HUMAN RESOURCE MANAGEMENT AND ORGANIZATIONAL BEHAVIOR COLLECTION
Jean Phillips and Stan Gully, *Editors*

The Search for Best Practices

Doing the Right Thing the Right Way

Rob Reider

BEP BUSINESS EXPERT PRESS

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Abstract

The book is geared to those interested in doing the right thing the right way in spite of organizational roadblocks. The book is a "how to" book to assist management and operations personnel to analyze their operations in a program of continuous improvements and on-going search for best practices so that each entity operates most economically, efficiently, and effectively—tied into why the entity is in existence in the first place. Best practice techniques assist the company in identifying its critical problem areas and treating the cause and not the symptom. With sensible business principles as the hallmark for the company's quest for best practices, the company can be clear as to the direction of movement and avoid merely improving poor practices or matching competitors' less than desirable practices—that is, being less inefficient than competitors. Clear business principles that make sense to all levels of the organization allow the company to identify and develop the proper best practices. In this manner, everyone in the organization is moving in the same desired direction—and singing from the same songbook. The viruses that corrupt a business organization can be widespread and quite contagious. Nouveau quick fixes may be okay in the short term, but over the long haul the company needs to know what they are doing. If the company doesn't, some other company will.

Keywords

best practices, communication systems, corporate culture, economies, efficiencies and effectiveness, management, operating systems, organizational atmosphere, organization structure, personnel, teamwork

Contents

Preface

I have a confession to make—I am a management consultant. That's the professional who charges you an exorbitant fee to review your operations, tells you what you're doing wrong, and then sells your good ideas (best practices) to their next client. I call this the "honey bee" concept, which is the sharing of best practices from one client (the honeysuckle) to another client (the skunk cabbage). In fact, one of the major skills to look for in hiring a management consultant is the ability to recognize a good system or best practice that works elsewhere, borrow it, and then make it work for your company. I call this the consultant's version of three-card Monte or steal the old man's bundle. A consultant (external gun for hire or internal staff) should be hired for his or her expertise in creative problem solving by identifying trouble spots and the best practice for remedying the situation. It doesn't really matter where the solution comes from or that it's not the way the company or the industry has always done things. If it works, do it. This is called "doing the right thing." The next step is keeping it that way and continually improving.

DO THE RIGHT THING
AND KEEP IT THAT WAY

I try to look at myself as an organizational problem solver and change agent—a facilitator or merchant of good ideas that work. In the past, I tried working with management, and many times, I provided some pretty good recommendations and best practices—less costly, more efficient, and producing effective results—for improving their operations. It was difficult for me to imagine why they would delay one second in implementing these "breathtaking" systems. Eventually, I realized that they might like things the way they are, the system worked for them, so why change it.

IF THE SYSTEM WORKS FOR YOU,
WHY CHANGE IT?

Many times my "out of this world" best practice recommendations gathered dust in some manager's "to do" or "do–do" pile. As I get my professional stroking from affecting positive change, this was extremely frustrating. Many of my clients were confused as to why I got so angry when they didn't follow through on my recommended best practices. I realized that I had to work with the entire organization not just management to ensure acceptance and implementation of my best practice recommendations. Immediately, I began to see improvements in best practice implementations. Operations personnel would help to identify trouble spots as well as work toward positive system changes.

BEST PRACTICES ARE BEST IMPLEMENTED BY THOSE INVOLVED

I was sitting at a bar in a fancy new airport hotel, one of those all glass with an atrium and bar in the center, offering elaborate happy hours, focused on keeping you and 4,000 downsized corporate employees fed and mellow for the next month. I had just finished conducting a professional seminar for managers and executives on how to operate their businesses more economically (at the least possible cost), efficiently (using the best available systems), and effectively (achieving maximum results). The theme of the seminar was how to work less and achieve more through the use of best practices.

WORK LESS, ACHIEVE MORE, USING BEST PRACTICES

During the course of the seminar, I had shared numerous anecdotes on some of the good, the bad, and the ugly experiences working with clients relative to implementing best practices. Many of the seminar participants identified with these organizational horror stories, some even had more horrible stories. Amazingly, very few related to the best practice successes I shared, questioning me as to whether such organizations that had learned to "do the right thing" actually existed.

ORGANIZATIONS THAT DO THE RIGHT THING—- AN OXYMORON?

I sat alone at the bar munching on the executive health snack, peanuts and pretzels, when the bartender came over. I asked her where the crowd was. She responded that it was like this most weeknights. I asked her why they continued to put out such an elaborate spread of food with so little traffic. She shrugged her shoulders and said "don't ask me, I only work here, for less than minimum wage, go ask the so-called manager, if you can find him." I shook my head, always the consultant trying to solve everyone's problems. As this was my attitude adjustment time after dealing with kvetchy business managers all day, I let it drop but stored what the bigger picture was in my mind—that is, incompetent management and underemployed personnel. I was sensing a national trend of corporate decay in my travels. The country's corporate organizations were in need of an attitude adjustment. I ordered them a consultant's dinner—a double martini.

INCOMPETENT MANAGEMENT AND UNDEREMPLOYED PERSONNEL— A PERFECT MATCH

I noticed three of my seminar participants wandering around. I turned away but to no avail; they found me anyway. I couldn't ignore the smack on my back by the largest of the three (Hulk Hogan in a three-piece suit with purple suspenders) and an invitation to buy me a drink. As a management consultant, I had learned to never refuse a free drink, particularly from a potential client, and the best practice of "what you don't spend remains in your pocket." My let's get away from it all reverie had become let's pick the consultant's brain or maximizing the seminar fee. My goal was to not give away potential consulting fees for the price of a happy hour well drink.

Of the three seminar participants, one was a vice president of manufacturing (an American endangered species) for a small electronics business, one was a "chief falsifying officer" (CFO) of a medium-sized publicly held conglomerate producing snack items and roofing shingles, and the other was the director of personnel (do personnel really need directing?) for a large multinational company that had downsized more employees than the other two companies employed. Each of them, in their own way, asked me what was happening in their companies. What used to be the standard operating procedure (SOP) was now the cause for dismissal, and garden paths were replacing career paths.

CAREER PATHS ARE
NOW GARDEN PATHS

They were all fearful of losing their jobs, although each one expressed that he or she was doing a good job. They wanted to know why they felt so desolate in their situations. I told them that I couldn't provide specifics without analyzing their individual situations, a typical consultant's response, but if their companies would implement the best practice techniques discussed in my seminar, their situations would improve. The CFO said that would be wonderful, but it would never happen at her company. Her boss really should have been at the seminar, but he was too busy attending meetings to discuss a new office layout to reduce cubicle space allowing for more workers per square inch without reducing a manager's private office space.

THERE'S ALWAYS TIME TO DO THE WRONG THING AND DO IT OVER AGAIN,
BUT NEVER ENOUGH TIME TO DO THE RIGHT THING TO BEGIN WITH

I told them the best they could probably do in their circumstances was to get enough people in their organization that felt as they did and then "screw them from the inside." To emphasize the point of the dangers that can befall when you assume your company is trying to do the right thing, I shared the story of one of my close professional friends, Jack Ratter. Jack was the executive vice president of operations for a large industrial packaging manufacturer. Jack's company, like many in the present economy, was looking for ways to do things better—that is, revenue enhancement and cost reduction. I was working with Jack's group to identify those product lines of highest profitability together with earmarking those customers with the greatest potential for ordering these items.

IF YOU KNOW THEY'RE WRONG AND CAN'T CHANGE THEM,
SCREW THEM FROM THE INSIDE

Immediately following the identification of high profitable product lines and high potential customers, the sales team was assigned to those product lines and given the task of negotiating with identified customers. Lo and behold, the company landed four major orders for these products surpassing previous year's total sales. At the same time, I was helping identify opportunities for effective cost reductions.

Jack was ecstatic, he wanted to kiss me, but we settled for a subtle wink. A blank check would have been better, but there's always a next time. Jack went immediately to the chief executive officer (CEO); I actually saw him skipping, with the production plans and staffing patterns developed to meet customer delivery schedules. But, in less than 10 minutes, Jack returned, running down the halls screaming "doesn't anyone know what they're doing?" Jack was hysterical, Mr. Three Piece Suit gone awry, ranting about the inmates in charge of the asylum.

DOESN'T ANYONE KNOW WHAT THEY'RE DOING?

While we were working on plans for how to do the right thing, the CEO and top management were developing cost-cutting plans to make next quarter's numbers look good to the stockholders. Their plans were so counter to ours that Jack couldn't hire additional personnel to meet customer commitments, but had to cut 20 percent of present production personnel to meet the CEO's cost-cutting targets.

DO THE RIGHT THING— DAMN THE POLICIES AND PROCEDURES

My seminar participants thought that this story was very funny and close to home. They all agreed that change would also never work in their situation unless they could change the thinking of their bosses, their bosses' bosses, and so on. I asked them how they thought this could be done, as their bosses wouldn't listen to them. They all said loudly and in unison "why don't you write a book, we think they can read." So, here goes. This is for all you decision makers who don't have the time to learn how to make the right decisions, in the hope that there are really individuals out there who do know what they are doing. Please, be there for Jack's sake.

**IF ONLY I COULD CHANGE THEIR THINKING
TO MY WAY—THE RIGHT WAY**

I never did get my "free" martini. I wonder if anyone was charged for it.

This book is intended for the big bosses who make the ultimate decisions and get the golden parachutes, as well as the little bosses, and blind followers who provide the basis for making these decisions and ultimately get the golden screw. Those of you, who are interested in doing the right thing in spite of the counter pressure within your organization, may also gain some insights into the inner workings of organizational crazy making and how to live with it or change it.

**DO YOUR OWN THING,
BUT MAKE SURE IT IS THE RIGHT THING**

Each section of the book discusses some of the right ways to deal with things and shares some anecdotes on my experiences. Each anecdote is a filmic moment of insight into some of the basic truths of organizational existence and the search for best practices. If you recognize yourself or your organization in any of these anecdotes, it may not be just coincidental. The viruses that are corrupting our organizations are widespread and quite contagious. The nouveau quick fixes may be okay in the short term, but over the long haul, the company better know what it is doing and recognize the best practice and the right thing. If the company doesn't, some other company will.

**I WOULD RATHER SIT ON A DRILL PRESS AND HAVE IT
ALL TO MYSELF,
THAN BE CROWDED ON A VELVET PANACEA**

CHAPTER 1

Overview: Knowing Where You're Going

Organizations have been in existence for thousands of years, some successful and long lasting, others short lived. Through the years there has been no clear-cut criterion or formula for success. Many business organizations have been successful through such intangible attributes as dumb luck, falling into a niche marketplace, being the first, consumer acceptance, and so on. Other companies using the best available business acumen and methods have failed miserably. Identifying, implementing, and maintaining the secrets of success are an elusive target. Banking on what has worked in the past and your own internal ouija board is an ineffective substitute for objective internal appraisal and external comparison and analysis in the search for best practices. The quest for best practices maintains the organization's program of continuous improvement and helps to gain competitive advantage.

The search for best practices begins with an analysis of existing operations and activities, identifies areas for improvement, and then establishes performance standards on which the best practice can be measured. The goal is to improve each identified activity so that it can be the best possible, and stay that way. The best practice is not always measured in terms of least costs, but may be more in terms of what stakeholders value and their expected levels of performance.

THE BEST SYSTEM IS THE SIMPLE SYSTEM— AND THE ONE THAT WORKS

Before one even thinks about what best practices might be relevant for the organization, it is necessary to determine why the organization is in existence. When I ask my clients this question, invariably the answer is to make money. Although this is partly true, there are really only two reasons for an organizational entity to exist:

1. *The customer service business*: To provide goods and services to satisfy desired customers so that they will continue to use the organization's goods and services and refer it to others. An organizational philosophy that correlates with this goal that has been found to be successful is "to provide the highest quality products and service at the least possible cost."

LET THE CUSTOMER BE YOUR GUIDE,
DON'T SELL THEM WHAT YOU WANT,
LET THEM PURCHASE WHAT THEY NEED

2. *The cash conversion business*: To create desired goods and services so that the investment in the organization is as quickly converted to cash, as possible, with the resultant cash-in exceeding the cash-out (net profits or positive return on investment). The correlating philosophy of this goal can be stated as follows "to achieve desired organizational results using the most efficient methods so that the organization can optimize the use of limited resources."

GET THE CASH FIRST OR BEFORE YOU DELIVER
THE PRODUCT OR SERVICE—
LEVERAGE THE USE OF OPM (OTHER PEOPLE'S MONEY)

This means that we stay in business for the long term to serve our customers and to grow and prosper. A starting point for establishing desired best practices is to know which business the organization is really in (such as the previous two) so that operational efficiencies and effectiveness can be compared.

IT IS NOT THE SOURCE OF THE BEST PRACTICE
THAT IS IMPORTANT,
BUT WHETHER IT WORKS IN YOUR SITUATION

Once short-term thinking is eliminated, managers realize that they are not in the following businesses and best practice decision making becomes simpler:

- *Sales business*: Making sales that cannot be collected profitably (sales are not profits until the cash is received and all the costs of the sale are less than the amount collected) creates only numerical growth.

It's not booking sales, it's collecting the cash

- *Customer order backlog business*: Logging customer orders is a paperwork process to impress internal management and outside shareholders. Unless this backlog can be converted into a timely sale and collection, there is only a future promise, which may never materialize.

Backlog is an indication of inefficient customer order scheduling

- *Accounts receivable business*: Get the cash as quickly as possible, not the promise to pay. But remember, customers are the company's business; keeping them in business is keeping the company in business. And, normally, the company has already put out its cash to vendors and into inventories.

Collect the cash, not the promise to pay

- *Inventory business*: Inventory doesn't equal sales. Keep inventories to a minimum—zero if possible. Procure raw materials from your vendors only as needed, produce for real customer orders based on agreed-upon delivery dates, maximize work-in-process throughput, and ship directly from production when the customer needs the product. To accomplish these inventory goals, it is necessary to develop an effective organizational life stream that includes the company's vendors, employees, and customers.

The greater the inventory, the greater the inefficiencies

- *Property, plant, and equipment business*: Maintain at a minimum: Be efficient. Idle plant and equipment causes anxiety and results in inefficient use. If it is there, it will be used, so plan for the normal (or small valleys) not for the maximum (or large peaks), and network to outsource for additional capacity and insource for times of excess capacity.

Maximum results with minimum capacity

- *Employment business*: Get by with the least number of employees as possible. Never hire an additional employee unless absolutely necessary; learn how to cross-train and transfer good employees. Not only do people cost ongoing salaries and fringe benefits, but they also need to be paid attention to—which results in organization building.

Get by with the least number of employees, but with the greatest results

- *Management and administration business*: The more an organization has, the more difficult it becomes to manage its business. It is easier to work with less and be able to control operations than to spend time managing the managers. So much of management becomes getting in the way of those it is supposed to manage and meeting with other managers to discuss how to do this. Management becomes the promotion for doing.

Let the employees manage themselves

If an organization does both of these successfully, that is, pay attention to its business and stay out of the businesses it should not be in, it should grow and prosper (outside economic factors notwithstanding) through well-satisfied customers and keep itself in the positive cash conversion business in spite of itself. You also have to stay out of the numbers business, that is, looking at short-term reporting criteria such as the amount of sales, backlog, locations, employees, and the big devil "the bottom line" that others judge as success.

**WE NEED TO RETHINK,
BEFORE WE CAN RELEARN**

The organization must decide which of these factors to embrace in its quest for best practices, which ones it decides not to pursue, and which additional criteria to include in its search. These criteria become the overriding conditions on which the organization conducts its operations and against which it pursues best practices.

Basic Business Principles

Each organization must determine the basic principles on which it conducts its operations. These principles then become the foundation on which the organization bases its search for best practices. Examples of such business principles are:

- Produce the best-quality product at the least possible cost.
- Set selling prices realistically, so as to sell the entire product that can be produced within the constraints of the production facilities.
- Build trusting relationships with critical vendors; keeping them in business is keeping the company in business.
- The company is in the customer service and cash conversion businesses.
- Don't spend a dollar that doesn't need to be spent; a dollar not spent is a dollar to the bottom line. Control costs effectively, as there can be more made here than increased sales.
- Manage the company; do not let it manage the managers. Provide guidance and direction, not crises.
- Identify the company's customers and develop marketing and sales plans with the customers in mind. Produce for the company's customers, not for inventory. Serve the customers, not sell them.
- Don't hire employees unless they are absolutely needed, and only when they multiply the company's effectiveness so that

the company makes more from them than if they did it themselves.

- Keep property, plant, and equipment to the minimum necessary to maintain customer demand.
- Plan for the realistic, but develop contingency plans for the positive unexpected.
- Compensate employees (and others) based on the achievement of agreed-upon results and not on such subjective criteria as longevity and the ability to control them.

BASIC BUSINESS PRINCIPLES GUIDE THE COMPANY'S SUCCESS

The search for best practices with its basic principle of doing the right thing assists in building economic, efficient, and effective organizations and maintaining them properly at all times using the best practice for the situation. Best practice techniques assist the company in identifying its critical problem areas and treating the cause and not the symptom of the problem. With sensible business principles as the hallmark for the company's search for best practices, the company can be clear as to the direction of movement and avoid merely improving poor practices. Clear business principles that make sense to all levels of the organization allow the company to identify and develop the proper best practices. In this manner, everyone in the organization is moving in the same desired direction—that is, singing out of the same songbook.

BEST PRACTICES ARE THOSE THAT ACHIEVE THE DESIRED RESULTS

Serving Your Stakeholders

The search for best practices is directed toward the continuous pursuit of improvements, excellence in all activities, and the effective use of best practices. The focal point in achieving these goals is the customer, both internal and external, who establishes performance expectations and is the ultimate judge of resultant quality. A company customer is defined as anyone who has a stake or interest in the ongoing operations of the organization and anyone who is affected by its results (type, quality, and timeliness). Stakeholders include all those who are dependent upon the survival of the organization, such as

- suppliers and vendors: external;
- owners and shareholders: internal and external;
- management and supervision: internal;
- employees and subcontractors: internal and external;
- customers and end users: external.

STAKEHOLDERS ARE THE ULTIMATE JUDGE OF RESULTS

In developing best practice goals for operational performance, management needs to take into account the diverse needs of these stakeholders. What might be best for one or more of these stakeholders might not be best for others. Management needs to balance these diverse needs to determine best practices for the organization.

While owners may be most concerned with short-term criteria such as stock market price and earnings per share, other stakeholders may be more concerned with longer-term criteria such as real earnings growth, customer satisfaction, and ongoing positive cash flow. Within the organization, there needs to be a meaningful balance between such short-term and long-term goals of divergent stakeholders for the best practice process to be most successful.

WE'RE GRASPING, BUT WE'RE NOT HOLDING ON

Mental Models and Belief Systems

Many organizations operate on the basis of prevalent mental models or belief systems, usually emanating from past and present top management. These mental models have an overriding effect on the conditions with which operations within the company are carried out. They can help to produce a helpful working environment or atmosphere or a hindering one. In effect, such mental models become performance drivers, those elements within the organization that shape the direction of how employees will perform their functions. Examples of such mental models and belief systems include the following:

- Hard work and doing what you are told are the keys to success.
- The obedient child in the company survives and is promoted, while the rebellious child is let go or leaves the company.
- Only managers can make decisions.
- Power rises to the top—and stays there.
- Employees need to be watched for them to do their jobs.
- Power and control over employees are necessary to get results.
- Managers are responsible, and employees are basically irresponsible.
- Those at the top of the organization know what they are doing.
- All functions should be organized in the same manner.
- Higher levels of organization are needed to ensure that lower levels do their jobs.
- Policing and control over employees are needed to ensure their compliance.
- All employees are interchangeable.
- Doing the job right is more important than doing the right job.
- If you control the people, you control the results.
- Organizational position is more important than being right.
- Top management has the right to set all policies and procedures.
- Managers create results—employees do the job.
- Organizational hierarchies are needed to ensure that things get done.
- Employees cannot be trusted on their own.
- You cannot run a business without the proper organizational structure.
- Managers know more than employees.
- Managers have a right to be obnoxious.

- Management is the enemy.
- Each function needs its own organizational structure.
- The more employees reporting to you (and the larger your budget), the more important you are within the organization.

