movement, once again tries to inspire nervous businesspeople to embrace change. His recipe: "The radical redesign of business processes for dramatic improvement."

But isn't this just plain old reengineering? No, says Hammer: It is the same definition he has always used for reengineering. But previously, he says, "I felt that the most important word in the definition was 'radical.'" Today, he realizes, "the key word... is 'process': a complete end-to-end set of activities that together create value for the customer."

Changing the word emphasis hardly amounts to a huge revelation. Hammer's incremental shift pales next to the critique his former colleague leveled at reengineering almost two years ago. In the 1994 book, Reengineering Management, Champy renounced reengineering's overemphasis on impersonal processes, instead extolling management leadership. But one hardly expects Hammer, an engineer by training, to take such a warm and fuzzy approach.

So what have we here is a restatement of first principles. Beyond Reengineering is useful as far as it goes, peppered with smart insights about what it takes to make it in business these days. But Hammer's unwillingness to address the human side of corporate change—so much in the news over the past few years, thanks to downsizing—gives the book a bloodless feel. There's passion aplenty here about the need to change, but no warmth. He lectures that the New Business Order will free people to use their brains at work and take on bigger responsibilities, then admits "the engineer may find himself working at full steam all day, all week, all year." He adds: "Many forty-four-year-olds will find it exhausting."

In Hammer's world, that's just the way it goes. You'll be tired, but at least, Hammer says, your job will be more rewarding. Why? You can thank process centering. Hammer never provides a neat definition of what the term means. His first stab is fairly tautological: "Process centering," he writes, "more than anything else, means that people—all people—in the company recognize and focus on their processes."

Reading on, it becomes clear that process centering means reuniting the various parts of such now-fragmented functions as customer service so that customers actually get served rather than just passed from one worker to another. At OTE Corp., for example, each customer-service worker was once limited to performing a single task—diagnosing a technical problem, say. Now, they are involved with the full range of work required to resolve a snafu. This means OTE's "customer care advocate" must be a master of several disciplines, ranging from assessing problems to dispatching technicians to dealing directly with customers. The result, Hammer says, is that 33% of problems are resolved on a customer's first call.

The better part of this book is spent laying out the implications of becoming process-centered. Each worker will transform him or herself into a professional, "someone who is responsible for achieving a result rather than performing a task," he writes. "A worker is a kind of organic robot, operated by a manager via remote control." Professionals, on the other hand, possess "whole jobs," where they act and think for themselves. Meanwhile, companies will have to destroy the walls erected between them and their suppliers, so that they form "a kind of corporate consortium, each member contributing its special expertise."

If you've stayed current with the latest management theories, none of this will seem particularly new. It's all well-stated, if a bit naive. For instance, he lauds customer relations at General Electric Co.'s Large Appliance Div., but later in the same chapter, when he talks about supplier relations, he fails to note that the division has consistently treated suppliers poorly, demanding they cut prices or lose business. So much for partnership.

The book's most useful new insight is that processes, not products, might provide companies with a new form of competitive advantage. Like L.L. Bean Inc., which has broken new ground by selling its order-taking service to the likes of Axxon, he suggests that companies might sell their processes rather than rushing into new fields or just concentrating on current products.

Unfortunately, there isn't much else that's new here. Beyond Reengineering is a rather dry book that does a good job of explaining the challenges businesses face—but does little to ease executives' confusion regarding how to move forward. Perhaps Hammer's own process, which has created three reengineering books in four years, could stand some reexamination.

By KEVIN KELLY
Former BUSINESS WEEK correspondent Kelly now runs a small manufacturing company in Union City, Calif.

HAMMER'S BRAVE NEW WORKPLACE: INSTEAD OF "ROBOTS," WORKERS WOULD BE PROFESSIONALS
Leviathan re-engineered

There is a growing backlash against attempts to apply management theory to the public sector. Is it justified?

In the 1960s politicians who wanted to appear with-it talked about science. These days the hip subject is management theory. Just as Harold Wilson once mesmerised Britain's Labour Party conference by invoking the "white heat" of the technological revolution, Tony Blair, Labour's current leader, has just tried to pull off the same trick by promising to strike a "performance contract" with the British people. Across the Atlantic, Bill Clinton, Al Gore and Newt Gingrich are all forever "reinventing" government.