MENTAL MODELS DIRECT THE ORGANIZATION

The accurate identification of organizational mental models, belief systems, and performance drivers is extremely important in the company's best practice strategy. If these things are not changed, best practice changes will only change the system and not company results.

STANDING STILL IS LOSING GROUND

Organizational Mental Model Example

An example of an organizational mental model, how it gets in the way and how to remove it as a negative performance driver, is as follows. A fairly sizable food processor desired to determine whether the present organizational structure was the most efficient for the company. Company management was concerned about the spiraling upward costs of personnel, especially the number of longer-term employees and the increasing number of supervisors and managers. Top management believed that it was not getting the increased level of productivity that the company was paying for. In effect, it believed that the same amount of work was being spread out among a larger number of employees. Management identified an acute problem of overorganization in the headquarters.

Operations were observed and personnel interviewed in a number of the office areas such as personnel, purchasing, accounting, data processing, sales, and so on. In all of these areas, the same pattern was detected, that is, levels of supervision and management without much value-added work and a competition by the employees to become a supervisor or manager. The prevalent mental model was to recognize promotion to a supervisory or management position as a reward for past service and permission to stop working, to merely review what those employees reporting to them had done and to return it for redo.

As a result of this mental model, the employees in these departments were spending more time trying to impress their bosses with fancy footwork leading toward promotion rather than just doing the actual work. Much of this was due to the mental model creating a negative performance driver of the practice of incremental annual pay increases (or merely keeping your job), while a management promotion produced a geometric pay increase (e.g., doubling salary level in three years). The company held the belief system that this practice made its employees more competitive with each other, which increased individual productivity and provided it with better managers. In reality, these systems produced employees who knocked each other out to get to the boss to show the boss what they had done and at the same time talk down the work of the other employees. More time was being spent on impressing the boss than on doing the work. This resulted in needing more employees to do the work that wasn't getting done. Productivity was not being increased, and more employees were being hired to do the same work and in some cases even less work. With all of the impressing of bosses, there were more employees singled out for promotion that resulted in the unnecessary increase of management positions.

To turn this detrimental belief system around and turn a vicious cycle into a virtuous cycle, it was recommended that the company implement a system of individual employee expectations and results; whereby, the employee is rewarded based on the achievement of results and not by promotion as manager. This not only eliminated the present belief system, mental model, and negative performance drivers, but it also replaced it with a best practice that would meet management's desire of a more efficient organizational structure. The best practice recommendation placed the burden of productivity on the employee and eliminated the need for managers to police and control employees. The employees would police and control themselves. It also eliminated the competition between employees to curry the favor of the boss as each employee was now competing against himself or herself and his or her expected results. Compensatory rewards were now tied to individual performance results, which immediately increased productivity and reduced the need for as many employees and managers. Employees also felt more relaxed and comfortable, as they didn't have to impress a boss or bad-mouth other employees, so they could concentrate on what they did best—their work. By eliminating the mental model of competing for promotion to management created a best practice of working together and cooperation. And compensation for results created objective rewards and kept employee contributions at a maximum.

THE EARLY BIRD GETS THE WORM,
BUT THE SECOND MOUSE GETS THE CHEESE

Best Practice Structure

As previously discussed, the first step in a successful quest for best practices is to define the company's desired best practice areas as related to their reasons for existence, basic business principles, mental models, belief systems, performance drivers, and so on. These best practice areas typically encompass the organization as an entity as well as its major functions. An example of such an organizational best practice structure is as follows:

Organizationwide

- Operate all activities in the most economical, efficient, and effective manner as possible.
- Provide the highest-quality products to customers at the least possible cost.
- Satisfy customers so that they will continue to use the company's products and refer the company to others.
- Convert the cash invested in the business as quickly as possible so that the resultant cash-in exceeds the cash-out to the greatest extent possible.
- Achieve desired results using the most efficient methods so that the company can optimize the use of limited resources.
- Maximize net profits without sacrificing the quality of operations, customer service, or cash requirements.

Organizationwide best practices set the pace
for all other best practices

Organizational Structure

- Clear lines of authority.
- Proper division of duties and responsibilities.
- Communication between functions—across, upward, and downward.
- Minimal use of personnel and only as needed.
- Proper delegation of responsibilities and authority.
- Management able to effectively control the sphere of its operations and results.
- Management and other personnel clearly understanding what is expected of them and the results to be achieved.
- Organization established based on the principles of the three Es—economy, efficiency, and effectiveness.
- The right-size organization for what needs to be accomplished.
- Minimal levels of nonvalue-added employees and management.
- Organization no larger than it has to be to accomplish results.

The organizational structure establishes how the organization works together

Sales Function

- Make sales to the right customers that can be collected profitably.
- Develop sales forecasts that are realistic in that the forecast results in a present or future real customer order.
- Sell those products as determined by management to the right customers, at the right time, in the right quantities.
- Actual customer sales should directly correlate with management's long-term and short-term plans.
- Sales efforts, and corresponding compensation systems, should reinforce the goals of the company.
- Customer sales should be integrated with other functions of the company such as manufacturing, engineering, accounting, purchasing, and so on.

The sales function delivers the who, what, when—amount and price—of desired sales

Manufacturing

- Operate in the most efficient manner with the most economical costs.
- Integrate manufacturing processes with sales efforts and customer requirements.
- Manufacture in the most timely manner considering processes such as customer order entry, timely throughput, and customer delivery.
- Increase the productivity of all manufacturing operations on an ongoing basis.
- Eliminate, reduce, or improve all facets of the manufacturing operation including activities such as receiving, inventory control, production control, storeroom operations, quality control, supervision and management, packing and shipping, maintenance, and so on.
- Minimize the amount of resources such as personnel, facilities, and equipment that is allocated to the manufacturing process.

Manufacturing best practices provide for least cost, greatest efficiency, best quality, and timeliness

Personnel

- Provide only those personnel functions that are absolutely required as value-added activities.
- Maintain the levels of personnel at the minimum required to achieve results in each functional area.
- Provide personnel functions such as hiring, training, evaluation, and firing in the most efficient and economical manner possible.
- Develop an organizational structure that enables each function to organize in the most efficient manner for its purposes.

- Minimize the hiring of new employees by such methods as cross-training and interdepartmental transfers and other best practices.
- Implement compensation systems that provide for effective employee motivation and the achievement of company goals.

Personnel practices
ensure the least number of quality personnel

Purchasing

- Purchase only those items where economies can be gained through a system of central purchasing.
- Implement direct purchase systems for those items that do not need to be processed by the purchasing function such as low dollar purchases and repetitive purchases.
- Simplify systems so that the cost of purchasing is the lowest possible.
- Effectively negotiate with vendors so that the company obtains the right materials at the right time, at the right quality, and at the right price.
- Maintain a vendor analysis system so that vendor performance can be objectively evaluated.
- Develop effective computerized techniques that provide for economic processing, adequate controls, and reliability.

Purchasing efficiencies
create overall efficiencies

Accounting

- Analyze each of the accounting functions and related activities, such as accounts receivable, accounts payable, payroll, budgeting, and general ledger, as to their necessity.
- Operate each of the accounting functions in the most economical manner.
- Implement effective procedures that result in the accounting functions becoming more analytical than mechanical.

- Develop computerized procedures that integrate accounting purposes with operating requirements.
- Develop reporting systems that provide management with the necessary operating data and indicators that can be generated from accounting data.
- Eliminate or reduce all accounting operations that are unnecessary or provide no value-added incentives.

Accounting best practices
make accounting functions a profit center

IF IT'S NOT IN THE PLAN,
IT DOESN'T GET DONE

Developing Desired Best Practices

The development of such desired best practice areas provides the basis on which to evaluate current practices, identify critical problem areas, analyze detailed operations, identify best practices, and implement corrective solutions in a program of continuous improvements. Without the definition and communication of such desired best practice areas, the company's efforts may only succeed in developing best practices for functions and activities that in themselves are bad practices—making an ineffective operation less ineffective. The search should not be an effort to improve bad practices but to develop procedures that bring best practices into the organization. Through this process, operating functions and activities are evaluated as to their necessity as related to the achievement of organizational goals and objectives. If it is decided that a function or activity is not necessary, then it should be eliminated. If it is needed, then it should be considered for improvement looking for the best present practice and then continually analyzed in the company's program of continuous improvements. Through this process, the company starts to develop itself as a learning organization with each individual responsible for himself or herself and the activities he or she is responsible for achieving results. The best practice process then becomes an ongoing integral tool for the company to do things the right way and to keep them that way.

Organizing Considerations

Organizations are funny entities, particularly when you can look at them objectively from the outside. They are supposedly put together for the unit to conduct its business more efficiently, and for the owners and managers to multiply their effectiveness—that is, to maximize desired results. Organizing should be a helping process to conduct the business better, but realistically it has become a costly, getting-in-the-way process.

Typically, the organization and individual departments or work units spend more time on internal goings-on than on the reasons they are in existence. Organizing and reorganizing become the goal as if the organizational structure is causing the problems. Many times the type of organization isn't even the symptom; it's just easier to shuffle people around than it is to do the right thing. Many times the real cause is ineffective top management.

THE THING I HATE MOST IS THE SUCCESSFUL ORGANIZATION THAT DIDN'T DO IT MY WAY

The real reason to organize is to enable the organization to accomplish its desired results (be most effective) in the most economical manner (optimum use of limited resources) using the best practices available (be most efficient). If this principle were truly considered when organizations are put together with managers and other employees accountable for their results, many of the pitfalls of unwieldy organizational structures would be avoided. I believe we need to go back to organizational basics where all of us working for the organization take back the responsibility for success and work together to change basic belief systems that are at the root cause of the organization's troubles. We can no longer transfer these responsibilities and dependency on outsiders, so that we never learn to continuously improve through our quest for best practices.

ORGANIZATIONS ARE SET UP TO ACCOMPLISH RESULTS EFFECTIVELY,
NOT SO THAT THE RESULT BECOMES AN EXERCISE IN ORGANIZATION

Recognizing Pockets of Excellence

In the search for best practices, it is helpful to have acquired a history of what actually goes on in the business world, and the more real incidences that exist in your operational toolbox the greater the possibility that you can recognize pockets of excellence when you see them. As a professional colleague of mine once said, "I'm not sure what you mean by excellence and whether I can recognize it if I fall on it, but I know what crap is when I see it and when I step in it." I replied to my colleague that if he can recognize the crap in the organization, and in many cases it is abundant, and can identify the cause of the accumulation of crap, it is the first step in the quest for best practices. To emphasize this point I am summarizing the features of best practices by category with a number of stories as examples to identify the goings-on within organizations. For the two major businesses that the organization should be in, that is, *customer service and cash conversion*, comments are presented after each story. For the other categories, the basic business principle involved and violated and a best practice suggestion are given after the story.

**WORK LIFE IS PERFORMANCE ART,
AND THE LONGER WE STAY IN THE STORY,
THE EASIER THE STORY BECOMES US**

**IT'S NOT THE LENGTH OF THE PERFORMANCE,
BUT THE CONTENT OF THE PERFORMANCE THAT
COUNTS**

CHAPTER 2

Customer Service

You are in the customer service business,
to provide goods and services to satisfy desired customers,
so that they will continue to use you and refer you to others.

Customer Service Is the Business You Are in

Without customer service you have no business. Whether you believe your customer service is good, bad, or indifferent, it can always be improved. Outstanding customer service doesn't need to be a cost center, but rather a profit center that develops a quality customer base that pays huge dividends in customer loyalty, repeat business, and referrals—that results in increased real profits.

Purpose of Excellent Customer Service

The purpose of excellent customer service is to determine how you and your business can achieve result-oriented customer service that includes:

1. Understanding the relationship among customer service, growth, and prosperity—resulting in the success of the business.
2. Developing the ability to realistically evaluate and improve customer service.
3. Implementing effective procedures that include the customer as part of the transaction.
4. Enabling present and future customers to effectively do business with you, to continually increase the amount of business, and to refer other quality customers to you.
5. Implementing a customer service capability that allows for listening to the customer and responding effectively by instituting desired changes.
6. Learning how to bring the **wow!** factor to the customer service delivery system.

**KEEPING THE CUSTOMER:
A CUSTOMER IN THE HAND IS WORTH FOUR IN
THE FUTURE**

Perpetuation of Great Customer Service

Perhaps you have found that lucky niche (the small business holy grail) and manufacture or sell a one-of-a-kind product, one that is very technologically advanced, available nowhere else on earth, and your handful of specialty customers all need the product. If that's the case, you probably don't need to really worry about customer service until the inevitable competitor pops up (i.e., Apple and its iPhone). However, it is a good idea to service the customer now, as you don't know what the future will bring. For the vast majority of us though, ignoring customer service is akin to ignoring a gold mine at our feet—*because customer service can make or break your business.* The wonderful news is that great customer service is one of the biggest bargains of all time, because it doesn't cost much more (and usually takes less time and effort) than bad customer service. Just imagine that you can get the customer service of Mercedes for not much more than a Kia.

What's even better is the fact that great customer service isn't that much harder to deliver than poor customer service. Once you know how, and make the commitment to it, it's actually pretty simple. Your task is to get your business on track to outstanding customer service—and to keep it that way. Great customer service starts at the top with the owners and then worms its way into all aspects of the business—from the highest paid to the entry-level worker.

**IT IS JUST AS EASY TO CATCH AN EMPLOYEE
DOING THE RIGHT CUSTOMER SERVICE
AS IT IS TO FIND THE WRONG CUSTOMER SERVICE**

Setting Up Customer Service Best Practices

It's not the use of slogans and buzzwords mounted on fancy posters and on the back of your employees' shirts ("How can I help you?") or imbedded into your annoying voice message system ("Your call is important to use so please stay on the line and listen to unwanted music"). In the long term that's not going to build your business but does run the risk of losing the customer. To promise the customer something that isn't delivered is far worse than not promising at all. And having your employees continue to apologize for something that went wrong rather than fixing the cause of the problem only feeds the customer's anger level. And an angry customer is generally not a good customer—nor can you expect him or her to become a referral source—only a source of bad publicity. Have a nice day.

Most organizations need to reprogram so that outstanding customer service becomes an integral part of doing business—second nature for all employees. Many times it's not the owner or manager who loses a customer but your lower-level *nickel an hour* staff, although the owner or manager can lose a customer just as quickly if not quicker.

Excellent customer service starts with a little pep talk to remind all of us just why great customer service is so critical—together with an understanding of exactly what excellent customer service is and what it entails. A good idea is to look at who's doing it right, and who's doing it wrong. Then, evaluate how your level of customer service fits into the spectrum—among the good, the bad, and the ugly.

CUSTOMER SERVICE
BEST PRACTICE SUGGESTIONS

Sell the entire customer service experience—
good service, fun, and easy—and price.

It is better to build your business through existing customers
than to continue to look for and sell to new customers.

Always provide more than what you promise
or is expected by the customer—say 125 percent.

Satisfy the customer—excite not just provide the expected—
It's the extras that make the difference.

The cost of true customer service pays more dividends
than sales of the wrong product to the wrong customer.

There is more to be gained from increased sales to existing customers
than from continually searching for new customers.

Customer service means not just getting the customer,
but keeping the customer.

It is easier to satisfy a present customer,
than to hook a new one.

Stop looking for the ultimate customer,
service your present customers.

One unhappy and grumbling customer
can spoil the entire business.

Quality customers help create
quality businesses—and quality profits.

Customer service, that is, selling customers what they need
and when they need,
is the focus of the entire company not just the sales force.

Overall company direction directs the sales force—
rewards are based on meeting this direction not merely selling
products at all costs.

Little things mean a lot—
the difference between a satisfied customer who builds your business
and a badmouther who kills your business.

Competitive selling from within results in
being in the markdown business
hoping to recover lost sales through volume.

**EACH CUSTOMER AND EACH SALE
IS A PROFIT CENTER**

Case Situation 1: The King Is Dead

Arthur Scott started his appliance business right after the depression in the 1930s. Through hard work, the war years, and the postwar boom, Arthur was able to build his business to up to five stores. During the 1950s and 1960s, the company became a discount appliance business, and the company grew to more than 50 stores in the 1980s. Arthur became known as King Arthur. Arthur believed that hard work and attention to detail (customer service) were the factors of success. Employees who practiced this belief system were more than adequately rewarded, becoming wealthy through generous salaries and bonuses.

Arthur died suddenly of a heart attack two years ago while pushing a customer-returned refrigerator to the receiving dock. Although there were many hard-working employees, this was a family business; so, Arthur Jr. became the new president. Arthur Jr.'s belief system was one of scheming, scamming, and making easy money—let the customers look out for themselves. He let it be known that rewards would be based on who brings in the money, not who does the work and services the customer. Store atmosphere immediately changed as employees pushed for the sale rather than service the customer.

Arthur Jr. made an enormous amount of short-term money by pressuring sales, reducing inventory, and allowing customer service to slide. As stores became marginal contributors to the company's bottom line, Arthur sold them for what he could get, putting those employees out of work. Within a year, the company was back down to five stores and Arthur Jr. was tired of running an appliance business. He sold the remaining stores to a group of employees and left with his bundle. Finally, the king was dead, and so was the business.

**WE'RE IN BUSINESS FOR THE LONG TERM,
TO SERVE OUR CUSTOMERS
FOR REPETITIVE BUSINESS AND REFERRALS**

Related Best Practices

We will not be undersold by the large chains,
but remember we are selling more than price.

It's not just shopping, it is an entire experience—
make it a wow!

The sooner you fall behind,
the more time you have to catch up.

Outstanding customer service is more than
a smiley face and a have a good day.

It is not just the present sale,
but all future sales that make the difference.

The goal of business is to build a community
that is just and fair and
empowers everyone with a productive life.

Taking the wrong orders is never fun.
I expect my business to always be there—
and so far, so good.

You can't fix the financial,
without fixing the operational.

Case Situation 2: National Chains—National Shame

I ran into the *Big Box Home Improvement* store early one morning, figuring it wouldn't be crowded. The store was indeed empty, not only of all but a few customers, but also of employees. I finally went to the checkout clerk, after searching in vain for any staff on the floor. It turned out that they were all in a customer service meeting. And it's not just meetings that are at fault. In another case, checkout lines were snaking through the store, because only one clerk was ringing up sales, while three others were counting inventory.

And here's a classic that I encountered recently: There was one clerk ringing up sales in a discount store, there were seven unhappy customers waiting in line, and two aisles over there was a table set up under a large banner emblazoned "Customer Service." A clerk sat there, totally alone, waiting to sign customers up for the stores bonus points' card. She looked pretty bored, and evidently entertained herself by watching the customers waiting endlessly in line to pay. Don't fall into the trap of letting meetings or slogans about customer service interfere with actual customer service.

THEY SEEM TO KNOW HOW TO GET YOU IN,
BUT DO THEY KNOW HOW TO KEEP YOU THERE
AND TO GET YOU OUT

Related Best Practice Suggestions

Once you get the customer, do what you can to keep them—
make it easy on the customer.

Customer service encompasses every aspect of your business.
Move the customer service to the customer—
don't make the customer move.

May I help you,
means that you can help

Empower your employees, at all levels,
to deliver wow! customer service.

Owners can do it their way—
or the right way.

If you believe it—
then it is so.

Treat every customer as if he or she is your only and most important customer.
Every customer—the small and the giant—
builds the business
and the small may become a giant, and a giant may become extinct.
From little nuts, grow large trees—
from small orders may grow a large customer.
Treat every customer like he or she is your only customer.
It's not the size of the customer or the size of the order,
it's the future potential of each customer.

Case Situation 3: Bigger Isn't Always Better

In an old business, it was decided that they couldn't afford *Big Box* as a customer. They sold a good amount of products to them. But taking into account everything they needed to do to keep them as a customer, they would be in the situation of losing money on every transaction. You can't make that up in volume. At the time, they needed customers, and it was a tough decision, but they decided that the best move was to not take on a large customer like Big Box. They could not provide them with the level of customer service that they demanded at the prices they were willing to pay, and they weren't going to make promises to them that they couldn't keep.

From a customer service perspective, you've got to look at your customers and ask yourself which ones are taking up too much of your time and are too costly. Are they calling with too many requests? Are they changing orders late in the game causing manufacturing difficulties? Are they sending returns back when you're certain it has nothing to do with the product, and more likely to do with their cash flow? You've got to figure out who are your best customers, after you take into account all the costs and charges that go into dealing with them.

THE LITTLE GUY DOESN'T MATTER
HE'LL NEVER BE A CUSTOMER—OR WILL HE?

Related Best Practice Suggestions

Don't take on a customer whom you cannot service adequately at your expected quality level.

Build a quality business with quality customers whom you can service well.

***It's not gross sales that build your bottom line,
it's real collectible profits that go into your pocket.***

***Large customers can produce large headaches,
and small profits, if any.***

***Reward customer loyalty not the new customer.
Know who you are.***

***Cinderella's place in life is situational.
And so is your type of business—
be it fast food or gourmet dining.***

***Customer service expectations relate
to the level of the business—
surpass all expectations—wow!***

***Listen to your customers,
as they may know more about using your product than you do.***

***Your customers are your most important asset
and the best source of feedback for improvement.***

***You are in the customer service business—
listen and serve your customers.***

***The customer may not always be right,
but the customer knows what he or she wants.***

Service the customer regardless of the situation. Quality customer service trumps the possibility of error.

Always err in the direction of the customer—goodwill blows in on good customer service.

Customer Service: Summary of 20 Best Practices

1. You build your business through satisfied customers and their suggestions and referrals.
2. Make each customer an integral part of your business—you are in the customer service business.
3. It is better to build your business through existing customers, than to continue to look for and sell to new customers.
4. Each customer—and each sale—is a profit center.
5. An unhappy customer is not a good customer; a happy customer may be a customer forever.
6. The successful business owner is the one who listens and then tries alternative approaches looking for the path to success.
7. Make it easy for the customer and they stay with you.
8. It's not just the price, but also quality customer service that includes product, quality, and timeliness.
9. Always provide more than what you promise or is expected by the customer—can you do better than 125 percent of customer expectations?
10. Satisfy the customer—excite not just provide the expected—it's the extras that make the difference.
11. If you keep your eye only on the operations, you'll miss the results.
12. Customer service is our business—or we won't have a business.
13. Being right has nothing to do with the job position.
14. Quality customers build a quality business.
15. Policies and procedures make operations more efficient and it easier for the customer, not for the company or its employees. If the policy or procedure gets in the way, then change it.
16. Be proactive in your customer service, or you will not get the chance to be active.

17. First the strategy, then the execution.
18. Ready, aim, fire or ready, aim, aim.
19. Deliver more than you promise, do not promise more than you can deliver.
20. There is always a best alternative.

MAKE IT EASY FOR THE CUSTOMER:
AN OFFICE SUPPLIER

The following is a summary of the terms and policies of an office supplier:

- Call us: toll free number, 24 hours a day, 7 days a week, and *talk to an actual person*
- Ordering: Internet (weekly e-mail special offers), 800 number, catalogs (with monthly and specific specials), fax orders, and *free gifts*
- Choice of free gifts when ordering
- Best available price from any of their specials
- Fast shipping (next day in most cities, same day in over 900 cities) and free delivery (orders of $40.00 or more—if less than $40.00, only $3.92)
- Thirteen full service distribution centers around the country
- Thirty-day free trail on anything you order
- One-year guarantee on every product you order (technology excluded)
- Handling and processing fee: $1.98 on all orders
- Thirty-day free credit to most businesses

CAN THEY DO ANYMORE TO GET YOUR BUSINESS?

We Get Letters

The following examples depict samples of customer service correspondence that point out some customer service practices that might be helpful in your search for best practices. And keep in mind that we learn from bad examples as well as from good or excellent examples.

Auto Service

Thank you for using our facility to service your vehicle. I'm especially grateful that you'd taken the time to write down your comments and let me know how you feel about our service. I appreciate your comment as it gives me the opportunity to correspond with our customers and try to resolve problem situations.

Your comment indicated that you felt a little pressured the last time in. I apologize for overwhelming you and giving you that impression. That is not the image we want to portray in this community, nor does it fit our mission statement.

When you come in for service, we are trying to save you time and since the service moves very fast, sometimes it may appear that we are trying to pressure the guest into purchasing. In reality, this process is meant to be quite the opposite. The staff member is charged with the responsibility of performing a thorough service by referring to your vehicle's manufacturer specifications. If the staff person finds something your car is due for, as a courtesy to you and part of being thorough, he is to bring it to your attention and ask if you would like us to perform the service for you. If you say "yes," he will proceed with the service. If you say "no," he will respond, "thank you very much." The staff person is not charged with making any sales, but only of informing you of the vehicle's need. I require the staff member to ask you to ensure that you have the opportunity to make the decision on your vehicle's maintenance needs, based on the manufacturer's recommendations.

I apologize for your perception of "pressure tactics." Hopefully that wasn't the case, just a staff person trying to get you out quickly. We want to be respectful of your time.

Thank you once again for your comments. I really value them. We look forward to serving you again.

My response

You seem to have missed my point. Your people were rude, pushy, and anything but respectful of my time and me. I was trying to give you honest feedback, so that you could take corrective action. An "excuse" letter such as this one only makes me feel worse and that I wasted my time in giving you my comments. This is not the way to win back my business.

Automobile Purchase

We would like to take this opportunity to thank you for your recent purchase of an xxxxxx automobile. Your satisfaction as an xxxxxx owner is of great importance to us. At your convenience, please take a few moments to complete the enclosed questionnaire. The information you provide about our dealership and products will enable us to improve our service to you.

As a token of our appreciation for completing and returning the survey, please accept the enclosed "xxxx dollar off" coupon. This coupon is good toward your next service or periodic scheduled maintenance at an authorized xxxxxx dealership. Please return the completed questionnaire in the enclosed postage-paid envelope.

We hope you will enjoy the driving experience, efficiency, and quality of your new xxxxxx for many years to come. Should you require our assistance in the future, please feel free to contact us on our toll-free number.

Automobile Service Problem

We appreciate your recent letter. Your information allows us to know what the customer is experiencing and provides details which we can forward to the dealership.

We encourage all of our authorized dealers to maintain a "customer satisfaction"–oriented standard within the dealership. Your information will be brought to the attention of the dealership's management as another way of sharing what we hope to be constructive information and provide some insight where improvements may need to be made.

Please accept our sincere apology for any inconvenience you may have experienced. To help compensate you for such inconvenience, please accept the enclosed xxxx dollar coupon, which can be used against your next service charges.

Credit Card Credit Line Increase

Congratulations! We have increased your credit line to $xx,xxx, of which $xx,xxx is available for cash advances. We are pleased to provide you with this increase based on your continued loyalty and excellent payment history. In addition, to keep pace with your changing circumstances, we regularly review your account to ensure that your credit line continues to meet your needs.

If you ever have a question about your account, our professional Customer Service Representatives are available 24 hours a day, 7 days a week on our toll-free number to assist you. Please use your preferred customer extension number, xxxx, to reach one of our representatives immediately. We value our relationship with you and look forward to continue to serve you.

Bad Hotel Experience

Thank you for taking the time to fill out our "Guest Response Form." We're sorry that you found your stay with us less than enjoyable. In checking with our front desk, your reservation did indicate a preference for a king-sized bed, nonsmoking room, and your room charges were guaranteed with a major credit card. However, you did arrive late and your choice of room was no longer available. So, unfortunately, we were unable to accommodate your room preference request. We apologize for putting you in an undesirable room overlooking the freeway and directly above the bandstand in our lounge.

We always take guest comments seriously, so when a guest's stay with us is less than ideal, we're very concerned as our goal is to provide each and every guest with a quality experience. We're sorry that you don't plan on returning to this location. However, please accept our apologies for your unpleasant stay in the form of the enclosed coupon which entitles you to a two-day stay with all meals in our restaurant at this location or any other in our chain. We wish you good fortune in your future travels.

Customer Return

We have received your xxxx in our returns department. We are sorry that you were not satisfied with your purchase and are processing your refund immediately according to your instructions. Thank you for telling us how we did not meet your expectations. Be assured that we are investigating and will remedy the situation so that it will not happen in the future.

Thank you for shopping with us. We appreciate your business and will do everything possible to ensure that we completely satisfy you in the future. As a token of our concern, please accept the enclosed coupon as a discount on your next purchase.

Catalog Orders

We haven't heard from you since your last order in September, 20xx. That bothers me. Losing a good customer is like losing a good friend. I can't let either drift away in silence. If we're at fault, I'd like to know, and make it right. Whatever the reason, I do care. Please let me know what we may have done in the past to lose your business, and what we can do at this point to have you back as a valued customer. As a token of our appreciation for letting us know, we are enclosing a $50 coupon to be used on your next order. We will do all we can to keep your satisfied in the future.

Car Rental

Thank you for completing our Quality Assurance Survey. We appreciate your taking the time to give us your comments. We are very concerned to hear of the lack of professionalism displayed by our management and employees at our xxxx location. While it is disturbing to hear of any situation where our customers are not treated in a friendly and courteous manner, it is even more disturbing when this also occurs with members of our management team.

Please accept our apologies and be assured that corrective action will be taken. I hope that you will not judge us too harshly because of this one incident. We believe that our service standards are much higher than your experience indicates. We welcome the opportunity to demonstrate this to you in the future. We are enclosing a coupon good for a three-day car rental. Please give us another chance and use this coupon as you see fit. Let us know if your next experience meets our quality expectations.

CUSTOMER FOLLOW-UP
IF WE'VE "GOOFED" LATELY, PLEASE LET ME KNOW.
YOU'LL GET IT OUT OF YOUR SYSTEM.
AND WE'LL GET IT OUT OF OURS.

Quality of our merchandise:
Courtesy of our service:
Promptness of our delivery:
What can we do to be better for you:

Thanks for telling me your thoughts. We read every word!

Billing Error

Your previous monthly statements contained incorrect charges due to an error in our billing system. This error caused you to be *under-billed* between February and June of this year. The attachment to this letter explains the additional charges that, as a result, will appear on your next monthly bill.

We regret this error and apologize for the inconvenience it may cause you. Since it was our mistake that caused this billing error, we are offering you the choice of one of the four gifts as described in the attachment. We understand that this may not fully compensate for the inconvenience, so we are automatically allowing you up to four months to pay off these additional charges.

Voice Mail and E-mail—The Never-Ending Loop

Thank you for contacting eSupport. We appreciate the opportunity to assist you. I apologize for your trouble and I assure you it is our hope that you have a positive experience with our company. I understand your concern. Please accept my apologies for the difficulties you encountered when attempting to resolve your problems. I assure you that your situation is not indicative of the quality service we are capable of providing. I am truly sorry that we were not able to provide you with an experience that was completely satisfactory. I hope that our future service opportunities result in nothing less than your complete satisfaction. I would suggest you to contact Customer Service at 800-xxx-xxxx or please write to our customer service unit at the e-mail address below. They are the right persons who can help you with the issue. You may visit the link below and submit the request or query to customer care by clicking on the appropriate section from the links given on the right hand side of the web page.

Around and around we go with no human contact and no problem resolution— from voice mail to e-mail to voice mail to e-mail.

General Purchase

We would like to thank you for purchasing our unique product. A lot of pride and time was taken in supplying you with the quality product that you desired. We hope that our personnel were helpful in helping you to decide on this particular product. We wish you many good years with the product. Should you have any concerns or problems in using our product, please contact us. We are in business to satisfy you, our customer.

We would like to invite you to come in and look at our latest products anytime. We are enclosing a coupon good for $50 off of your next purchase as a token of our appreciation of you as a valued customer. We are always available to talk over any special requests that you may have. As always, we appreciate your patronage and look forward to seeing more of you in the future.

CREATE THE UNEXPECTED—
MAKE CUSTOMER SERVICE
A WOW! CUSTOMER EXPERIENCE

Customer Service: Best Practices

- Sell the entire experience—good service, fun, and easy—and price.
- Let the customers be your guide—don't sell, let them purchase.
- Guaranteed "guaranteed reservations"—hotels, rental cars, restaurants.
- Customer-oriented "customer service"—retailers, voice mail, servicers.
- Waiting rooms—comfortable with refreshments, up-to-date reading materials, television with remote, computer with Internet accessibility, and so on.
- Scheduled appointments or reservations—ready and waiting.

- Bill payment options: check, credit card, direct deposit, Internet, telephone.
- Account status—easy and accessible: phone, toll-free access, Internet.
- Get them in the store: tantalizing ads—create the wow! factor.
- Easy access: location, parking, entrance into store, effective greeting, and information personnel.
- Ease of shopping: pleasant carts (easy to use and fill), wide but short aisles, clearly marked shelves, knowledgeable personnel in abundance.
- Fun, fun, fun!: In store can't refuse specials (with all of the products on hand in sufficient quantities—no rain checks please); freebies and giveaways (particularly food stores); product demonstrations; spouse corners with refreshments; current reading materials (magazines, today's newspaper); television, Internet computer; and so on.
- Ease of check out: short lines; sufficient registers and cashiers; cashiers who know what they are doing; do-it-yourself checkout; quick flexibility of payment (cash, check, credit, or debit card); trained baggers; help to take out personnel if needed, easy access to exit, valet vehicle loading.
- Leaving the location: easy parking lot egress, ability to go in any direction, quick get away.
- Store policies: customer service and attention, helping each shopper have an experience not a chore, liberal return policy (no questions asked), realistic pricing, exciting specials, and events.
- It's better to build your business through existing customers than to continue to look and sell to new customers.
- Each customer—and each sale—is a profit center.
- Appointment: An appointment is an appointment—both parties ready on time.
- Waiting rooms (if absolutely necessary): pleasant and exciting.
- Always provide more than what you promise or is expected by the customer (e.g., 125 percent)

- Satisfy the customer—excite not just the expected—it's the extras that make the difference.
- We will not be undersold by the chains—but, remember you are selling more than price.
- It is not just shopping, it is an entire experience—make it a wow!
- Free shipping—for orders over a minimum amount (e.g., $25).
- Quick delivery—within three business days of the order.
- Easy return—we pay the return shipping, no questions asked.
- Customer orders—toll-free talking to a person, 24 hours a day, 7 days a week.

TRUE CUSTOMER SERVICE ALLOWS THE CUSTOMER TO BUY WHAT THEY NEED (AND WANT)

Customer Service Query

Why can't we get

- a real, live person to talk to?
- service 24 hours a day, 7 days a week?
- a toll-free number to call or e-mail site to use?
- free delivery with a minimum purchase (say $25 or no minimum)?
- only those catalogs we want?
- special discounts or free gifts for continued patronage?
- free merchandise trial (say 30 days)?
- merchandise guarantee over and above the product warranty (say one full year)?
- timely shipment and delivery within two days from the order?
- responsive customer service people (a real problem-solver hotline)?
- free shipment on returned items?
- no questions asked on returned items?

Customer service should be a hassle free experience.

**CUSTOMER SERVICE IS NUMBER ONE—
AND TWO AND THREE**

Best-Practice Passions: Signs of Intelligent Customer Service

1. Appropriate method of contact: voice mail, e-mail, and human.
2. Customer service persistence in resolving your problem—it is never the customer's problem
3. Listening to the customer with empathy and understanding.
4. Being an advocate of the customer, not the company.
5. Taking a problem-solving approach to solve the customer's concern.
6. Flexibility in thinking—looking beyond rigid company policies.
7. Individualizing the situation—determining the best solution for the situation.
8. A sense of humor—laughing together at the ridiculousness of the situation.
9. The ability to use past instance and knowledge to apply to your situation.
10. Risk taking—going beyond the expected.
11. Enjoying the problem solving—the best solution in the circumstances
12. Making it an enjoyable experience for an unenjoyable situation.
13. Keeping the customer an integral part of the process.
14. Establishing a service delivery schedule that meets the customer's needs.
15. Delivering the right service, at the right time, at greater-than-expected quality.
16. Courteous personnel who know what they are doing and possess a customer-service orientation.
17. Ensuring that the customer is completely satisfied, at a level greater than expected.
18. Providing a guarantee (warranty) that far exceeds the possibility of any problems that may be a result of your service.
19. Efficient call-back response: complaint response, follow-up, and subsequent service delivery.

20. Reasonable pricing for the specific service within the geographic area and being compared to local competitors.
21. Billing flexibility and options: cash, check, credit card, automatic direct bank payment, and so on.
22. After service follow-up: customer contact, thank you, subsequent visits, subsequent offers, and so on.
23. Provide the customer with the best service possible—customers are our number one priority.
24. The golden rule of customer service—make it easy for the customer.

Final Thoughts

The customer is not always right,
but a quality customer is always treated right

You are the starting point
for outstanding customer service
Wow!!!

You can have your cake and eat it too,
but it might not be what you ordered

The three-legged stool of customer service:
price, quality, and timeliness

It's not the free gifts,
it's the service, dummy!

Deliver what you promise,
and make good if you don't

A business is built on long-term customers,
not on short-term promotions

Empower your employees
to provide wow! Customer service

If a rule doesn't make it easy
for the customer to do business with us,
get rid of the rule, not the customer

CHAPTER 3

Cash Conversion

You are in the cash conversion business to create desired goods and services so that the investment in the business is as quickly converted to cash as possible, with the resultant cash-in exceeding the cash-out (net profits or positive return on investment).

KNOW THE BUSINESS YOU ARE IN,
FOR THE WRONG BUSINESS MAY DO YOU IN

Cash Conversion Basics

One of the businesses that every business is in is the *cash conversion business*, which creates an emphasis on

- obtaining quality sales that result in timely cash collections that provide for a desired profit after deducting all relevant costs such as product or service, functional (such as purchasing and accounting), and customer costs;
- collecting cash on sales as quickly as possible through cash advances or upfront cash payments, payment at the time of shipment or customer receipt, effective use of Electronic Funds Transfer (EFT), and price adjustments for customers who desire to pay within a shorter collection period;
- effective vendor negotiations that ensure lowest possible prices while still guaranteeing 100 percent quality and on-time deliveries;
- procedures for ensuring that materials and supplies are not ordered, received, and paid for until absolutely necessary;
- continual program to reduce all costs that are unnecessary or of a nonvalue-added nature that provide no add-on value to the product or service;

In this manner, the cash conversion process becomes a tool to maintain the business in the most economical, efficient, and effective manner possible. In establishing operating controls that monitor the previously listed goals, the business must keep in mind those operational areas that effect cash-in and cash-out. With these principles in mind, operations can be analyzed to identify areas for improvement in which best practices can be implemented that maximize cash inflow and minimize cash outflow.

MAXIMIZE CASH INFLOW,
MINIMIZE CASH OUTFLOW

Although the primary focus of ongoing cash conversion and continual operational analysis is on the manner in which cash is used by the business, considering the sources and uses of cash and the policies and procedures used to deal with over- and under-cash conditions, all other operational areas that have a direct impact on cash conversion also need to be addressed. Effective cash conversion analysis may result in the analysis of many of the business's major operations as cash affects every function and activity. To ensure that the business operates with effective cash conversion procedures, it must be understood that every dollar expended and every dollar collected must be evaluated as to its appropriateness to its plans and operations.

CASH IS THE FUEL
THAT POWERS THE COMPANY

Profit can be thought of as a figment of the accountant's imagination, especially since there is so much room for legitimate interpretation, judgment, and flexibility in determining exactly the organization's net income for the period. Cash, however, is cash. It is precisely measurable, tangible, and absolute. Having enough cash allows the business to concentrate on other more enjoyable aspects of the business—growth, development, new customers, new products, new processes, and so on. Not having sufficient cash forces the business to fixate on getting more cash in any possible way, sometimes to the exclusion of effective management and proper growth and development for the organization. Cash management is an indispensable element in the success and continuity of the business. Remember that each situation is unique, but cash conversion concerns are the same for every business.

THE BUSINESS OPERATES ON CASH, NOT ON BOOKED PROFITS

Maximum results at minimal costs closes the cash gap.

Create a cash buffer— have cash when you need it.

Managing the company means managing the cash conversion process.

Making the most money and acquiring the best toys is not the primary goal of a successful business.

One excellent workable business model is worth a thousand theories.

Profit is that which you want to show most of to owners or shareholders and least of to the IRS.

HAPPINESS IS POSITIVE CASH FLOW

The preceding statement may even be a universal truth. At a personal level, while cash cannot buy happiness, it can alleviate a lot of anguish. For the business, understanding the cash conversion process, managing it, and controlling it are essential to long-run success.

Cash is king! cash—and its availability—is the lifeblood of the organization. Without it, the organization can dissipate; with it, the organization can grow and prosper—with proper management and economical, efficient, and effective operations. Similar to the absence of water to anything living, the absence of cash to the business means death—slow, torturous, physically painful, and mentally agonizing.