But are downsizing, performance contracts and quality programmes really producing a more efficient public sector? The early criticisms of importing such private-sector ideas were easy to ignore because they came from unions and others with something to lose. But more impartial observers have begun to wonder about "new public management".

Peter Drucker thinks that "reinventing government" is nothing more than "an empty slogan": most public-sector managers talk a lot about it, but do very little. Another prominent management thinker, Henry Mintzberg, a professor at both McGill University in Canada and Insead in France, jokes that the Harvard Business Review should have a skull and cross-bones stamped on the cover with the warning: "not to be taken by the public sector". In a recent article in that journal, Mr Mintzberg warned that the new cult's obsession with measuring everything made it harder for managers to make balanced judgments.*

The toll of disasters that can be laid at the feet of management theory is rising. Bill Clinton's health-care reforms, which were masterminded by a management fanatic, Ira Magaziner, are a by-word for bungling in Washington. And a British government report into an escape from Parkhurst prison published last year complained that "any organisation which boasts one Statement of Purpose, one Vision, five Values, six Goals, seven Strategic Priorities and eight Key Performance Indicators, without any clear correlation between them, is producing a recipe for confusion."

Suspiciously, the chief beneficiary of most of the changes often appears to be the management industry itself. In mid-1995 the British government admitted that it had spent at least £320m ($512m) on management consultants since the 1992 election—almost certainly a fraction of the real figure. In places as diverse as the Pentagon and the BBC, hardened generals and TV producers moan that they are now at the mercy of clipboard-carrying youths who have never shot either a gun or a sit-com.

The basic criticism of new public management is that private-sector models are inappropriate for the public sector. Firms exist to maximise profits. The public sector exists to provide services to all and sundry—including people who do not want them (such as prisoners). It also devotes much of its energies to making difficult trade-offs between competing interests, such as those of taxpayers and welfare recipients.

Bringing in alien ideas, argue the critics, has hurt both morale and accountability. For instance, they say that the British government's insistence on judging the public-sector by commercial rather than professional standards has led to widespread demoralisation. And its passion for breaking up the civil service into "agencies" under professional managers has muddied lines of accountability.

There may be some truth to these claims. But the argument that management theory and the public sector inhabit two different worlds is often over-stated. There is no sharp dividing line between


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Management consultancies have replaced Oxbridge and the Ivy League as the nurseries of the powerful. But most people remain skeptical about management theory—and frequently with good reason.

Have you consulted a witch doctor lately?

By John Micklethwait and Adrian Wooldridge

Nowadays witch doctors have a bad name. But people forget two things: first, that tribal medicine was the ancestor of its more scientific modern equivalent; and second, that the witch doctors often got it right—by luck, by instinct or by trial and error. The problem with witch doctors is not that they do not sometimes have good ideas, but that their customers' fear and greed makes them so hopelessly undiscriminating.

Modern management theory is also driven by greed and fear and contains elements of witch-doctoring. The first instinct of many outsiders on starting to read a management book (surveys show that only a tiny minority ever finish them) is to dismiss the whole industry as a con. The truth is more complicated. Management theory is a mixed bag, and there are no authorities to help you distinguish the good from the bad. Managements of a striking number of the world's most successful companies—Motorola, Toyota, Marks and Spencer, Taiwan's Acer—are management theory junkies. Compare two companies in broadly the same business—such as General Electric and Westinghouse, or Citibank and Chase Manhattan—and the company that has pulled ahead—General Electric and Citibank—is often the one with the taste for management theory.

Yet the smell of witch-doctoring lingers. There are charlatans who have jumped onto the bandwagon because there is no room left on the bandwagons marked "Dietary Advice" or "Popular Psychology." But even if you get rid of all the snake-oil salesmen, management...
theory is not entirely respectable. As even Peter Drucker puts it, people use the word “guru” only because they do not want to say “charlatan.” Another guru, Henry Mintzberg, has pinned to his wall the motto: “The higher a monkey climbs the more you see its ass.”

Businessmen such as Rupert Murdoch and Bill Gates talk about there being occasional nuggets or gems, but complain you have to sift through a lot of rubbish to find them.