Business owners, managers, shareholders, and many others have become enamored with sales and revenue increases, reported profits, earnings per share, price–earnings ratios, stock market price, cost reductions, and related concepts that focus on the market capitalization of the business and its related stock price per share. Such sales and revenue increases calculated based on accrual-based accounting principles may be unrealistic when it comes to real sales to quality customers that can be collected in a timely fashion that ensure a real profit to the business. While these new yardsticks may be significant and even elegant scorekeeping measures for determining how well the enterprise is doing in the stock market, they may have minimal significance in the business without cash—unable to meet payroll, pay vendors, or, horror of horrors, make requisite tax payments. Profit is an intermittent measure calculated monthly, quarterly, and annually. Cash is a daily concern. The eager search of the daily mail for incoming checks is not just greed or lust; it is often a survival issue.

This chapter concentrates on cash conversion, the lifeblood of any business enterprise. The purpose of these materials is to help you to understand how to manage, plan, and analyze the cash conversion process for your organization. General focus is on helping you to understand the following objectives:

- Cash conversion techniques and procedures necessary for the business to function economically, efficiently, and effectively.
- To recognize and manage effectively the principal factors affecting cash receipts and cash disbursements in the organization.
- The effective principles of investing excess cash and borrowing to cover cash shortfalls.
- Effective planning techniques and procedures for managing the cash conversion process of the organization.
- Some possible techniques and measures to analyze the cash conversion processes of the organization.

The Cash Conversion Business

As we have stated, one of the businesses that the business is in is the cash conversion business. The cash conversion process becomes a tool to maintain the business in the most economical, efficient, and effective manner possible. In establishing operating controls that monitor the cash conversion goals, the business must keep in mind those operational areas that effect cash-in and cash-out. With these principles in mind, operations can be analyzed to identify areas for improvement in which best practices can be implemented that maximize cash inflow and minimize cash outflow.

MAXIMIZE CASH INFLOW. MINIMIZE CASH OUTFLOW

Effective cash conversion management is essential to the success and survival of the business. It may be even more important than producing goods or services or generating a sale. Most businesses can lose a sale or a customer and still continue operations. They, however, miscalculate the availability of cash when needed, for example, for payroll or taxes or a critical vendor, and you may very suddenly be out of business. Cash conversion management helps to avoid such operational crises by applying basic principles to the business.

The business needs cash to pay its bills—business expenses (i.e., service or manufacturing costs, selling expenses, general and administrative costs, and so on)—and to pay off scheduled liabilities on time (e.g., loans, accounts payable, taxes, and so on). Cash generally comes from four sources:

Sale of equity. In the form of company stock or ownership of the business.

Borrowing. From a variety of sources such as friends and relatives, customers, vendors, employees, and financial institutions.

Conversion of assets to cash. Sale of idle or unneeded facilities or equipment, reduction of excess inventory, or collection of accounts receivable.

Reinvested profits. Those resulting from real cash collections, those that add to the bottom line, not just from recorded sales that may or may not be collected.

Keep in mind that every business is in the *cash conversion business.* It starts with a cash infusion, produces a product or service, sells and ships the product or service to a customer, bills and collects payment from the customer, and deposits the cash back into the business. If the company is successful, the ultimate collection of cash from the customer exceeds the amount of cash infusion and related costs in producing, delivering, and servicing the customer's transaction by the company. The positive difference is called *profit* and a negative difference is called *loss*.

The Cash Gap

The business is not only concerned with managing its cash conversion in a positive manner but also in closing the gap in terms of time between cash infusion and the ultimate collection of cash. The *cash gap* can be considered as the number of days between the company's payment of cash for materials and services and when it receives the cash payment for the sale of the product or service. The longer the gap, the more time the company pays cash out of pocket. The company must have cash generated from other sales to take up this cash slack. If this is not possible, the company must finance the difference. Thus, the unavailability of cash can become quite expensive to the business in terms of cost of borrowing as well as the inability to operate most economically, efficiently, and effectively. In my mind, each sale is a profit center and the significance is whether the sale is profitable, how quickly the money for the sale is collected, obtaining the desired selling price, and minimizing the costs (product or service, functional, customer) of the sale.

MAXIMUM RESULTS AT MINIMAL COSTS
CLOSE THE CASH GAP

Every business is continuously in the cash expansion and conversion business; whatever business the company is in starts with a cash infusion and eventually ends in cash liquidation. If the business is successful, ending cash will exceed starting cash more than enough to cover the time value of the cash infusion(s). The business cannot be in the business of selling to nonpaying customers or selling products that generate less cash than their costs. Furthermore, investing in accounts receivable, sales backlog, or inventory should be avoided since these cannot be spent or reinvested until they are converted back into cash. Inadequate cash is often the principal limiting factor in the growth of the business, and the business's goal should be to accelerate the cash conversion process—and close the cash gap—as much as possible.

Effective cash conversion management maximizes cash generation for the business. This means that, in effect, generating positive cash flow by applying effective techniques for collecting cash due to the company, expending no more cash than necessary, and delaying (within limits) the payment of cash due to others. For the business to survive, it must have cash when it needs it. In addition, a positive cash buffer provides a safety net against unforeseen business crises, emergencies, or management errors, and allows the company to take advantage of opportunities that may arise. Sufficient cash availability is also necessary for the business to grow and survive. Businesses typically fail not from lack of growth or lack of profitability, but from lack of cash to pay the bills.

CREATE A CASH BUFFER,
HAVE CASH WHEN YOU NEED IT

Also keep in mind that an overinvestment in cash can impose opportunity costs on the business by loss of earnings on that *excess* cash that would be available from investment in profitable alternative opportunities. However, excess cash does not normally lead to serious business problems, while insufficient cash is always a problem. Effective cash management allows the business to control its cash and manage its business economically, efficiently, and effectively. In this way, the business can reduce business disruptions, operate in a smooth and efficient manner, and provide for its ongoing growth and profitability.

MANAGING THE COMPANY
MEANS MANAGING ITS CASH CONVERSION PROCESS

Flow of Cash

Understanding and managing the cash conversion process is not nearly as difficult a process as it may at first seem. There are a finite number of

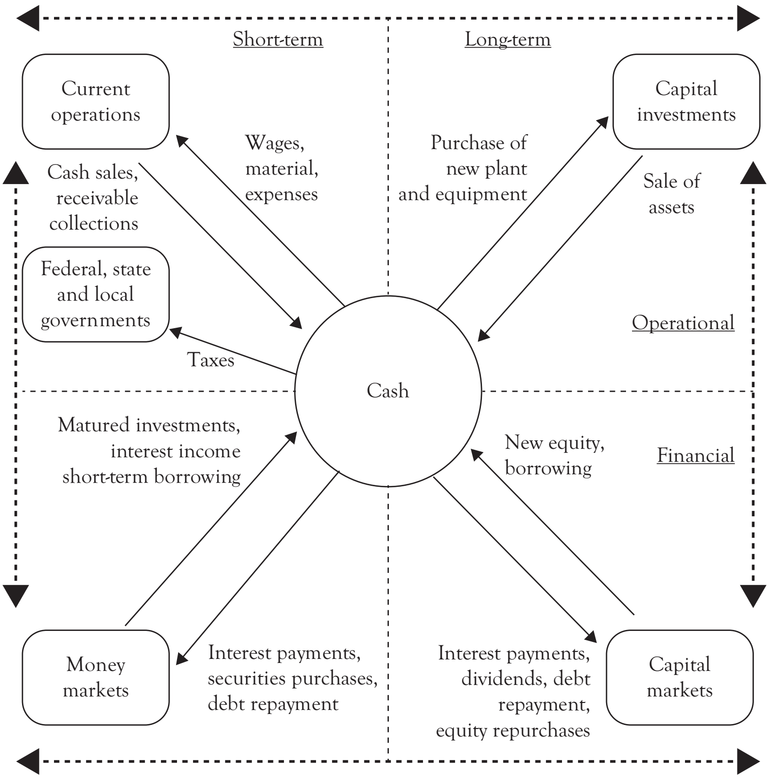


Figure 3.1 Flow of funds in a business

places where cash comes from and where it goes. We are not dealing with an inordinately complex process. To show this process, a schematic of the flow of funds in a business is shown in Figure 3.1. It illustrates that cash comes from only a limited number of business sources and is used for only a limited number of activities. Therefore, there are only a limited number of areas to which management can look to find opportunities to generate more cash inflows or reduce cash outflows. This is not intended to oversimplify the cash conversion management process, but it is necessary for management to understand that the process need not be made more complicated than necessary.

Cash Generation Cycle

Any business—manufacturing, service, financial, nonprofit, government, and so on—begins with an infusion of cash. The fundamental operating

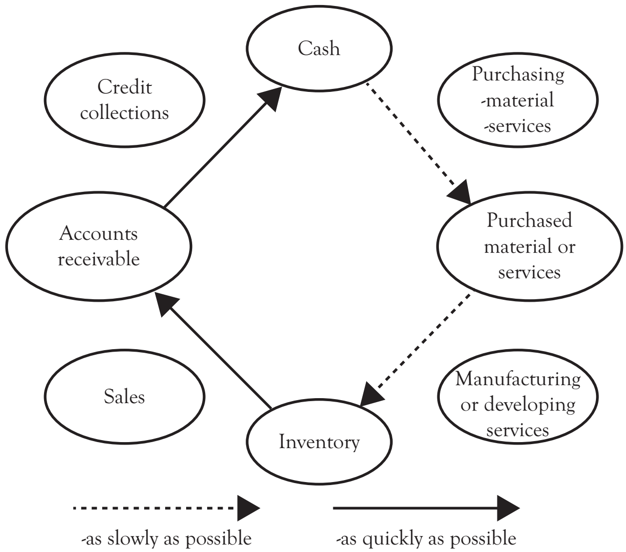


Figure 3.2 Cash generation cycle

cash flow process within the business then operates in a continuous loop of short-term asset transformation. Whether a manufacturing business, a service business, a retail store, or even a nonprofit organization, each one goes through the same series of activities. The only adjustment is that the descriptors will be different. A retail store will purchase inventory, but will not do any manufacturing; instead, it will incur merchandising costs to make the items available for sale in an appealing manner. A service or nonprofit establishment may not purchase inventory or do any manufacturing but will have to incur costs to ready the services for its clients' benefit. In any business, cash will have to be expended prior to receiving a return from customers or clients. Having sufficient cash available to allow that to happen is essential to both short-term survival and long-term success.

The business begins with cash—the owner's investment and usually some borrowed funds. The purchase of goods or services, together with the manufacturing process or service provision, transforms the cash into inventory or services to be delivered. As the goods or services are provided to the customer, they are converted to accounts receivable or cash receipts. The collection process then transforms the accounts receivable back into cash. If the business process works properly, the cash received is greater than the cash laid out, and the resulting profit provides the business with additional funds to reinvest and grow. The process then repeats itself in an ever-increasing continuous cycle. A major goal is always to have sufficient cash available to allow this process to continue successfully. This is the mark of a successful *cash generation cycle* (Figure 3.2).

This *cash generation cycle* is, of course, a simplistic representation of a typical cash generation process. Factors such as accounts payable, outside financing, asset conversion, and profits from operations typically increase the amount of cash resources available. On the other hand, as accounts receivable increase, inventory investment, debt repayments, dividends, and operating losses decrease the level of cash. In addition, most businesses require periodic purchases of fixed assets—plant, furniture, and equipment—in order to maintain or expand their business activities. These are not part of the cash generation cycle, but do require an outlay of cash, often quite significant.

FROM CASH TO CASH—AS QUICKLY AS POSSIBLE

In reality, the cash flow process does not operate simply or smoothly, but is subject to numerous disruptions. For example, changes in the level of inventory retard or increase the flow of cash as do changes in the level of accounts receivable and accounts payable. Inventory and accounts receivable are idle assets reducing cash availability until they can be converted into sales and collected. Payables are free short-term loans from vendors or suppliers that represent a source of cash for the business. Chronically high levels of inventory or accounts receivable can easily threaten the survival of the business. While cash itself contributes only minimally (through possible interest earnings) to profitability, it does make possible the acquisition of the goods or services that create profitability.

What, then, are we saying? Too little cash means problems of survival, while too much cash can result in lost opportunities and inefficient use of limited resources. Cash conversion management is a continual effort to smooth out fluctuations and focus on the Goldilocks Cash Management Principle: "Not too much; not too little; but just the right amount."

Objectives of Cash Conversion Management

Cash conversion management focuses on making the transformation process of the business work smoothly. To accomplish this, you should be aware of the objectives of cash conversion management, which are to

- control and track cash flows;
- optimize sources and uses of cash;
- maximize revenues and minimize expenditures;
- collect for sales as quickly as possible;
- expend cash only where necessary (e.g., value-added functions and activities only);
- pay creditors no sooner than necessary—and minimize the costs associated with vendor purchases and payments;
- provide for adequate external sources of funding;
- properly manage external short-term borrowing and investment activities;
- effectively utilize any positive excess differential cash generated; and
- minimize the cash conversion gap to the smallest amount of time possible.

Effective cash management is necessary due to a lack of synchronization between incoming and outgoing cash flow, a lack of reliable forecastability of cash flow amounts and timing, and costs of holding cash balances or borrowing to cover cash shortfalls. What the company's cash management system should be designed to do is shorten the cash generation cycle by effectively managing the assets, liabilities, revenues, and costs of the business.

Cash flow can be maximized, borrowing minimized, and return on assets enhanced by

- speeding collection of accounts receivable, or collecting in advance or at time of delivery of the product or service;
- selling profitable products or services to quality customers who pay on time—hopefully prior to or at the time of delivery;

- getting materials inventory into production and out the door as quickly as possible, or getting out of the raw material inventory business entirely by letting the company's suppliers carry such inventory;
- reducing or eliminating finished goods inventory by shipping directly from production to the customer;
- maintaining work in process (WIP) inventory at a minimum through effective production scheduling and control techniques that ensure the maximization of real customer orders into production, shortest period of production time, elimination of rework and rejects, minimization of production costs, and so on;
- taking maximum advantage of accounts payable and other such interest-free loans, or reducing expenditures—and not being in too much of a hurry to pay. Or getting out of the accounts payable business where accounts payable costs exceed the amount of the invoice or where vendor price reductions exceed the cost of processing payments;
- operating the business as efficiently as possible in the use of fixed assets, or increasing results with the use of fewer resources;
- operating the business in the most economical and efficient methods by keeping costs and non-value-added functions and activities to a minimum;
- diligent management of the cash assets of the business by minimizing investment in facilities, plant, and equipment; operating with the least number of personnel necessary; maintaining costs and expenses to only necessary value-added functions and activities; maximizing sales to real quality customers, which can be produced and delivered at real cash profits; and so on;
- managing the cash of the business by minimizing investment in facilities and equipment, or by increasing results with the use of fewer such resources;
- operating with the smallest number of personnel possible;
- reducing expenditures whenever possible;
- maximizing sales to real quality customers that can be produced and delivered at real cash profits.

A business starts with cash—the owner's investment and usually some borrowed funds. The purchase of goods or services, together with the manufacturing process or service provision, transforms the cash into inventory or services to be delivered. As the goods or services are provided to the customer, they are converted to accounts receivable or cash receipts. The collection process then transforms the accounts receivable back into cash. If the cash conversion process works properly, the cash received is greater than the cash laid out, and the resulting excess (i.e., profit) provides the business with additional funds to reinvest and grow. The process then needs to repeat itself in an ever-increasing continuous cycle. A major planning step must always be to have sufficient cash available to allow this series of activities to continue unabated. This is the cash conversion process and it must be controlled to work effectively.

FROM CASH TO CASH AS QUICKLY AS POSSIBLE: CASH RECEIVED SHOULD BE GREATER THAN THE CASH OUT

Factors of Cash Conversion

Factors that typically increase the amount of cash resources available include:

- Accounts payable increases
- Outside financing
- Asset conversion
- Profits from operations

Factors that decrease the level of cash include:

- Accounts receivable increases
- Inventory investment
- Debt repayments
- Dividends or distributions paid to owners or investors
- Operating losses

In addition, most businesses require periodic purchases of fixed assets—property, plant, and equipment—in order to maintain or expand their business activities. These are not part of the normal cash conversion cycle, but do require an outlay of cash, often quite significant.

Simply stated, if each sale represented by cash inflow exceeds the amount of cash outflow needed to pay for the costs associated with the sale (i.e., product or service, functional, and customer costs) the organization produces a profit. Under this concept each sale could be justified as being a profit center and controlled as such. The sale and cost relationship of the cash conversion process is shown next in the business success formula.

BUSINESS SUCCESS FORMULA: CASH CONVERSION

CI – CO = P/L

CI = Cash-in: Cash infused into the business through investment by owners and others, borrowings, and cash generated by sales and profits

CO = Cash-out: Cash paid out by the business for materials and supplies, personnel, cost of borrowings (e.g., interest), taxes, and other administrative costs

P/L = Profit or loss from each transaction or the business

The rule for successful cash conversion is that cash-in should exceed cash-out, resulting in a remainder to the company in the form of operating profits.

There is no formula to make this determination, but there are several factors that need to be considered:

- There needs to be enough cash to pay the business's bills.
- There needs to be enough cash to meet any banking requirements such as compensating balances, minimum cash balances to cover service charges, or loan covenants.
- There needs to be enough cash to handle unanticipated opportunities or emergencies.
- There needs to be enough cash to provide the owners of the business with sufficient *sleep insurance*—that is, to provide a sufficient margin to meet the safety needs of the business and its operations.

**CASH: HOW MUCH IS ENOUGH?
HOW MUCH IS TOO MUCH?**

Business owners and management understand the importance of cash and the benefits of collecting cash at or before the point of sale. The following case study, *cash discounting*, demonstrates how this cash principle may in fact put the business in jeopardy.

Case Study: Cash Discounting

Roy is the owner of a small building supply business. He has been in the business for over 40 years, and knows most of his major customers personally. For these customers, he offers a 20 percent discount if they pay him directly in cash, bypassing the regular recording of sales. He personally loads the merchandise onto the customer's trucks from the back of the store. There is no paperwork trail. The cash goes directly into the owner's pocket.

This is probably a familiar scenario for many small businesses. Sometimes others are not aware of such practices being in existence and spend unnecessary time in attempting to provide guidance and advice to the owner as to how to improve their business operations and profitability. Other times, one is aware of such practices but decides to ignore their existence.

What would you do about this practice?

Suggested Response

1. The owner's practice of offering a 20 percent discount on *off the books* sales to preferred customers is of course an improper business practice resulting in tax fraud. This is a practice that should not be approved of as to proper operations and reporting controls. You must convince the owner of his or her folly and prove that this is a bad business practice as to

    - making sales that may be putting cash in the owner's pocket but may result in a loss;
    - being able to determine profitability of the business;

- determining the effectiveness of cash conversion procedures and controls;
- monitoring cost and pricing policies, as well as product, sales, and customer profitability;
- proper inventory control procedures as to inventory on hand for future sales.

2. To effectively control operations and provide guidance to the business owner, there must be access to all business transactions. The practice of unrecorded sales only works to the detriment of the owner in providing guidance as to what needs to be done to grow and prosper.
3. The owner must be educated as to proper business practices, the need for such operating controls, the effect on ongoing cash conversion controls, the positive effect of setting a proper control model for the company, and the benefits of operating the business in an acceptable control environment.

Profitability Versus Liquidity

We have all heard the outcry from small business owners, "If I'm making so much money, how come I don't have any cash?" This exemplifies the difference between profitability and liquidity. Profitability has to do with making an adequate return on the capital and assets invested in the business—sometimes reported as sales and profits but never collected or collected at a greater cost than the profit. Liquidity relates to having an adequate cash flow that allows the company to make necessary payments and ensure the continuity of operations.

The main reason profitability does not always ensure liquidity is the system of accruals used by businesses in accounting for profit and loss. Small businesses that maintain their financial records on the cash basis do not have these concerns. The accrual accounting system records revenues and expenses as they are incurred, sets up accounts receivable and inventory, establishes accounts payable, capitalizes and amortizes assets, and so on to arrive at profit or loss based on the timing of the economic event, not on the flow of cash. Because of accounting judgments required and flexibility permitted, profit can be determined in part by the accountant's imagination and legitimate creativity, but cash is cash—it is real and it is precisely measurable.