Despite these doubts, the management industry continues to grow, demonstrating that it meets a deepfelt need. Its most obvious arm is the management consulting business, which employs at least 100,000 people full time around the world and has been growing more than twice as quickly as the rest of the world economy for the past decade. In 1994, according to the Gartner Group, it generated about $11.4 billion in fees. The biggest firm, Andersen Consulting, brought in just under $3.5 billion. However, the most profitable (and also the second biggest, with revenues of $1.5 billion) is McKinsey: Its revenues per partner were $468,000—compared with Andersen’s $125,000. Gartner predicts that consultants’ fee income could almost double, to $21 billion in 1999.

Managers have an acronym for the effect of these theories: BOHICA—Bend over, here it comes again.

Consultancies have replaced Oxbridge and the Ivy League as the nurseries of the powerful. Indeed students from the former jostle to get into the latter. The companies headed by ex-McKinseyites stretch from America’s IBM, Levi Strauss & Co. and American Express, to France’s Bull and Britain’s ASDA Group.

The second arm of the management industry is the business schools. As the rest of the higher education system contracts in some countries and crumbles in others, the business schools throw up plush new buildings, expand their overseas operations, and woo star professors with ever more generous salaries. There are about 700 business schools in the U.S. alone. All these institutions are full of academics desperate to make their name as management theorists. The 1995 meeting of the American Academy of Management, the discipline’s annual jamboree, attracted 4,500 people.

The third, and least well defined, part of the management industry consists of the gurus—who fuel the consumer side of the industry with books and lectures. Business books have gone from being an exotic specialty in the mid-1970s to a mainstream money-spinner today. About 2,000 business books appear each year, and a few of these can sell in the millions of copies. However, for most gurus, books are just loss leaders for other, more profitable activities.

Go to Part 3

Go to Part 5
public speaking, seminars, corporate advice, audiotapes, videotapes, diaries and calendars. The Tom Peters Business School in a Box comes complete with 42 "personal agenda cards," 14 "time cards" and two dice, one colored, one white. Significantly, perhaps, the Business School was the work of three of his employees and has only a foreword by Peters.

Not so long ago anyone who wanted to understand management went to an American university, studied American gurus, argued about American corporations and probably joined an American consultancy. Now, like most successful industries, management has gone global. From Bradford, England to Barcelona and Beijing, the cities of the world are littered with business schools; and the non-American world has bred gurus of its own, such as Britain’s Charles Handy and Japan’s Kenichi Ohmae.

In 1995 a survey by Bain & Co., another big consultancy, found that the average company used 11.8 of these management techniques in 1993 and 12.7 in 1994. Though America is usually singled out as the heaviest consumer, its consumption rate (12.8) was only slightly higher than that of Japan (11.5) and France (11.4) and behind the biggest binger, Britain (13.7).

The Indian office of McKinsey is the company’s fastest growing. For many Western gurus, Asian tours offer much the same enticements that the musical variety do for elderly rock stars. The money is good ($25,000 a seminar), the audience large and relatively uncritical, and you can bring back an Asian anecdote or two to spice up your performances at home.

The substance that keeps this industry together is management theory. Theory and industry feed off each other—and both grow bigger as a result. “Reengineering” was designed as a product: It helped its creator, a new consultancy called CSC Index, quadruple its revenues. Following the success of the McKinsey Quarterly, nearly all the consultancies now have journals of their own to display their wares. One of the more flaky products, Transformations, from Gemini, comes with significant passages already highlighted or underlined.

“The academic world is no less hungry. Every young professor dreams of writing a bestseller (and then founding his own consultancy); and—with even the best business schools desperately competing for students—every business school dean encourages them.

Thus you have an army of people who have a vested interest in hyping management theory and almost just a trade. Peter Drucker subtitled his classic, The Practice of Management (1954), “A study of the most important function in American society.” Tom Peters tells managers not just that they are important, but that they are fun as well. Their children may call them squares. Their wives may despair that they are not the fun they used to be. But listening to Tom Peters, they become crazy guys, dreaming impossible dreams and making unbelievable things happen.

But status aside, the thirst for management theory—just like that for tribal medicine—is rooted in those basic human emotions: greed and, especially, fear. This works because managers are much more fearful of the future than they have ever been before. They know that they are living through momentous changes in the global economy—the rise of Asia, the decline of respected companies like IBM, the collapse of career ladders—and they do not know whether those changes will make them rich or turn them into casualties. All this change thus excites both greed and fear.

And even if they have survived the latest round of restructuring, managers still have to come to terms with radically redesigned jobs. Some “lean” factories have even introduced a semi-Maoist device called “360-degree assessment,” whereby managers have to listen to frank reports on their failings from underlings.