Cash conversion controls look at actual cash receipts and disbursements to arrive at the amount of cash available. Business survival is much more a matter of adequate cash than that intangible thing called profit. Cash, not profit, is used to pay the bills. You pay with cash, not with profits.

RECORDING PROFITS IS NOT THE SAME AS COLLECTING CASH

Profit Versus Cash Flow Example

Jack B. Nimble had been an employee with ABC Machining for nearly 20 years. When the owners decided to sell, Jack seized the opportunity. He knew he could be more successful than his bosses and this was his chance, so he bought the company. The company had reached a plateau of about $1 million monthly sales with net operating profits of about nine percent of sales. On taking over, Jack set up an expansion program with a goal of increasing sales almost immediately by 50 percent with a net operating profit margin of 20 percent. In his first year as owner, Jack's program began showing success. Annual sales increased to more than $15 million and resulted in over $2.3 million in net operating profit (15 percent of sales) as shown in Table 3.1.

Despite reaching his sales and profitability goals, Jack found himself with a $92,000 cash deficit by the end of the current year. Jack had assumed that a profitable operation would automatically provide for

Table 3.1 Jack B. Nimble Financial Data Comparisons: Prior to Current Year

$ in thousands	Prior year	Current year	Next year (projected)
Sales	$12,002	$15,073	$20,292
Cost of goods sold	$8,436	$10,290	$13,877
Other expenses	$2,474	$2,480	$2,875
Operating profit	$1,092	$2,303	$3,540
Percentage of sales	9.1%	15.3%	17.4%

enough cash. Had Jack understood cash management, he would have carefully studied his cash flow situation, which in fact looked as follows:

Beginning cash in bank	$208
Collections	$13,110
Addition to long-term debt	$500
Inventory purchases	$5,029
Payroll	$1,975
Other manufacturing expenses	$2,101
Selling and administrative expenses	$2,257
Capital equipment purchases	$1,608
Taxes, interest, and debt principal	$940
Cash position at end of year	$92

Obviously, the cash flow deficit was not due to voodoo or black magic, but developed predictably from normal business operations—that is, payments of cash disbursements being made on a different timing schedule from actual receiving of cash receipts. However, the cash deficit came as a complete surprise to Jack. He did not understand the significance of income statement profits being based on accrual accounting—sales recorded when made, not when accounts receivable are collected, and expenses recorded as incurred, not when they are paid. And some expenses handled via accounting entries such as depreciation, amortization, and prepaid items are recorded currently, but they represent prior cash disbursements, while expenditures for fixed assets, inventory, and other *deferred* expenses are paid for but do not immediately appear on the income statement until used or depreciated.

Accrual accounting is essential for effective financial management. It allows the business to evaluate its performance over a (arbitrarily) defined period by correctly matching revenues and expenses for that period. However, the sales recorded are not normally the same as cash receipts, nor are expenses recorded the same as cash disbursements because of timing differences. Thus, a profit of $2.3 million turns into a cash deficit of $92,000 in our example, exemplifying the difference between profitability and liquidity and accrual versus cash flow accounting. Had Jack understood cash flow management, he could have avoided a cash deficit by deferring payments, accelerating collections, or getting external financing through debt or equity investment.

THE BALANCE SHEET AND INCOME STATEMENT DO NOT TELL THE CASH STORY

Cash Conversion Checklist

There are as many ideas as there are so-called experts as to what needs to be done to conserve and control cash. Some best practice ideas for you to use in establishing effective operating practices relative to cash conversion are shown in the *cash conservation checklist*.

Cash

1. Conserve what you have and invest any excess.
2. Use the concept of float (money in the system but not yet taken from your account) for cash disbursements.
3. Negotiate with the bank for quicker availability of deposited funds.
4. Use lockboxes for quicker bank recording of deposits if they make economic sense.
5. Centralize cash and use sweep accounts or like devices.
6. Invest excess funds as early and long as possible.
7. Don't spend unless you must.
8. Use electronic transfers for incoming cash whenever possible.
9. Offer discounts for cash sales but the resultant amount should be the desired sales amount.

Accounts Receivable

1. Get invoices out no later than the time of shipment.
2. Establish and stick with credit limits and terms.
3. Age and monitor your receivables.
4. Follow up regularly and persistently on overdue accounts.
5. Consider (but do not automatically implement) cash discounts or other incentives to pay.
6. Make the sales amount net of the discount the desired amount to be received.
7. Consider shortening payment terms to customers.
8. Control the accounts-receivable-to-sales ratio.
9. Factor receivables where it makes economic sense, if not collateralized.

10. Use collection agencies if necessary.
11. Implement penalties for late payments.
12. Get cash payment for invoices where costs of billing, receivables, and collections exceed the amount of the invoice.
13. Establish a cash-only policy for low billing amounts (i.e., less than $500).

Inventory

1. Stay out of the inventory business as much as possible as to raw materials and finished goods.
2. Concentrate on WIP: Enter customer order into WIP as late as possible to meet customer's delivery schedule and maximize throughput of all WIP customer orders.
3. Buy for bona fide customer sales orders rather than for stock.
4. Use vendor consignment inventory.
5. Negotiate blanket purchase orders for large repetitive requirements with flexible delivery schedules that meet your customers' needs.
6. Consider effective disposal of obsolete inventory without jeopardizing future sales or overloading your market—convert to cash where possible, otherwise scrap the obsolete items.
7. Stratify your inventory items as to value and usage using an ABC-type system and then control the categories based on criticalness and value.
8. Continually improve inventory turns over raw materials and finished goods with the goal of pushing toward zero inventory by item, by category, and in total.
9. Consider unloading dead or dying inventory for cash without sacrificing present and future sales (e.g., fire sales, parking lot flea market, and so on).

Prepaid Expenses

1. Don't!
2. Always make sure to get your deposits back.
3. Avoid salary and expense advances.
4. Consider monthly, quarterly, or semiannual insurance payments rather than annual payments.
5. Do not overpay or prepay taxes.

Fixed Assets

1. Buy only what you need, not what you want.
2. Consider used equipment.
3. Use finite facility capacity effectively—use only what is necessary, rent out extra space.
4. Consider leases to conserve cash.
5. Sell off idle assets—do not keep around for extreme backup.
6. Refurbish or rehabilitate rather than buying new.
7. Use outside contractors for temporary excess production requirements—establish ongoing contractual arrangements.
8. Use excess capacity to do contract work for others.
9. Negotiate favorable payment or financing with suppliers of necessary new equipment.
10. Defer purchases of equipment until absolutely necessary.
11. Borrow to finance plant and equipment purchases based on sound capital investment return decisions and follow-up to ensure compliance.
12. Continually review and change plant layout for optimum efficiency.
13. Consider making employees responsible for maintaining their own equipment.

Accounts Payable

1. Pay only what you owe based on quantity ordered and agreed price.
2. Make sure that you pay each vendor's invoice only once—don't double pay.
3. Pay only properly authorized vendor invoices.
4. Don't pay vendor invoices any earlier than necessary—and then only for very good reasons.
5. Take advantageous vendor discounts based on sound economic factors, even if you have to borrow for large amounts.
6. Negotiate effectively with critical and large suppliers based on price, quality, and on-time deliveries, as well as your willingness to pay earlier and commit to long-term purchases.
7. Make effective use of your computer accounting system to schedule and manage payments.
8. Establish plans and budgets for payments; review and analyze variances.

9. Pay slow if necessary, but communicate with your suppliers about your payment plans—especially your critical vendors.
10. Use bartering if possible to conserve cash.
11. Slow down spending, question each dollar to be spent, and spend only what you have.
12. Pay off small invoices on time to reduce amount to be managed.
13. Pay cash for small invoices where the cost of processing exceeds the amount of the vendor invoice (e.g., an invoice for $34 where the cost of processing is $58).

Borrowing

1. Negotiate for the lowest interest rate and the best terms.
2. Obtain deferrals when necessary on interest and principal.
3. Analyze totality of loan costs—interest, compensating balance requirements, restrictive covenants, repayment terms, and so on.
4. Borrow as little and as late as practical.
5. Match long-term needs with long-term borrowing.
6. Don't use long-term debt for seasonal, cyclical, or other short-term needs.
7. Establish a revolving line of credit with the best terms possible for periodic short-term cash shortfalls.
8. Pay down principal if cash is available based on sound economic decisions.
9. Convert to longer-term repayment schedule based on cash situation.
10. Don't borrow unless necessary or where the effect of leveraging brings more to the company than the cost of borrowing.

Equity

1. Consider if it is best to maintain extra cash from profits in the business for ongoing needs or expansion or to distribute it to the owners.
2. Consider some form of deferred compensation plan for employees such as a periodic bonus or profit-sharing plan.
3. Consider selling equity to employees, but never sell more than a controlling interest.

Sales

1. Make sales based on the business's plan as to what to sell, whom to sell, when to sell, and what price to sell.
2. Sell to quality customers—those who buy repetitively, refer to others, pay on a timely basis, and provide for profitability.
3. Sell those products and services that provide desired profits—know your costs.
4. Emphasize sales of higher-margin products or services without disturbing your desired product sales mix.
5. Negotiate advance payments, payment at time of shipment or delivery, and progress payments—use EFT for customer payments.
6. Remember that only the resultant real profit margin after all costs—products or services, functional and activity, customer costs, and the bill—are collected, represents an increase in cash balances.
7. Raise prices or lower prices based on market conditions and changes in your cost structure—the lower your costs, the more flexibility in your pricing decisions.
8. Increase desired unit sales—remember once you exceed the break-even point, the cost attributed to each additional unit sale decreases allowing for more flexible pricing.
9. Use discounts as a viable marketing tool, keeping the after-discount price as your desired price—avoid getting yourself into the mark-down business.
10. Maximize the amount of cash sales—eliminate the billing and collections process and related costs—set a minimum amount for billable sales, say over $500.
11. Direct the sales force to provide the desired level of customer service.
12. Analyze sales compensation methods (usually a sales commission) to ensure that such compensation methods encourage the sales force to provide adequate customer service, sell the desired products or services, and work within the owners' business plans.

Expenses

1. Schedule expected expenses (and relate to forecasted sales) to assure positive cash flow.

2. Review and control actual expenses to expected expenses or budgets.
3. Establish authorization controls and limits (even on the business owners) on purchases.
4. Use blanket purchase orders or commitments with flexible delivery schedules for large repetitive purchases.
5. Effectively negotiate with vendors as to price, timely deliveries, and quality, as well as payment considerations as to early pay discounts.
6. Establish an atmosphere of cash conversion and conservation among all employees.
7. Control cash disbursements at purchase level as well as actual cash expenditures.
8. Remember that each dollar of cost saved equals a dollar of cash to the bottom line.
9. Bring the amount of property, plant, and equipment to the minimum necessary to effectively operate the business.
10. Minimize the number of employees needed in the business—only hire when the additional employee multiplies the effectiveness of operations and the additional cost of the employee increases the business's real profits.
11. Initiate a program of continuous improvements directed toward the implementation of best practices in all aspects of the business.
12. Consider a reward program that provides incentives for reducing or eliminating unnecessary costs rather than an emphasis on sales that may be unprofitable.
13. Analyze all activities and eliminate any nonvalue-added activities.
14. Operate economically, efficiently, and effectively with only essential expenditures.

Case Study: Baking the Books

A small retail business may start its existence as a cash-only or a cash-and-carry-type operation, that is, the customer pays cash at the time of the purchase. However, as the business increases or changes the way it operates it may need to offer credit terms to its customers to grow and survive. This case study exemplifies such a situation.

Freddy and Teddy both have been bakers for many years, each one owning and operating a small neighborhood bakery. They bake their products at night and their wives sell the baked items during the day in a small storefront retail bakery selling over the counter on a cash-only basis. Both Freddy and Teddy liked the baking part of the business but not the selling part of the business. However, they liked the aspect of owning a cash business that allowed them to pocket whatever cash they desired and report only the remainder. As the bakery business is prone to overbaking and disposing of unsold product, they were unconcerned as to how much they reported for business and tax purposes. They both kept their own books in a manual ledger.

Eventually, Freddy's and Teddy's wives grew tired of operating the retail bakery. Rather than hire outside employees that made each of them uncomfortable, Freddy and Teddy decided to merge their operations and sell their products directly to other retail stores—such as supermarkets, small grocery stores, employee cafeterias, and so forth. As neither one had ever worked with somebody else, they decided to hire a CPA firm to organize the accounting side of the business and prepare monthly statements for each of the partners. The CPA recommended the purchase of a computer system with proper accounting software and a part time employee to operate the system.

As neither Freddy nor Teddy had any experience operating other than a cash business, the CPA had to set up systems of sales orders, billings, accounts receivable, and accounts payable. The CPA spent sufficient time to properly train Edith, the computer operator, whom they all had agreed on hiring, and then came in once a month to review all computer transactions and prepare business statements for the two partners. Edith came in once a week on Wednesday to enter those transactions that had accumulated on her desk.

What the CPA wasn't aware of was Freddy's and Teddy's methods of operations. For instance, Freddy and Teddy would do the following:

1. Take a sales order (whoever was available) from a customer and many times would fill the sales order without communicating to the other partner or the computer operator.

2. Because they liked the baking part of the business, they would over-bake and then deliver the excess to the customer as a way of disposing of the extra bakery items.
3. Bill the customer with a copy of the hand-prepared sales order at the time of delivery.
4. Receive checks for present or past sales from a customer when making a delivery, or receive checks in the mail, and place the check on Edith's desk for data entry on Wednesday.
5. Place orders with vendors with no communication to Edith. She would only become aware of such purchases when she received an invoice from the vendor. Edith would pay any outstanding vendor invoices when she came in on Wednesday.

Both Freddy and Teddy are concerned that not all business transactions are being entered into the accounting system. They are working more, baking and serving customers, but making less money even though the combined volume exceeds the previous individual businesses. As the CPA (or business consultant) for Freddy and Teddy's business, what additional cash conversion procedures would you suggest for implementation.

Suggested Response

1. Establish a more formal sales order system with numerically controlled sales orders that are entered into the accounting system. Educate Freddy and Teddy and implement the necessary discipline as to the necessity of sales order accuracy and submission to Edith. Responsibility should then be delegated to Edith to ensure that all sales orders are accounted for and entered into the computer system.
2. Use the computer system as designed to prepare a billing invoice from the data on the sales order. At the same time, establish the sale as an accounts receivable. Continually communicate to Freddy and Teddy as to outstanding receivables so that they can follow on their next delivery or by phone.
3. Deposit checks received (and infrequent cash payments) immediately in the bank—on a daily basis. Record the payment data on the internal copy of the sales orders, reconcile the sales orders to the deposit slip, and securely hold the data for Edith to process.

4. Eliminate the practice of overbaking and only deliver to the customer those items ordered. In the rare instances where there is excess items baked the partners can gift special customers as a sign of exceptional customer service or get into the day-old business.
5. Establish a purchasing-type function where all purchases are documented on a numerically controlled purchase order–type form and entered into the computer system establishing accounts payable. Edith would be responsible for reconciling all purchases, setting up accounts payable, and processing payments based on due-date terms and the availability of cash.

ACCOUNTING RECORDS MUST REFLECT REALITY AND THE FLOW OF CASH

Conclusion

Managing the cash conversion process is not as difficult as managing profitability, working capital, or assets and liabilities because there are fewer factors to consider. However, just because it is simpler does not mean it is less important. Quite the contrary, managing the cash conversion process is arguably more important than the others, because having enough cash is a survival issue of immediate importance.

Some issues involved in cash conversion management can be difficult to manage, including that of how much cash to maintain for operating purposes. Too little cash is an obvious problem, but maintaining too much cash is also problematic inasmuch as that means insufficient use of scarce company resources. Cash, like accounts receivable, inventory, and plant and equipment needs to work for the company in order to optimize return on the investment in all assets of the organization.

It is also important for everyone in the organization to understand that strong sales and profits do not ensure good cash flow. The timing differences between accrual-based profitability and cash flow means that even a company with growing sales and strong profits may run out of cash with ensuing disastrous results. This means that the company needs to understand and plan its cash conversion processes just as carefully as it understands and manages its sales, profits, and investments.

Finally, the company needs to recognize the role its bank or funders play in the overall management of its cash. Banks have often been (sometimes justifiably) characterized as exploitative, self-centered, and unconcerned about their customers. However, a solid banking relationship where both parties understand and communicate can create a strong connection that benefits both. That is the goals toward which both the bank and the company should work.

SALES ARE GOOD,
PROFITS ARE BETTER,
CASH IS BEST!

Case Situation 1: A Tale of Two Sids

Sid Engstrom was the son of Warren "Buddy" Engstrom, a very rich and powerful building developer and prime contractor for housing developments and commercial properties. Over the years he had accumulated a considerable amount of money and influence. In lieu of that Sid could have anything he wanted including the best education money could buy. However, Sid wasn't a great student, he loved to play and party too much—money does have its privileges. Buddy wasn't worried that Sid wouldn't get into a top college. After all he didn't have a college degree and look what he had accomplished. If the business was good enough for him, it was good enough for his son—Sid would join him in the business.

As fate sometimes has it, Sid had little interest, other than the money, in his dad's business. He didn't want to build what he thought as crap; he wanted to become an engineer and design the buildings. Buddy resignedly helped Sid gain entrance into Engineering School. It helped that he was a board member and a heavy contributor.

Sid Edgerton grew up in a middle-class world. His dad Mark was a corporate engineer working for an international engineering consultant firm. Sid watched how hard his father worked for an acceptable salary and benefits while the company made millions on each project. Sid revered his father and wanted to be just like him and become an engineer. Sid was extremely studious and always earned As for his academic efforts. His dad was a graduate of Engineering School and that was where he wanted to go. Sid had little trouble being accepted on his own merits.

It was at Engineering School that the two Sids met. With close last names it was destined that they would sit close by in those classes that sat alphabetically. Sid Engstrom was extremely competitive and believed that his savvy and street-smart nature would overcome the academic edge of Sid Edgerton—if not in college then in the real world. Sid Engstrom was called "El Sid" and Sid Edgerton was called "the other Sid." Sid Edgerton wasn't worried; he knew quite well who the better engineer was and who the better bullshitter was.

On graduation, both Sids accepted positions with the same consulting engineering firm—let the real competition begin. After a few years, the two Sids grew tired of working on projects that never got done on time or just never got done. They talked about starting their own engineering firm but they couldn't agree on the same business principles and values. Sid Engstrom was of the mind to take full advantage of the clients—leading the sheep to slaughter. Sid Edgerton on the other hand believed in fully serving the client and only receiving payment based on results.

Sid Engstrom started his firm and very quickly obtained clients through his father's influence. He set up his client policies and never expected to waver. He demanded a 50 percent deposit up front and progress payments as the project progressed. He had learned from his dad that it was always better to run your business on other people's money (OPM) than your own. If the project stalled or it never got finished he had his money. And he only hired contract engineers whose payments were contingent on Sid getting paid by the client. Sid was always flush with cash, allowing him to invest the cash in other investment opportunities. Let the cash make more cash.

Sid Edgerton having accrued business values from his father, that is, only accept payment when you produce results, billed each client on the basis of completed work. Accordingly, this meant that Sid needed a source of money to float the business until his clients paid him. In addition, Sid believed in employees like his father, and that you owed them a good salary and benefits whether you had work for them or not. Sid always had enough work, much more than Sid Engstrom's company but he was always in a borrowing position rather than being able to invest idle cash.

So El Sid won the competition as to exploiting the rules of cash conversion while the other Sid may have won the competition in business ethics and loyalty, but in the world of business cash is king.

PLAY THE CASH
NOT THE SALES

Comments

Reduce the cash conversion cycle to the smallest possible period of time and try to operate your business on the customer's money prior to providing the product or service. From the standpoint of best business practices combine the best of Sid Engstrom's cash conversion model with the best of Sid Edgerton's customer service and employee/contractor model.

Real-time operational reports are far more valuable
for decision making
than after-the-fact financial reports.

Accurate data results in accurate decisions.

Bypassing the books,
bypasses the operations.

Entering wrong data
is entering bad data.