To these anxiety-ridden men and women, management books and management consultancies offer comfort. The most blatant beneficiaries are fringe psychologists such as Stephen Covey (The Seven Habits of Highly Effective People) and motivators like Anthony Robbins (Awaken the Giant Within).

With a billion-dollar marketing machine on one side and a paranoid band of consumers on the other, it is not surprising that ideas are gobbled down so greedily, rather than selected and savored. Management is an immature discipline, where the serious and the silly coexist. Many consultants have a passion for permanent revolution that would have made Trotsky or Mao green with envy. They are forever unveiling ideas, christened with some acronym and
virtue of "flexibility," which is usually shorthand for sacking people. Which is it to be? Loyalty? Or flexibility? The two are at loggerheads. The fact is that no one set of principles is likely to fit all circumstances. What works in a software company might not work in a steel mill.

Cynical about bosses who embrace the latest in theory, many American managers use an acronym that captures the effect of all these twists and turns: BOHICA—or "Bend over, here it comes again." A European version is SABENA ("Such a bloody experience, never again"). Many managers have become rather like Soviet bureaucrats living in a dual world—

 Management theory is not entirely respectable. People use the word "guru" only because they do not want to say "charlatan."

the real world and the world of officially sanctioned ideology. Thus they talk about "empowerment" but hoard power, or proclaim that they are "reengineering" their firms when they are simply firing a few of their least effective people.

Nevertheless, don't expect the management industry to stop growing anytime soon. Most managers in the West have realized that, in a world in which a new product can be copied instantaneously and prices easily undercut, the only lasting advantage is superior management. In seeking it, however, business people are vulnerable to fads—and to fakers. Their vulnerability calls to mind philosopher David Hume's insight: "In proportion as any man's course of life is governed by accident, we always find that he increases in superstition."


Forbes • November 18, 1996
Re-engineering needs to get quicker and leaner, but in today's rapid-fire business world, it's more vital than ever

By Mike Korchinsky

The impact of re-engineering on the collective business consciousness has been profound. More than any other movement, the instant popularity of re-engineering in the early '90s reflected the uncomfortable reality that faces organizations large and small all over the world: Change is here to stay; reinvent to compete or get left behind.

But despite its great promise, re-engineering is wrestling with a growing credibility problem, largely because of a much-publicized 70% failure rate.

Regardless of re-engineering's high level of failure, Gartner Group, Inc. projects the market to grow by 20% per year until the end of this century. Businesses will invest in professional re-engineer-

YES! page 96

Imposed change is bound to fail, as an alternative, organizations should try 'de-engineering'

By David Coleman

We are in the middle of a re-engineering revolution with a failure rate that is greater than 70%. Michael Hammer, the prophet of re-engineering, predicted that U.S. companies would spend $32 billion in 1996 on re-engineering efforts — and that two-thirds of those efforts would fail.

I have nothing against re-engineering per se. The idea of optimizing a process is a good one. But optimizing the process without taking into account the people in the process is the major reason re-engineering fails.

One notable re-engineering failure is the modernization of the air traffic control system. In an August 1996 report on the Federal Aviation Administration, the General Accounting Office stat-
Companies need help to keep up with a relentlessly changing business environment.

— Mike Korchinsky

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YES!

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ing services to the tune of $8.7 billion by 1999. Gartner adds.

Clearly, organizations are still in pain and want to believe in the medicine. The reason? Regardless of the deficiencies of re-engineering, companies desperately need help to keep up with a relentlessly changing business environment. The astonishing potential of a technology-enabled marketplace has only magnified the challenge.

So what is wrong with re-engineering? Ironically, one of the most significant factors is the accelerating pace of change in business. In some markets, product cycles are as short as nine months, and in most organizations, planning cycles are less than three years. Yet recent surveys show that the management consulting component of re-engineering projects alone can take 30 to 30 months.

Enterprise-wide initiatives that promise a perfect solution can't hope to implement change with any real-world business benefits in mind. What's worse, up to 75% of the time, re-engineering is a euphemism for cost-cutting or downsizing, unaccompanied by any significant process or technology change. Although such efforts can provide short-term profitability gains, they ignore the other side of the value equation: the need to grow business and market share profitably.