Case Situation 2: Reconcile This

The staff accountant at a small rubber manufacturer was responsible for the accounts payable function—that is, preparing and sending out purchase orders (by mail or by phone), receiving vendor invoices and setting up the account payable, preparing and mailing out vendor payment checks, and recording the payment. This person was also assigned the responsibility for reconciling the checking account used to pay suppliers on a monthly basis. Cancelled checks for this account were received with each monthly bank statement.

The newly hired general accountant, who began by reviewing all of the accounting systems and procedures, noticed a pattern in the cancelled checks. Each check made out to a company or business had a stamp on the back with "Pay to order…" or "For Deposit Only to…" except for one company. The exception company had similar words written in ink on the back of the checks with the same handwriting noted on all of the checks. Furthermore, the handwriting was oddly familiar to the general accountant.

Comparing signatures on these checks to that of the staff accountant he noted an amazing similarity. The general accountant had no way of determining the extent of such cash diversions in the past as somehow the files for the company in question couldn't be found nor could the staff accountant.

**CONTROL THE CHECKS,
CONTROL THE CASH**

Comments

Adequate internal controls over cash or transactions that can be easily converted to cash requires proper separation of duties as to the individual processing and recording accounting transactions (i.e., accounts payable and accounts receivable) from the one handling and receiving cash and from the one responsible for reconciling such cash transactions. In addition, there should be a proper review on the front end as to the legitimacy of vendor expenses so as to minimize expenses and control the payments—to legitimate vendors with proof of purchase. Also know your suppliers and reconcile purchases to payments.

**GETTING THE CASH OUT IS EASY,
OPERATING THE BUSINEESS IS DIFFICULT**

***Cash is the root
of all temptation.***

***A dollar saved is a
dollar to the bottom line.***

Budgets are never permission to spend, budgets are approval of plans.

Only make an expenditure when absolutely necessary.

It's not the cost of the item, it's the need for the item.

Recording profits is not the same as collecting cash.

CONSISTENCY IN DOING THE WRONG THING IS STILL THE WRONG THING

Case Situation 3: Cost of Collecting

My Store's accounts receivable and collection operations had the following policy for sending out delinquent payment notices as follows:

- First notice: 10 days after payment due date
- Second notice: 10 days after first notice
- Third through eighth notices: Every five business days
- After 60 days: To credit department for further action

Each overdue payment notice was prepared automatically by the computer system as long as the customer had any amount overdue. The last 60-day notice, prior to credit department intervention, was hand signed by the accounts receivable manager and sent as "certified mail" at a cost of more than $3 each.

Many overdue accounts, approximately 28 percent, were of that status as the customer was questioning an item(s) on the bill and customer service was investigating. My Store's policy was that the customer did not have to pay for an item under investigation. However, there was no mechanism to code the customer's account on the computer system. Generally, customers would phone customer service when they received the overdue letters, and customer service would tell them to ignore the letters until the situation was cleared up.

It was also discovered that another 24 percent of these delinquent payment accounts were for account balances of less than $20. The reason for most of these (more than 90 percent) was the questioning by the customer of improper computer recording of finance charges while customer service was investigating an account. My Store policy prohibited the waiver of any finance charge without proper approval by accounts receivable management.

NEVER PAY MORE THAN THE VALUE OF THE TRANSACTION

Comments

The cost of the transaction should never exceed the value of the transaction. For instance, if internal cost to send out a bill or an overdue payment reminder is $25, then such a bill or reminder for $25 or lower is not economically sound to be prepared and sent out. Computer systems operations need to mirror offline operations. Don't spend time or cost on a manual basis where the computer system can perform the task automatically for all transactions. For instance, if a payment is being held up for investigation it should be properly flagged as to this status. Certainly, finance charges should not be accrued while in this status. Use computer capabilities to eliminate unnecessary manual activities and related costs.

CASH IN THE POCKET IS CASH OUT OF THE BUSINESS

Cash is always better in my pocket, than in the pocket of others.

Take the cash, lose the transaction, and screw the controls.

I'm not in business
to support the government.

If I don't know where I've been,
I may not be able to know where to go.

UNRECORDED SALES
IS UNRECORDED CASH
MORE LEAVES THE STORE FROM THE INSIDE,
THAN FROM THE OUTSIDE

Putting a lock on the front door,
never secures the back door.

Businesses need to be properly controlled,
but who controls the controller.

Operations are only as good as the operators.

You can't expect multidollar returns,
from nickel-an-hour employees.

The smaller the compensation,
the greater the opportunity for revenge.

Bad practices at the top,
beget worse practices at the bottom.

Perishable merchandise tends to perish,
with a little help from the help.

It's tough to make the correct decisions,
without the correct facts.

A family business needs to take care of the business first,
and the family second.

Nonbusiness expenses go below the bottom line.

DON'T DO ANYTHING MANUALLY THAT CAN BE DONE BETTER MECHANICALLY

MONKEY DOES,
AS MONKEY SEES
SEE THE EVIL, DO THE EVIL.

Case Situation 4: The Bookkeeper Did It

Julia has been the bookkeeper for a small family-owned furniture store for more than 20 years. As a small business, the CPA firm prepared the tax return based on the figures on the books, but never audited the business. In effect, Julia was in the company's accounting department. She maintained the books, posted all of the entries, prepared and made bank deposits, signed all the checks, and reconciled the bank account. When the family decided to sell the business, the prospective buyer demanded an audit of the business's operations by his own CPA firm. The following was uncovered in the audit:

Julia had made checks out to herself over the years. These were deposited in her own personal checking account. The check was entered as void in the books, with the amount of the check added to a payment for inventory or an expense account. When the checks she had cashed were returned with the bank statement, she would tear them up. The CPA also suspected that Julia was skimming money from customer cash payments, and never recording them on the books. As the company had never performed a physical count of its inventory, the CPA fell onto Julia's scheme as the books showed over $300,000 more than the actual inventory.

Based on the CPA's discovery, the sale was never consummated. As the company had no way of knowing how much Julia had embezzled, they had no recourse for recovery. The store went bankrupt before it could be sold at a much lower price.

**ACCESS TO CASH
IS THE ROOT OF ALL EVIL**

Comments

Control of cash is the keystone to good business practices. Nothing converts more easily to cash than cash. Eliminate the temptation by establishing controls that prevent one individual from initiating transactions as well as receiving payments and reconciling the related bank account. In this situation, one person had total control over all aspects of those transactions related to cash receipts as well as the reconciliation of cash. As many small businesses believe that the cost of such controls far outweigh the value to be received the business leaves itself open to such fraudulent cash manipulations. Effective cash controls are not just for large businesses, but for all-size businesses. Cash-in and cash-out needs to be properly controlled. Cash is the lifeblood of the business.

A STORY OF EMBEZZLEMENT

A chief mobster finds out that his accountant has embezzled over a million dollars. The accountant is deaf, which was considered an occupational benefit, and the reason he got the job in the first place. When the mobster confronts his accountant, he brings along a CPA, who knows sign language.

Mobster: Where's the million bucks you stole from me?

CPA using sign language: Where is the million dollars hidden?

Accountant signs back: I don't know what you're talking about.

CPA tells the mobster: He says he doesn't know what you're talking about.

Mobster pulls out a 9 mm pistol, puts it to the accountant's temple, cocks the gun, and says: Ask him again.

CPA signs to the accountant: He'll kill you if you don't tell him.

Accountant signs back: OK! OK! The money is in a brown briefcase, buried behind the shed in my cousin Petey's backyard in Brooklyn.

Mobster asks the CPA: What did he say?
CPA replies: He says you don't have the guts to pull the trigger.

CHECKLIST OF FRAUD INDICATORS

1. Accounts with illogical balances (debits where credits should be, credits where debits should be, or direct posting instead of journalizing)
2. Lack of explicit policies and procedures
3. Lack of vacations
4. Lack of segregation of duties
5. Employee dealings with the company
6. Lack of sequential records (checks, purchase orders, invoices)
7. Missing fields in databases (customers or vendors)
8. Cash flow problems
9. Unreasonable expectations/difficult-to-control functions, markets, etc.
10. Infrequent monitoring
11. Cost-saving strategies
12. Inexperience in markets
13. Unmanaged growth or decline
14. Unusual business practices
15. Autonomous or isolated business units or individuals
16. Results that are illogical in the current context
17. Manual adjustments or management overrides
18. Slow reaction to findings, problems, issues
19. Perfect documentation
20. Lack of budgetary control

FRAUD IS IN THE EYE
OF THE PERPETRATED

CHAPTER 4

Corporate Culture

Every business organization is different and has differences, as exemplified by the formal or informal basic business principles on which the organization conducts its business. It is these basic business principles that form the culture of the organization and enable it to operate smoothly and flexibly or create bottlenecks and barriers to effective operations. And as employees it enables some to adapt easily to the organizational norms and others to fight against them. Even in the same organization employees do not see everything alike. If they did, they would all want to work for the same organization, and that could be a real space problem.

IF YOU UNDERSTAND THE CORPORATE CULTURE AND YOUR NEEDS, YOU HAVE A CHANCE AT MAKING A MATCH

Corporate culture describes the prevalent behavior or image that a company gives off. It is really fairly difficult to capture what is called corporate culture. Many times an organization works extremely hard to put a prevalent image out to its employees and public. However, very often the company makes a somewhat different impression in reality. It's like the bully who tries to act nice while he takes your ice cream—we all know he's still a bully. In most cases, corporate reality is much different from the presumed corporate culture. It is really quite difficult for an organization to make changes, and they don't even try unless they are hurting.

Once an organization survives, grows, and prospers, the founders and top management's beliefs, values, and basic assumptions relative to company operations are transferred to all of the other employees and stakeholders. This transformation process of building corporate culture may occur in a number of ways such as:

- Employees are hired if they think and feel the same way as the prevalent culture.
- Employees are coerced into the cultural way of thinking and feeling.
- Top management becomes a role model to encourage other employees to identify with them and internalize management's beliefs, values, and assumptions.

Case Example: Apex Telephone Company

The Apex Telephone Company provides telephone services to a three-state area. At one time they were a virtual monopoly, regulated but the only game in town. If you wanted telephone service you went to them, and they would come out for installation and repairs when they were ready. If you questioned your bill and didn't pay, they would turn off your service. Their corporate culture was one of a public louse. With deregulation, competitors were able to provide the same services. Customers left in droves for the competition, which turned out to have a nice-guy corporate culture. Apex is now trying to make a complete turnaround, mainly through advertising the fact that they're your old friends. However, those that have been coerced back find them to be exactly the same. Now, Apex thanks you after screwing you—what a refreshing change. Corporate reality beats corporate culture every time.

Corporate reality must agree with corporate perception.
The corporate message must be both internal and external.

KNOW THE BUSINESS YOU'RE IN,
OR THE BUSINESS WILL DO YOU IN

They don't want rear view mirrors around,
to remind them of what they used to do.

Their attitude doesn't matter,
they are in control.

Corporate culture produces
natural born victims of his or her betters.

Expecting the worst of people—
fixing the blame on others

Corporate Attitude

There are many organizations out there, some exceptionally pleasant to deal with, while others are excruciatingly difficult to even say hello to. One of the first impressions that people make about an organization is the individual who initially answers the telephone. Companies are continually working with their personnel to improve their skills and abilities. However, one thing that always seems to get left behind is employee's attitude. Organizations just don't seem to understand that employees may just not like working there or reporting to their assigned individual—boss or otherwise, and no amount of feel-good training is going to change that.

Case Situation 1: The A & B Company—The Customer Can Be Wrong

The A & B Company has regular hours of 8 a.m. to 6 p.m. every working day—Monday through Friday. After hours they provide an answering system and e-mail access for their present and potential customers. In today's ever-changing technical world, this system is normally sufficient and quite acceptable. A potential major customer, Mr. Brown of Brown and Company, left an abrupt message on A & B sales department's answering machine at 9:30 p.m. This was the A & B Company's first impression of this potential customer and none too good—strike one. The A & B sales manager, Jean, called back early the next day and the receptionist at Brown and Company answered with the standard "Do you mind being placed on hold? I'll be with you in a minute." While Jean was saying, "Yes I mind," she was put on hold and for more or less 10 minutes listening to music she would never listen to on her own—strike two. When the receptionist came back on, she coldly transferred Jean to Mr. Brown's secretary, who informed Jean that Mr. Brown was a very busy person and could see her in three weeks on a Tuesday at 10 a.m. for 15 minutes—so please be on time. When Jean started to explain that Mr. Brown himself called her the night before, the secretary cut her off abruptly and said "Well, that's Mr. Brown." Jean couldn't be there that Tuesday and told the secretary that if Mr. Brown was still interested to have him call her back. Mr. Brown, of course, never did—strike three.

ATTITUDE IS EVERYTHING

Basic Business Principle

Whether you are the customer or the supplier, proper courtesy and a positive corporate attitude are always important in creating a cohesive *working together* bond for success. It is easier to make your customers and vendors an integral part of your organizational food chain than to establish an adversarial relationship—especially from the starting gate or even before you have a relationship. And remember that corporate attitude starts at the top and continues down through the organization. Mr. Brown is more likely to be a symptom of the problem at his company and not the cause. Individuals represent their organization but are not always representative of their organization.

Best Practice Suggestion

A major role of top management (and the chief executive officer [CEO]) is to create the guidance and direction for the organization that includes all functional activities and establish the rules that promote a positive corporate culture congruent with the organizational goals. In addition, management must establish the guidelines as to how they view the company's employees' performance—technical as well as behavioral. A part of this guidance management becomes the role model for internal and external attitude toward others—including other employees, customers, and vendors. Hence, they need to develop the organization so that everyone is on the same page—pull out the weeds before they destroy the whole lawn and apply the correct fertilizer.

Case Situation 2: P-o-w-e-r Suffocates

Ralph was a financial analyst in a very autocratic, oppressive type of organization with a large unwieldy hierarchical organization structure including many layers of supervision and management. Each succeeding layer exerted its power and control over those levels reporting to them. The organizational atmosphere could be best described as fearful and threatening, with most employees afraid to make a move on their own without management approval. The company suffered from what I would diagnose as corporate constipation, that is, it couldn't produce effective movement or loosen up. The company had been this way for so many years that it was simply stuck this way. Each CEO was picked for the same traits, and strictly controlled the company in the same form.

Over the years the company had tried all of the quick fixes and management fads that have come down the consultative pike. In addition, there always seemed to be a number of consultants working in-house on various corrective measures, but nothing material seemed to change since nothing changed at the top. Ralph had gone through all the training programs and understood the basic principles of good management that he believed would make the company better. However, he was not in a position to implement any of these systems, but wait until he became a manager.

Ralph gets promoted as the manager of financial analysis. He finally had his opportunity to put into place all the things he had learned. The first thing he did was to create problem-solving groups and establish the concept of participative management within his department. The groups came up with a number of innovative ways to do things better, best practices that were more efficient and less costly.

Ralph gave them the go-ahead without approval from his boss, as he believed he had authority to run his own department. Within the first two weeks of implementing the new systems, one of the best practice ideas hit a snag that resulted in backing up sales orders. Ralph understood the concept and benefits of the *permission to fail* and he and his employees were already working together on making the correction when his boss called him into her office. She harassed him unmercifully—as her boss, the vice president, had done to her—over the slippage of sales orders, with the clear message that this was to never happen again. The next day Ralph changed everything back to the way it was before, with all work to go through him for approval. Ralph now learned the effective use of power as a suffocater, and the company continued on its way.

WHEN NEW IDEAS DON'T WORK,
DON'T KILL THE MESSENGER,
GET THEM TO WORK

Basic Business Principle

If you can learn to release and encourage your employees to be self-sufficient and work under the concept of self-motivated disciplined behavior, you have little need to create an unwieldy hierarchical organizational structure that promotes a negative culture. Hiring or promoting personnel into so-called management positions strictly to police and control those employees reporting to them is both unnecessarily costly as well quite inefficient and ineffective. A learning organization must open up so that each employee can contribute his or her maximum based on skills and abilities—tapping the maximum potential of each employee.

Best Practice Suggestion

Under such a culture of encouragement and support, whereby the organization provides a positive coaching and mentoring culture, rather than a negative policing and control atmosphere and related oppressive corporate attitude, all employees are freed to be themselves with a built-in permission to fail as part of a constructive learning atmosphere. In essence, allow each employee the basic permission to be himself or herself, with the permission to fail, so that he or she can learn from the mistake, fix the cause, and help the company to learn and grow. Reorganize the organization from the very top to the absolute bottom directed toward making the organization a helping one rather than a hindering one.

JOB POSITION MAY HAVE LITTLE TO DO WITH REALITY

Case Situation 3: The Game of Hours

AGR does extremely well in its industry, a solid number two position. However, top management wanted it to do even better. They decided to perform an organization study directed toward identifying changes to make it more effective through better use of existing (or less) personnel. They analyzed each position in the organization chart, from top to bottom. They didn't find any world-beaters or any real duds, but hard-working, conscientious employees. In fact, all of the employees worked more hours than expected, at least 50 for a 40-hour job. They were slugging through and getting things done, not with finesse and creativity, but with pure brute strength. There were minimal signs of innovation or continuous improvement, just uninspiring pushing ahead.

The situation was pointed out to top management. They merely shrugged their shoulders as if to say "so what?" It was suggested that they might want to grow, maybe even become numero uno. They said "Why? Don't mess with success, number two is okay." Steady plodding growth is better than risking it all with innovation. This is the way it's always been done, so just leave it as is. They were satisfied to learn that their employees were working more hours than they were being paid to work. So, they would never be number one, but they would always win the game of hours.

IT'S NOT THE HOURS YOU PUT IN BUT WHAT YOU PUT INTO THE HOURS

Basic Business Principle

The entire organization needs a dictum of the basic business principles on which the organization functions and establishes its culture from top to bottom—set forth by the CEO and the people at the top. Each department, function, and activity needs corresponding basic business principles on which each one is expected to function. Taking it a step further, each employee position and individual within each position needs to know exactly what is expected of him or her as related to the organizational culture and basic business principles—that is the entire organization singing from the same songbook.

In this situation, the only criterion for each employee is to work more hours than he or she is supposedly being paid for—that is more than 40 hours. There is no criterion as to what each employee puts into the hours, only that they put in the hours. While it may be okay for top management to be satisfied with being a comfortable number two, it may not hold true for the remainder of the organization. The culture becomes confining leading toward employee suffocation. Standing still is losing ground.

Best Practice Suggestion

The organization needs to be analyzed and reviewed from top to bottom with the goal of ascertaining the best practices for the entire organization—to create a more positive culture. Is it okay to maintain a top management echelon that is content to maintain the easy and comfortable status quo? Do the other employees throughout the organization feel worthy and supported with challenging work, and rewarded for their initiative and achievement of meaningful results? Has the organization stagnated in place with little concern throughout the organization for making it a meaningful place to work? If the organization wishes to remain as it is, each employee must decide whether he or she is comfortable with such conditions—or help himself or herself out. Emphasis must be placed on what is expected from the hours put in by each employee other than the mere putting in of hours. Work less, learn more, and increase results—provide a positive corporate culture.

Case Situation 4: L-O-Y-A-L-T-Y

Moneystore is a financial institution whose business is to get its customers' money on deposit at one interest rate and then rent (they call it a loan) it out at a much higher rate. As long as the differential covers the company's internal costs, it covers its costs and earns profits. As history has shown, risk taking in this industry is not always rewarded, while conservatism many times produces longevity. To play the conservative game effectively, the entity needs employees who can take orders blindly and follow through, with the real decisions made by the committee. Moneystore prides itself on keeping employees by rewarding their *loyalty* with salary increases and promotions.

As a result, Moneystore is filled to the gills with long-term management employees considered officers who primarily went through the motions as instructed. The most original thought to come out of the entire group seemed to be the gift for the next retiring relic of an employee. In truth, they were all retired in place (RIP), waiting for their retirement party. The institution was running on automatic pilot, going through the motions of operating a business.

Top management really believed that they were running an effective business as they made profits, not a safe harbor for obedient children. Eventually, interest rates rose greatly that led to the company now holding a loan portfolio that earned a rate less than what it now had to pay for new deposits. Top management was now desirous as to how to operate such a business in a changing economic environment. None of their loyal employees had any idea as to what to do, and the committee was business as usual as if nothing had changed. The moral, of course, is that good business practices need to be continually addressed and improved in the best of times and the worst of times.

**DOING THE RIGHT THING
IS A FULL-TIME JOB**

Basic Business Principle

The goals of good business practices need to be heeded at all times. While it is easy to be successful when the market is leaning your way, it may become more difficult to operate most economically, efficiently, and effectively when economic conditions change. A strong organization culture is as necessary in good times as it is in tough times. For instance, a company doesn't hire unnecessary personnel merely because revenues allow additional personnel expenditures in the so-called budget, and it doesn't downsize extraordinary employees when revenues decline. Good business practices always fit the situation. A positive corporate culture prevails at all times.

Best Practice Suggestion

Establish best practice guidelines for the organization that prevail regardless of the outside business climate. Maintain an organizational culture that fits in any situation by not hiring any employee where he or she is not needed (or merely spreads the same work among a larger number of employees). Develop a learning organization structure that utilizes each employee most effectively with utmost flexibility to changing work levels and outside economic conditions. Move the employees to the work, and not the work to waiting employees. Apply best practice philosophy to all functions directed toward necessary changes in the present business climate.

Case Situation 5: Death of the Soul

One of the present organizational movements (i.e., hot buttons, organizational fads, nouveau panaceas, *in* things, management gimmicks) is *spirituality in the workplace*. This concept many a times exists in the very same organizations that have crushed employees' spirits over the years. However, if they were able to create workplace depression and oppression, why not workplace enlightenment? Although, any attempt to humanize the workplace and release employees' potential can always be applauded, one must wonder if this is just another grasping at straws to get employees to achieve those results that they should have been achieving all along.

The Watsup Company brought in a group of specialists (the same consultants who had trained them in reengineering and downsizing principles) to train their personnel in spirituality in the workplace. Top management had gone to a spirituality seminar that this group had presented, and as happens too often, they became missionaries to have all employees embrace the same concepts. The seminar content was quite interesting, some good concepts that could be used by each of us somewhere in our lives, but in a controlling workplace atmosphere such as the Watsup Company? There were the compulsory exercises, group tasks and chants, poetry readings, and so on.

Unfortunately, there is always a difference between training and implementation. One can lead a recalcitrant employee to spirituality, but can one lead him or her to have any spirit? Subsequent to the spirituality training with all employees going through the program, top management expected internal operations to change spiritually for the better. There was a marked change for a short period, until the first monthly report came out and the numbers showed downward trends in most significant areas. The CEO turned the screws on top management, who turned the screws on middle management, who turned the screws on supervision, and so on. This signaled the death of the second coming of the organizational soul. Spirituality is fine, as long as it doesn't affect the holiness of the numbers.

BEWARE OF THOSE SELLING HOT BUTTONS

Basic Business Principle

Good business practices prevail through all kinds of economic weather. Bringing in consultants to embrace your organization culture with a quick-fix panacea to cure your organizational ills may provide a short-term infusion, but in the longer run, it may cause more harm than any good. Never underestimate the intelligence of your employees. Many of them have been involved with one management fad after another, in your organization or at previous employers. In fact, some of them were victims to such things as total quality, reengineering, reinvention, and that great flattener of organizations called downsizing (just another word for *take a hike*). And remember that employees can always easily sabotage any new so-called innovation if they sense that it is not in their best interest—that is another manipulation to enrich the top at the expense of the other employees. The spirit is in the work, and working together, to do the right job, not because someone calls it spiritual.

Best Practice Suggestion

Establish a corporate culture system that allows each employee to be part of the decision-making process, especially within his or her area of responsibility. Then release the employee to be accountable for achieving the desired and agreed-upon results. Provide a culture and atmosphere of support working within a coaching framework. And replace the *spiritual leaders* with *real leaders*—those that work with and together with employees not perpetuating the myth that employees *work for* someone solely by his or her placement at a higher level within the organization. Build spirit into working together and getting the right job done well.

IF YOU CAN'T FIGURE OUT THE CAUSE OF THE PROBLEM,
GET RID OF THE PROBLEM

The Soul-full Organization

Let's look at the organization and workplace of today. If we analyze the so-called *nouveau organization*, we are immediately wowed by the lack of formal organization and constraints. Top management will vehemently scream at you as to how they have successfully rejected the old constraining and dehumanizing business models and rules and have brought humanity, and soul, back to the organization. In our organization, they will insist, employees are given significant responsibilities (and authority) and are encouraged to grow. We do not create a policing and controlling climate looking for employees to do something wrong, but a climate of support and encouragement that looks for employees doing something right in an atmosphere of positive mentoring and coaching. There is no organizational hierarchy and we all share the same job title, such as associate or servant. Supervisory and management layers have been reduced to as close to zero as possible, with self-responsible motivated disciplined behavior as its replacement. The organization is lean and mean, decentralized, informal, and participatory. Let the employee decide which projects he or she wants to work on, and when and where. The organization is adaptive, spontaneous, growth producing, and dynamic.

The Dynamics Group is one of these new organizations. Top management has attended the right seminars and has worked with the *consultants de jour* to restructure their organization so that it is people and not systems oriented. It is a *living system*. Rather than the old hierarchical organization structure that divided the organization into autonomous departments or fiefdoms, the new organization is divided into flexible, ever-changing small project work teams. The work area looks like an evolving loft space, with workspace arranged in circles, squares, and rectangles, and so forth as the project team evolves and changes. The work space is arranged so that project team members can easily communicate (*brainstorm*) with other project team's members in what looks like a chaotic mish mash of chairs, desks, work stations with computers, espresso coffee makers, and soda and junk food snack machines (all at no cost). There are no longer management or executive offices; there is little formal management—they have been replaced by shifting project managers. Everybody has a place in the loft space where they can bounce thoughts and ideas (there are no bad thoughts or ideas) off of each other. Everything (desks, work stations, files, etc.) is on wheels, so it can be moved to the configuration of the moment. It is no longer the system that rules, it is the soul of the employees that matters—power to the people.

At the Dynamics Group every employee is valued for his or her ideas and compensated based on the results. The process is left to the project team and the individual. The CEO, Charles Jordan, is no longer an aloof figure to be feared, but is seen as a friend, an ally, a motivator, and the director of the performance piece. He is no longer Mr. Jordan or Charles, he is now Charley or Chuck. He sees himself as creative and inspiring creativity in the other employees. Employees speak of Chuck as being a regular guy, always available and empathetic to their concerns. He joins in on the fun (e.g., desk basketball, fuzzball, magnetic darts, paper airplane races) and dresses as casual as the other employees (e.g., worn-down jeans, tee shirts, and sneakers). He has no real office, but moves his work area around to join in the projects as he sees fit or when a specific project team asks him in.

The employees see themselves as an extension of Chuck; they are merely extending and executing Chuck's vision and mission for the organization. It is not just the money, it is the participation and the creativity—souls afire. The employees see themselves as being freer and more creative, and part of the decision process (sometimes they get to vote), but the real decisions are still Chuck's. So, in many ways, Chuck dominates the company even more than under the old structure.

Dynamics Group employees are no longer fired but are helped out. And, if an employee feels that he or she doesn't fit in, is no longer motivated, or his or her creativity becomes stifled, he or she is free (with no recriminations) to leave the company. It is little effort to bring another employee to replace him or her on the project team. The employee is responsible for his or her own self-actualization, to ensure that his or her needs are met—to find the organization that meets his or her creative and spiritual needs. It is no longer a workplace; it is a fun place.

The restructuring to casual from formal worked wonderfully for the first three years or so while the demand for the Dynamics Group's products and services was overwhelming. The company couldn't service its customers quick enough and revenues increased each month. Chuck put out the order to hire anyone who appeared to have good ideas. The amount of revenues would cover any increases in expenses, and one good idea could be worth millions. Ultimately, the company's market became saturated with other competitors,' and many of their customers' demands for products and services plateaued, which resulted in decreased revenues while expenses continued to increase. Chuck realized that growth wasn't forever. He gave the order (with the advice of his restructuring consultants to downsize people and expenses) to downsize, eliminating those employees with the highest cost first. At the same time, Chuck ordered all projects to start budgeting again that resulted in the formalizing of work units or departments. Quickly, the organization (together with the use of physical space) began to look like the old days of formal structure and rules. Those employees who had become used to casual operations began to leave the company, and Chuck began to hire those who could be controlled and blindly take orders. As times worsened, the company began to move back to where it started. Luckily, Chuck had his consultants to help him. And Chuck moved back to his office and became Mr. Jordan once again—ruler of the new cube farm.

WHAT WORKS IN TIMES OF PROSPERITY,
MAY NOT WORK IN TIMES OF ADVERSITY

All the great humane ideas for more effective organizational cultures work wonderfully when the business is prospering. And when it appears that the reasons for such prosperity are the exciting innovative ideas that the company has brought to market, it makes sense to hire more idea makers. However, when complacency hits the company as such ideas stagnate and the company is still riding the success of past innovations, the employee loses interest and looks for the next playground. The organizational culture must be flexible to changing conditions and be innovative itself to help the company grow through creative thinking and innovation. It's not the success of the organizational culture, but the success of the organization that matters.

There is no significant problem with employees enjoying their work and at the same time achieving great organizational results—this is a wow! corporate culture. And it is good practice to reward those employees based on the results he or she has achieved regardless of organization position. However, when an innovative change in organizational culture stops producing the same level of great results then the situation needs to be reevaluated. This doesn't mean going back to the old controlling traditional systems that the company was trying to eliminate in the first place, but to another even greater innovative approach to meet the new changing conditions. Flex the organization and the manner in which things get done to the present business atmosphere and circumstances.

KEY ELEMENTS OF CORPORATE CULTURE

- Identify and communicate the core values and principles that guide organizational behavior and service delivery.
- Specify behaviors that exemplify the organization's values and principles to their stakeholders through proper role modeling and leading by example.
- Provide feedback to organization members on their performance as related to the organization's core values and culture in both business and behavioral terms.
- Ensure that the reward system is consistent with core values and principles—recognizing desirable behaviors and correcting undesirable behaviors.
- Promote the desired culture by recognizing the need for redundancy and reinforcing what is expected and what is not negotiable.

Put the fire out—
not discover the source of the fire.

The players don't change—
just the audience.

Fear is always larger,
than the company's courage.

Don't hold onto a time,
that has passed away.

We are all here,
because we are not all there.

There is no safe harbor,
only a change in culture.

Corporate culture breeds
like a disease from the top.

CHAPTER 5

Organization Structure

Organizations are put together so that the entity can conduct its business most efficiently and so that the owners or top management can multiply their effectiveness—that is, to maximize their desired results. Organizing is intended to be a helping process to enable management to conduct the business better. Realistically, for many organizations, it has become a costly getting-in-the-way process.

Adequate organizational control requires that each employee know clearly what his or her role and function are in the organization, and exactly what authority and responsibility have been assigned. It also requires proper separation of duties so that the same individual is not charged with the responsibility of recording and reporting on how a particular task has been accomplished.

So why organize to conduct operations? The answer, in most cases, is that how it's supposed to be. If you didn't have people reporting to other people, they wouldn't know what to do; and how can you trust them to do their jobs without someone to watch them (the work police). It's become the way to departmentalize people, without maintaining individual accountability. When there's trouble within the organization, it makes it simple to get rid of the entire department—or the departmental scapegoat or troublemaker (that's the one who asks the right questions but you don't have the right answers)—and avoid facing the real cause of the problem (i.e., too much policing and control, reviewing and redoing, and the inability to personally release). Many times it is ineffective management and rather than admit that, it is easier to hire outside consultants to do what they should have done in the first place.

The real answer as to why organizations organize is to accomplish their desired results (be most effective) in the most economical manner (optimum use of limited resources) using the best available methods of operations (be most efficient). If the organization structure is not accomplishing this, then it needs to be changed (or done away with).

GET BY WITH THE LEAST NUMBER OF EMPLOYEES, BUT WITH THE MAXIMUM RESULTS

Organizations provide opportunities to match employee's potential, and provide productive work to enhance each one's skills.

***Hierarchal organization structures,
create blatant unconcern and indifference,
once one makes it to the top.***

Case Study: The Joe Sorry Company

If we understand the basic purposes for being in business, how have so many businesses gone astray? Joe Sorry worked for a large national concern as a top middle manager, but always wanted to have his own business. He knew he could run a business better than his present bumbling employers. He decided to start a business in an area he knew, that is, small electronics component manufacturing—as he was a white-collar engineer at his present employer's fairly large electronics manufacturing business. While even he had to admit he didn't know everything there was to know about running a business of any kind, he knew that in this business it was fairly easy to produce a product for less than what customers were willing to pay. He witnessed his present employer making bundles of money in spite of themselves and in his mind gross inefficiencies created by a top-heavy unwieldy organization structure. He knew he could run his own business more efficiently with far less people especially in the middle and at the top.

Joe didn't understand that even with the largest and most successful businesses there are always limitations on resources. Like many new business owners he had visions of sugarplums in his head as to having an enormous physical plant and a herd of employees under his control. He wanted to be automatically large (and uncontrollable) just like his present employer—making the assumption that more was always better. Joe wanted immediate gratification for being the boss and believed that he should have the perquisites as he had before. What he didn't understand was that working for the large corporation as an employee he was spending other people's money (OPM) and with his own business he was spending his money; that is, our children's inheritance (OCI). While he still wanted the comforts of the big corporation, he wasn't willing to spend his money on them, and waited until he had his own shareholders, because he now realized that a dollar spent on the business was a dollar out of his pocket.

Joe took some management courses at the local college and he now believed that he understood the basic business principles and best practices of operating a successful business, such as:

- Produce the best-quality product at the least-possible cost.
- Set your selling prices realistically, so as to sell the entire product that you can produce within the constraints of your production facilities.
- Build trusting relationships with your critical vendors, as keeping them in business is keeping you in business.
- You are in the customer service and cash conversion businesses.
- Don't spend a dollar you don't have to; a dollar not spent is a dollar to the bottom line. Control your costs effectively; there's more to be made here than increased sales.
- Manage your company; don't let it manage you. Provide guidance and direction, not crises.
- Identify your customers and develop marketing and sales plans with them in mind. Produce for your customers, not for inventory. Serve your customers, not sell them.
- Don't hire employees unless you absolutely need them; and only when they multiply your effectiveness so that you make more from them than if you could do it yourself.
- Keep property, plant, and equipment to the minimum necessary level to maintain your customer demand.
- Plan for the realistic, but develop contingency plans for the positive unexpected.

With what he called his bible of best practices as shown in the preceding list, Joe believed that he was ready to begin his own successful company.

Joe started his business in a large garage, a former bicycle repair shop, with a low rent. He and his wife Flo were the only employees in the beginning. They started with three small contracts for specialized microchips that Joe had developed and his employer had rejected because Joe had bypassed the organizational chain of command rigid hierarchy. He and Flo set up in-house production flow on large second-hand wooden tables. When they needed to meet customer delivery commitments, they had their vendors deliver the materials at just the right time for production. At the same time, they contracted with just the right number of production employees on an as-needed basis. Flo trained the production staff; supervised production, packing, and shipping; and billed the customers. Joe did the engineering, purchasing and vendor relations, and sales and marketing—working mainly out of his house and car. As Joe and Flo said in those days, "they were one big happy family."

The original organization chart for the Joe Sorry Company is shown in Figure 5.1.

While simple, the organizational structure exemplifies the principles of proper organization such as:

- Clear lines of authority
- Proper division of duties and responsibilities

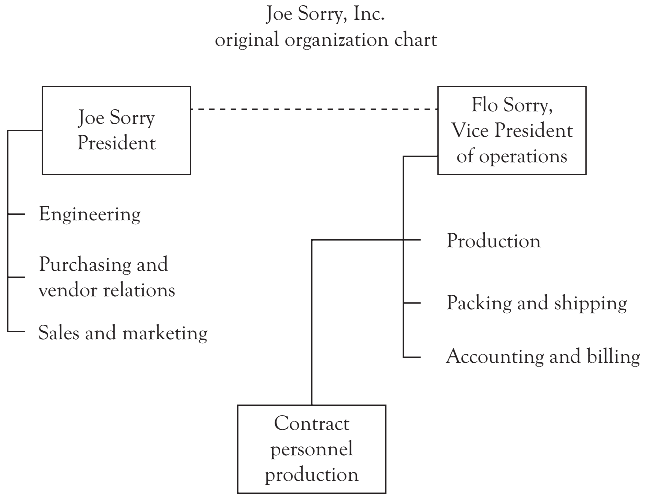


Figure 5.1 Joe Sorry Inc.—original organization chart

- Communication between functions, across, upward, and downward
- Minimal use of personnel and then only as needed
- Proper delegation of responsibilities and authority
- Management able to effectively control the sphere of their operations and results
- Management and other personnel clearly understanding what is expected of them and the results to be achieved
- Organization established based on the principles of the three Es—economy, efficiency, and effectiveness
- The right-size organization for what needs to be accomplished
- Minimal levels of nonvalue-added employees and management
- Organization no larger than it has to be to accomplish results

As Joe was able to get more business, the upward cycle of growth continued. He and Flo worked more than they had in their previous jobs as employees, but they now had ownership and were building appreciation in their own business. With such initial success Joe believed that he had the business acumen to run any business successfully. Joe now knew it all, but what he didn't realize was that it wasn't usually what you knew that got you into trouble, but what you didn't know (and Joe didn't know what he didn't know) or knew but it just wasn't so.

NOTHING BREEDS INCOMPETENCE QUICKER THAN SUCCESS

Joe and Flo's business grew rapidly and they could no longer do everything. They were growing too fast and losing control of those hands-on elements that had made them initially successful. Joe was becoming just like his previous employer—eventually we all become our parents. The company's organization chart, after four years in business, now looked like a camel; that is, a horse created by a corporate committee (Figure 5.2).

There were now 135 employees, with Joe as the president with three assistants, a secretary, and two receptionists. Flo was the vice president of

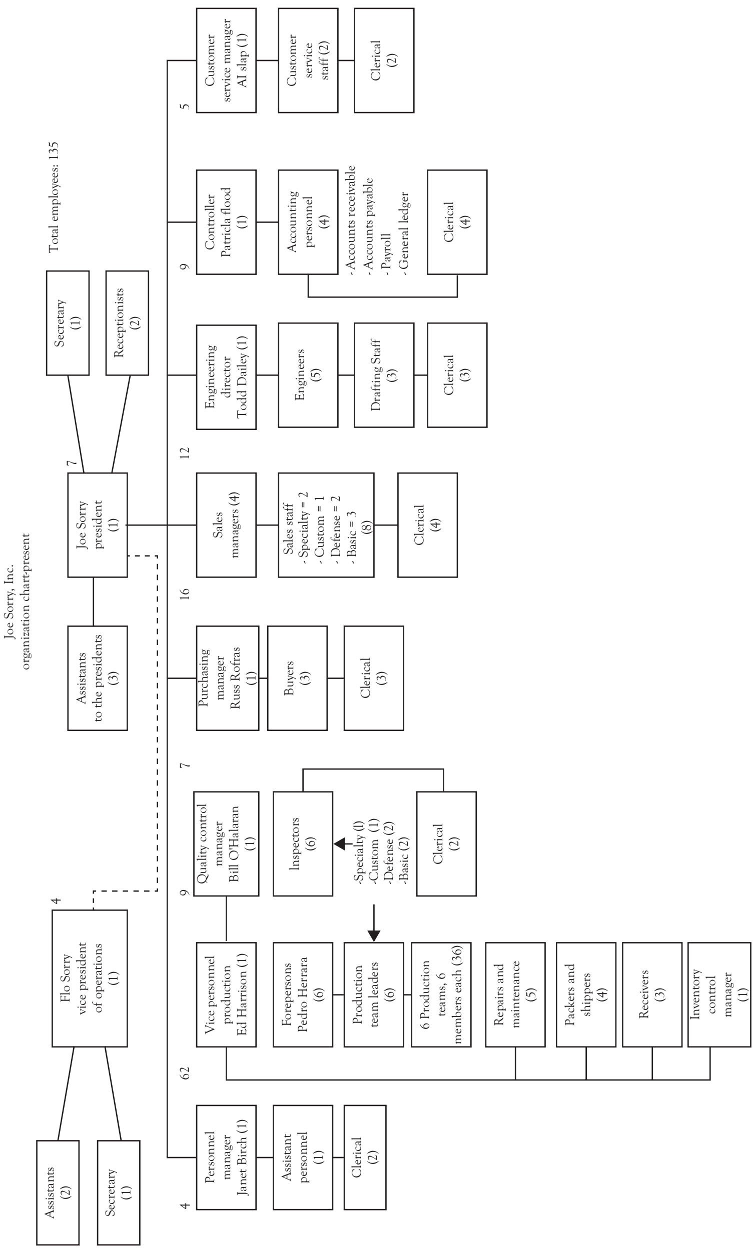


Figure 5.2 Joe Sorry Inc.—present organization chart

operations (a titular title but she rarely came in) with two assistants and a secretary. There were eight managers for the following functions:

- *Personnel (four employees)*: One manager and three assistants
- *Production (62 employees)*: A vice president, six forepersons, six production team leaders, six production teams with six members each (36 total), five repair and maintenance personnel, four packers and shippers, three receivers, and one inventory control manager.
- *Quality control (nine employees)*: One manager, six inspectors, and two clerical.
- *Purchasing (seven employees)*: One manager, three buyers, and three clerical.
- *Sales (16 employees)*: Four sales managers, eight sales staff, and four clerical.
- *Engineering (12 employees)*: One director, five engineers, three drafting staff, and three clerical.
- *Accounting (nine employees)*: One controller, four accounting personnel, and four clerical.
- *Customer service (five employees)*: One manager, two staff, and two clerical.