To meet that strategic imperative, companies must first define the necessary change, then address process, organizational structure, enabling technology and employee performance — all in 12 months or less. That's the way to use re-engineering to capture business benefits within today's planning horizons.

In short, we need to reinvent the business of change.

So where to begin? The need for shorter time frames requires careful attention to scope. Isolate the 20% of the problem that if solved will generate 80% of the solution value. Then aggressively manage scope.

Avoid unnecessary delays such as those caused when operational solutions are disconnected from the enabling technology. Not only is technology a core element of every organization's business operations, but pairing new technologies with new processes also can shorten distances, shrink time and mine customer loyalty (order) from transaction data (chaos), thus providing a wealth of opportunities for strategic business innovation.

By shortening change efforts, you can go a long way toward resolving another cause of re-engineering failure: weak executive support. Executive support falters for several reasons. The first is a decline in executive tenure, now as short as 18 months. A traditional re-engineering project takes two to three years to complete, and the original sponsor typically moves on before its conclusion, leaving the change effort to collapse. A one-year time frame for project delivery makes executive sponsorship more secure.

The second reason executive sponsorship fails is inadequate business-case development. Without a solid business case, an organization can get halfway through a re-engineering effort before it realizes that the cost of implementation will outweigh the benefits to be captured. To prevent that, organizations should develop a business case early in the process and reassess it frequently to determine whether the effort should continue.

Finally, executive sponsorship will be more secure if senior managers believe there is consensus and ownership of the re-engineering effort in their team — not just within the ranks of the consulting organization leading the charge.

By now, I hope it's clear that the kind of change envisaged for the future, although certainly drawing on re-engineering, is a different kind of animal — still process-oriented, but more selective about which processes are addressed and how to leverage technology to best enable those processes. It's focused on achieving dramatic gains but with better assurance that you'll get there.

Undeniably, this new model of change will have victims. Some of the consulting change-mongers themselves could suffer the most. They are rightly under increasing pressure to be accountable for the success of their efforts.

But then, managing change has never been easy. The new, faster pace of today's business landscape has just made it that much harder. However, this is no time to shy away from change. More than ever, organizations that face up to the challenge of anticipating and managing business transformation will lead their industries into the future.
ed. "The FAA organizational culture has been the underlying cause of the FAA acquisition problems. ... FAA officials are resistant to making needed changes in their acquisition process because FAA culture rewards conservatism and con- formity and discourages innovation."

The executive summary of this report says, "Over the past 15 years, FAA's modernization program has experienced substantial cost overruns, lengthy schedule delays, and shortfalls in performance. The FAA's organizational culture has been an underlying cause of the agency's acquisition problems and processes."

Here we see many processes that have been engineered, re-engineered and optimized — and still failed because the culture wasn't changed in tandem with the technology and the revamped processes.

Re-engineering in the early 1990s seemed to be a rationale for getting rid of people. It's no wonder there was a lot of resistance. Many re-engineering processes failed not because of the technology, but because of the culture.

"Re-engineering" is actually a misnomer. Many processes weren't "engineered" in the first place. Business processes tend to develop under the pressure of finding a way to get something done quickly. Often those processes aren't well thought out but are invented by the person responsible for the task. Once that person's ingenuity is implemented, it becomes codified in a procedure manual. Next thing you know, there's a new policy. A bureaucracy develops, and jobs are assigned based on the inefficiencies of the processes.

Needless to say, when a re-engineering effort is announced, people become de-organizing. Rather than try to control change through re-engineering, the proponents of self-organization will accept dissipation and preserve resources (people, processes, knowledge, experience) for the new organization. Re-engineering sacrifices people in favor of process.

Re-engineering focuses on control and structures rather than on purpose and direction. We no longer let the structure emerge the way a stream finds its course down a hill. Instead, we try to structure a

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Re-engineering efforts failed not because of technology, but because of culture.

→ David Coleman

Apr 21, 1997
The straining of quality

NEW YORK

American companies are discovering what happens when total quality meets total chaos

HAS life lost a little of its quality for American firms? W. Edwards Deming, the American who set off the total-quality revolution, is dead. Joseph Juran, the co-founder of the quality movement, gave his farewell lecture tour last year. The American Quality Foundation has been disbanded. And, tellingly, applications for the Baldrige award, America's prestigious prize for quality, have slumped (see chart on next page). In 1994 only 71 firms vied for a Baldrige, a fall of a third in three years.

Optimists believe that waning interest in the Baldrige award is evidence of American firms' new-found self-confidence in the quality of their quality—after all, why bother to take part if you know you're the tops? Indeed, a recent study by Boston University, Tokyo's Waseda University and INSEAD, a European business school, concluded that American companies had caught up with and overtaken their Japanese competitors in terms of quality.

Perhaps. But the Baldrige's decline is more a reflection of corporate America's increasing tussle with total-quality management (TQM). Even the 1980s' most ardent adherents of quality are finding that TQM does not readily blend with wave after wave of restructuring, downsizing and re-engineering. And the challenge of developing products and bringing them to market ever more swiftly—especially in industries where prices are tumbling, such as computers—adds to the strain on TQM. So far, America is bearing the brunt of this quality chaos. But Japan and Western Europe, increasingly obsessed with fads such as re-engineering, could soon be in its throes.

In their hearts, American managers want to believe that TQM amounts to a viable way of cutting costs. They would dearly love to emulate Richard Buettow, director of quality at Motorola. He reckons that, thanks to fanatical devotion to quality, the chip-to-cellphones maker has saved a staggering $6.5 billion in manufacturing costs since 1987 (the year before it won a Baldrige). But, outside Motorola, most managers still believe that cutting jobs cuts costs faster. According to Challenger, Gray & Christmas, a Chicago consultancy, 2.6m American workers have been sacked since early 1990.

The snag is that downsizing undermines a cornerstone of TQM: employee motivation. To achieve perfect quality, said Deming, companies must "drive out fear, so that everyone may work effectively." Yet downsizing fosters fear, as Xerox, the world's biggest photocopy maker (and a Baldrige winner in 1989), has discovered. Hector Motroni, head of quality at Xerox, says the firm has been through "11 years of wrenching change" since it adopted TQM in 1983. And although Mr Motroni credits total quality with reinvigorating the firm, he concedes that job cuts and the loss of management layers—Xerox is in the process of cutting its workforce by another 12%, to 85,000—has damaged motivation and made it harder to sell the TQM message.

To overcome this, the firm encourages individual workers (instead of, say, departments) to focus on the needs of customers. All employees are given responsibility for quality. This, hopes Mr Motroni, will give workers a goal; it should also help bypass broken lines of communication. Dick LeVitt, director of corporate quality at Hewlett-Packard, agrees that such "empowerment" is essential in firms facing chaotic change: "You have to connect employees with the consequences of their work." One recent study suggests that the effect of making that connection can be dramatic. It found that TQM programmes which delegate responsibility for quality to individual shop-floor workers tend to be twice as likely to succeed as those which rely on "top-down" management (though the sad for teams brings problems too, see page 61).

With slimmer resources, companies are also discovering that they must focus their total-quality efforts on what customers actually want. "In the 1980s we pushed quality too much for its own sake," says Mr LeVitt. So did Florida Power & Light (FPL), an electrical utility which by the late 1980s boasted an 85-strong quality department and 1,900 quality teams—none of which seemed to bring about a significant improvement in its services. FPL eventually scrapped most of its quality bureaucracy, and its service improved. Hewlett-Packard now treats TQM like any other investment: if a particular total-quality initiative doesn't show a quick return in terms of higher sales, lower costs or happier customers, it is redesign or scrapped.

IBM, which has seen its workforce fall by half since 1986 (and this week underwent its latest management shake-up), is taking a similar tack. Big Blue no longer has formal, stand-alone TQM programmes; responsibility for quality has been pushed down to the factory floor; and it is trying to infuse every part of its corporate activities with the notion of quality. IBM's most ambitious goal, however, is to reconcile its massive re-engineering programme with its quality goals. And this, thinks Jim Patell of California's Stanford Business School, is where
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After earning an Engineering degree from the University of Colorado and a Masters in Business from Columbia University, he became a negotiator for the Hughes organization. There he won the first Howard Hughes Doctoral Fellowship Award and spent three years conducting advanced research and experiments in negotiation techniques before earning his Doctorate from the University of Southern California. He then returned to Hughes as a negotiation consultant.

In 1968 Dr. Karrass used his research and experience in his pioneering EFFECTIVE NEGOTIATING* seminar, assisting other business people to master the strategies, tactics and psychological insights of negotiating.

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