The organization structure had grown based on immediate crises rather than on proper organizational principles. Joe had created a circus with him as the ringleader and Flo regularly visiting as a therapist. A quick review and analysis of the current organization chart show many inefficiencies and organizational roadblocks.

IT ISN'T WHAT YOU KNOW THAT GETS YOU INTO TROUBLE,
BUT WHAT YOU DON'T KNOW OR KNOW BUT IT JUST ISN'T SO

There is always a best possible solution to every organizational problem. It is determining what that solution should be that creates the difficulty. Typically, the solution is not to borrow the manner in which another organization has solved a problem but to individualize your own situation and what needs to be done to make corrections. Stay with the principles of proper organization regardless of company growth. Unexpected increases in income do not dictate unnecessary increases in expenditures such as more personnel, equipment, facilities, and so forth. Never hire or add an employee unless it is absolutely necessary and the addition of that employee multiplies the effectiveness of the organization by adding more value than the employee's cost.

Exercise proper management principles regardless of the size and growth of the organization. Adding more personnel does not necessarily solve the problem other than possibly spreading the same level of work among more employees. Remember, many times, it is easier to manage and control less organization and maybe even make more money. It's not the size of the organization, it's the ability to maximize results with minimal resources. To be most successful the goal is not merely to match your competition but to surpass your competition—gaining the competitive advantage. And emulating your competition usually results in the wrong organizational structure for your company. Operate the organization using the three Es concept—economy, efficiency, and effectiveness—by maximizing results at the least cost and using scarce resources to maximize results.

Case Situation 1: Just Do It

The company has a top-heavy management. The vice president of an area gives a command to the director reporting to him or her, the director in turn commands a manager, who in turn commands a supervisor, who in turn commands a work unit chief, who commands a worker, who performs the actual work.

When the work is done, it goes back up the pole, stopping at each point for review and back for redo, emanating in a final product that meets the needs and style of the highest one by position. When the product finally reaches the vice president it has been reviewed and critiqued to death hardly resembling the original worker's efforts. Each level communicates with the next lower level, thinking that they are mentoring, coaching, and teaching those who report to them. However, little is being learned except to do what you are told and please the boss.

When the final result reaches the appropriate vice president the information may no longer be needed, or understood and ultimately filed in the circular file. In the case where another operating division needs information from this division, the request goes from one division vice president to the other division vice president and then back up and down the line within each division.

When employees working in this demeaning atmosphere were asked as to why they did what was asked without questioning the need for correctness, they said "we just do it; it's not our job to question." And they do it until they too become a vice president. And the beat goes on.

I DID IT UNTIL I HAD TO WEAR GLASSES AND NOW I'M A VICE PRESIDENT WEARING GLASSES

Basic Business Principle

Each employee has the right to know what is expected of him or her and what the responsibilities of his or her job are. The role of management is to use each employee most effectively as a means to multiplying the company's and their effectiveness. The proper authority needed to accomplish each task must be delegated down to the level of employee where the work is accomplished. To be most effective the company must reduce the costly practice of review and redo at each level of the organization structure. If an employee is needed, get out of the way and let the employee do the job with necessary coaching and mentoring if needed. Get rid of any unnecessary levels of supervision and management that provide minimal value-added effort to results. Foster motivated self-discipline behavior at all levels of the organization structure and get by with the minimal levels of employees through innovative flexibility of staffing. The organization structure should multiply the effectiveness of each individual and the entire organization.

Best Practice Suggestion

Never hire an individual unless he or she is absolutely necessary and multiplies the effectiveness of others and the organization. In effect, the cost of the employee should increase the added value of the product or service provided. The value that the employee brings to the organization must exceed his or her cost to the organization. Organization structure is not an exercise in building organization but in building a staff at the least cost that provides desired results most economically, efficiently, and effectively. Encourage self-motivated disciplined behavior in all employees at all levels so that the individual employee controls doing the right job, the right way, at the right time.

Case Situation 2: R-E-S-P-E-C-T

Organizations should be set up so that each individual, from the lowest to the highest level, can flourish and move toward their real potential. This is a healthy organization, characterized by a *working-together* rather than a *working-for* atmosphere and a cooperative rather than a competitive environment. Each individual knows clearly what is expected and is held accountable for achieving agreed-upon results, working with self-motivated, disciplined behavior.

This is wonderful theory and wishful thinking that all organizations operate in this manner. With all the different systems and gimmicks that have come down the pike over the years, why can't all organizations operate like this? The answer in my mind is that people in organizations, particularly with a *management is status* philosophy, get in their own way, and basic respect for the individual has been so undermined that more time is spent playing internal gotcha games than doing the right thing.

New Horizons is a bad hierarchical organization where the reward carrot is movement up the management ranks with the attendant interdepartmental competition. Each department sees its budget as its own domain. In effect, each department tries to get as much of the pie as possible, regardless of real needs. Individuals progress by putting down the other rather than through their accomplishments. Everyone has a bad word about the others, creating an oppressive back-biting atmosphere.

A new chief executive officer (CEO) was named to help change these conditions as a result of a substantial drop in business. He set up a meeting with all levels of management to determine what was needed to change the negative way in which they did business. He got back a number of responses from selling the business and starting over, getting rid of everybody else but us, gross layoffs and rehiring, getting rid of top management, firing the personnel department, and so forth. He stopped and wrote in big letters on a flipchart R-E-S-P-E-C-T. They all nodded their heads affirmatively. The difficult part was making it work.

RESPECT CAN GET YOU MORE THAN CRITICISM
WE NEED TO RETHINK, BEFORE WE CAN RELEARN

Basic Business Principle

The organizational structure is meant to be a road map as to how individuals work together to achieve the desired results of the organization and each operating department, function, and activity. It is not meant to be a scorecard as to who holds a position of power and control over other employees within the company. Rewards for the achievement of results need not be movement upward on the organizational structure that possibly produces unwanted infighting between individuals within a department or between departments. In fact, moving up within the organization structure with an attendant increase in compensation may be counterproductive to the organization and the individual. Oftentimes increased position and power make the employee slough off where compensation starts to exceed the value-added benefits to the company provided by the individual. Instead of increasing results the organization winds up only increasing its head count. Working together creates a cooperative rather than a competitive atmosphere, resulting in increased results and more satisfied employees.

Best Practice Suggestion

An organization needs to work as a cohesive team not as a group of individual adversaries. By using each employee's skills and abilities to his or her fullest potential where they most greatly benefit the organization tends to build an organization that grows and prospers in the desired direction. Regardless of what position or job description, with which the employee was hired, the use of each employee must be individually tailored to the individual's skills and abilities. With compensation based on results, the organization avoids the trap of continually increasing compensation as the employee stays longer and moves up a constraining organizational structure. And each function or activity must have a compensation ceiling—that is, you can't keep paying the employee greater compensation for the same level of effort and results or longevity. Make the company not the work unit the focus of working together—its teamwork not blame work that moves the organization ahead.

Case Situation 3: Because

Organization structures of the hierarchical pyramid type are typically set up as paragons for defining power and control. That is, as one moves up the pyramid, his or her power increases. The possession of power through organization position becomes an accepted part of the organization structure. If an employee wants to achieve a position of power, he or she must play the game correctly until promoted to a management position.

The Allright Company applies this power principle. Nothing much gets done without the permission of the boss. Managers wield power by dictating to employees as to what they should do and how they should do it. Employees have very little, in most cases no, freedom as to do what needs to be done and to decide on the best way to do it. They mechanically follow orders, doing exactly as they are told. If they are good obedient children for a sufficient period of time—no one can be promoted as manager prior to five years of service—they can be promoted to a management position and order other employees.

The company is abounding with silly and nonproductive systems initiated by management, which are blindly applied by employees, costing the company money, morale, and results. For instance, there is a requirement that everything being received, from office supplies and cleaning materials, to critical raw materials, be subjected to quality control inspection rather than just critical items requiring such inspection. The employees recognized how silly it was and how less-costly methods could achieve greater results. However, when they brought up such suggestions to management and asked why they had to continue with systems that made little sense to them, they were told "because."

**POWER—REAL POWER—
RESTS WITHIN THE INDIVIDUAL,
NOT WITHIN THE ORGANIZATION CHART**

Basic Business Principle

Power by position within an organizational structure ensures that things get done exactly in the manner that the person in power desires. However, there is a large price to pay in employee morale and job satisfaction as well as diminishing the desire to do better. Such a system tends to hold onto the obedient children who seem to thrive in such a narrowly defined arena while losing the so-called rebellious children (those with creativity and innovation?) to other organizations or by negative containment within the organization. An individual who works in an atmosphere that doesn't make sense produces a state of disbelief and complacency. Power within the organization must be disbursed to the lowest levels possible if the company desires to maximize results.

**THOSE WHO DO NOT LEARN FROM THEIR EXPERIENCES
ARE CONDEMNED TO REPEAT THEM**

Best Practice Suggestion

For employees to be most productive they need to be part of the decision-making process, especially those decisions that affect their responsibilities. They also need to be given the authority to make agreed-upon plans most successful. Unnecessary management, which merely delegates tasks downward for its satisfaction, many times with little value to the company, needs to be eliminated. Obedient children should be given their freedom to question and make changes, and rebellious children who see the foolishness in unhelpful systems need to be nourished and used effectively for change. The employee who works the system needs the power to change the system.

Case Situation 4: Confederacy of Mediocrity

Organizations tend to build elaborate hierarchies, where the number of employees in a particular pyramid bear a direct relationship with their perceived worth to the organization. If you are successful in building a sufficient empire, those reporting to you will push you further toward the top. For example, if you are successful in getting substantial salary increases for those reporting to you, you enhance your chances for an even more substantial increase. The reward is for empire building, rather than for results.

Mediocre, Inc., was such an organization where the ticket to heaven was to make the management ranks. At the point one reached management, one ceased to be effectively evaluated for results, but instead for the size of staff and budget. Strangely, these individuals contributed less to the organization now than when they first joined the company. They spent most of their time getting in their employees' way, hindering rather than helping. If they had any time to fill, they would call a meeting, which filled their time as well as their fellow managers'. As the years went by, they got further away from reality and those employees reporting to them became more threatening. To save themselves and their positions, they would promote from a position of safety that resulted in the perpetuation of the cycle of mediocrity.

MEDIOCRITY REWARDS MEDICORITY,
EXCELLENCE PERPETUATES EXCELLENCE

Basic Business Principle

Never hire an employee unless he or she is absolutely necessary to multiply the effectiveness of the organization at less cost than other alternatives. Management's role is to maximize results most economically, efficiently, and effectively. If you don't need someone in a management position, then don't create such a position. There are many other ways to accomplish results than to set up a hierarchical pyramid that moving up in the pyramid becomes the real result for the individual. Many times these individual fiefdoms become the focus of management rather than overall company growth. It becomes a system of self-preservation and maximizing individual income as opposed to working together as part of a cohesive organization. It's not getting the least done with the most resources, but getting the most done with the least resources.

Best Practice Suggestion

Organize each department, function, and activity to ensure maximum effectiveness regardless of how it fits into your hierarchical organization structure that contributes to creating towers of power. Typically, organizational functions relate in a circular not a linear relationship. Stress the working together of individuals, functions, and activities to achieve maximum results rather than the creation of autonomous departmental entities within the whole. Allocation of company resources—usually typified by some form of arbitrary budget that will be spent regardless of real need—needs to be allocated according to real need not by organizational positions of power.

IT'S NOT AN EXERCISE OF FITTING THE MOST MANAGERS ON THE ORGANIZATION CHART, BUT HOW FEW ARE REALLY NEEDED

Basic Business Principle

Effective managing needs to be judged based on maximizing results at the least cost using the most efficient systems and methods. It is not an exercise as to how well a manager controls those employees assigned to him or her as shown in an organization chart, but how well that individual used those employees to maximize results. If a manager is not needed in an area, then don't create a management position. If a function changes, change the organizational structure (maybe even eliminate that function). If you believe you need managers to watch employees to ensure that these employees are doing what you expect, you are paying a high price for minimal results. And maybe you need different employees who can be trusted to achieve desired results on their own. Each employee is responsible for managing his or her results with coaching as necessary.

Best Practice Suggestion

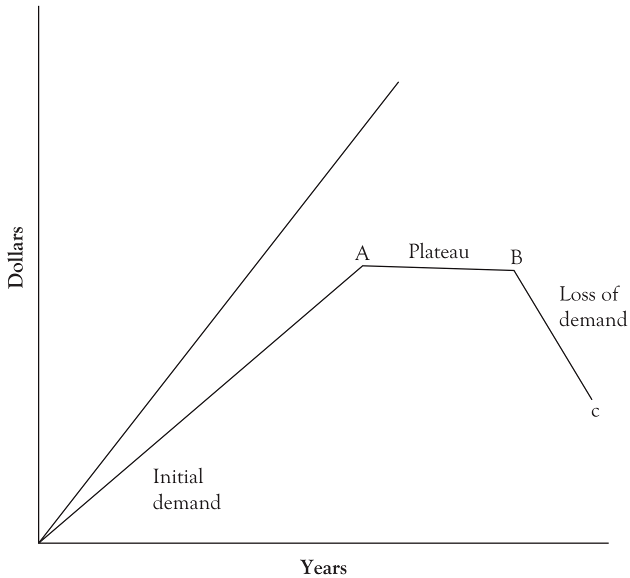
Hire those employees who can be trusted and have the knowledge to do the right thing the right way to achieve desired results. Provide coaches and mentors to assist those employees to be successful—and provide meaningful rewards for results achieved. Only establish management positions where needed to guide and direct a specific function or activity (and such management needs can be changed as necessary) that don't need to be permanent. Management needs to be considered more as a function to achieve results than a permanent promotion for nothing else to do but control others—and attend somewhat useless meetings. Making each employee responsible for his or her own self-motivated disciplined behavior eliminates the watchers (managers) and increases individual morale.

LEARN THE RULES,
SO YOU KNOW HOW TO BREAK THEM PROPERLY

Which Comes First—the Individual or the Organization?

I often wonder as to whether to find the right people and find the proper place for them within the organization or whether to find the person to fit the organization. I think back to start-up companies, where it is just the founders and everything operates fine. Then when the company becomes successful, elaborate organization structures are built and the company starts to have problems. I think of the highly intelligent, well-adjusted functioning adults who for years had followed orders obediently only to be downsized into oblivion. How many companies seem to be in business to build empires and grow as large as they can? Ironically, as sales increase so do costs, but not necessarily net income. In most cases, organizational growth brings more problems than solutions, and more people than are necessary, people to watch other people.

It is helpful to understand the evolution of a successful typical start-up business and what happens as the business grows. This concept is shown in Figure 5.3. What is important is that you understand where your company (or product line) is situated on the chart at any point in time and what action needs to be taken to continue the success.



A = First point of innovation:
Competitors have come in and sales have plateaued

B = Second point of innovation:
Market has settled and total sales are decreasing

C = Point of retrenchment:
Get out of business or reinnovate

Figure 5.3 A typical start-up

Doright Pharmaceuticals is a medium-sized company, not even close to the largest in the pharmaceutical industry—and it didn't want to be. The company carefully selects each employee with regard to technical abilities, good business savvy, and behavioral characteristics that match the company's working atmosphere. The company hires selectively and always has just the right number of employees necessary to accomplish desired results. Each employee is respected, allowed to be himself or herself, has permission to fail, and works under the concept of self-disciplined behavior. Each employee is an entrepreneur in the truest sense, working for himself or herself and feeling good. The company has only one manager, the CEO (president and owner), but many coaches and facilitators (each and every one of them). The company is known for paying the highest compensation in the industry, the highest net profit margins, the lowest costs, the highest quality, the utmost customer service, and so on. This is what the quest for best practices is all about. Hopefully, your company can join them.

ALWAYS LOOK AT WHAT COULD BE DONE, NOT WHAT HAS BEEN DONE

Select each employee carefully on the front-end with regard to technical abilities, good business savvy, and behavioral characteristics that match the company's working atmosphere. You don't want to make a mistake, as each employee is a company asset to be cherished. And it's easier to hire right in the first place than to have to weed out your mistakes later. Hire selectively and always have just the right number of employees necessary to accomplish desired results. Respect each employee, allowing him or her to be himself or herself using his or her skills and abilities to place him or her correctly within the organization. Make each employee an entrepreneur within the organization—working for himself or herself and feeling good. Use fewer managers (watchers and controllers) but more coaches and facilitators. It's not the size of the organization, but internal savvy that achieves the right results that make an organization successful.

Fit the right individual to the right job based on skills and abilities rather than fit the wrong existing job to the individual. Use each employee most effectively. As needs change exercise flexibility in moving the individual to where he or she is most needed. Manage where absolutely necessary, otherwise provide for proper coaching and mentoring (an interchangeable role not relying on organizational position). Move each employee to the work not the work to the employee. Get out of the way and allow your employees to do the right thing, the right way, at the right time to maximize results. Provide the right direction and guidance and then oversee (not overly control) the process toward achieving desired results. In your quest for best practices, always do the right thing, regardless of what others might do.

BEST PRACTICE PASSIONS BASIC ORGANIZATIONAL RULES

The proper use of organization considers:

- Clear lines of authority—everyone knows what they can do and can't do, with authority delegated down to the lowest level possible.

- Proper division of duties and responsibilities—everyone knows what to do (doing the right job, the right way) and each function and activity integrates with the others.
- Communication between functions and activities—across, upward, and downward so that all work effectively together eliminating redundancies and duplications.
- Minimal use of personnel and only as needed considering in-house employees (full time and part time), outsource personnel, contractors, and other sources.
- Proper delegation of authority and responsibility—enabling each one to perform his or her activities most efficiently and effectively.
- Effective control of the sphere of assigned operations and results—balancing the need for management and supervision (as coaches and helpers not as controllers) versus self-motivated disciplined employee behavior.
- Clear expectations by all personnel and results to be achieved—with evaluations based on performance as to expectations and the successful achievement of results. This is the employee's responsibility and not the management's.
- Organization structured on principles of economy, efficiency, and effectiveness—from top-down to the least important function or activity.
- Right size and type of organization for what needs to be accomplished—organization-wide as well as for each function and activity. The type of organization structure relates to the function being performed, the type of personnel, and the desired results.
- Minimum levels of nonvalue-added management and employees—if the cost exceeds the value derived, then reduce or eliminate personnel levels.
- Organization no larger than it has to be to accomplish results—remember all personnel savings go directly to the bottom line and sometimes more can be accomplished with less personnel.

IT'S NOT AN EXERCISE OF HOW MANY MANAGERS AND PERSONNEL CAN FIT ON AN ORGANIZATION CHART,
BUT HOW FEW ARE REALLY NEEDED

CHAPTER 6

Organizational Atmosphere

Organizational atmosphere has to do with the aura within the organization; that is, does the atmosphere enhance the comfort level of employees and other shareholders to be committed to want to work within the organization, that is, a supportive atmosphere, or does the atmosphere create a black and gloomy feeling that creates a dread to want to work with the organization, that is, a defensive atmosphere? There seems to be a global trend for empire building (and dismantling) and the power and control that go with it. Even with the present movements toward globalization and finding the least-cost labor, that is, downsizing (and upsizing and right sizing), restructuring, reengineering, and so on, with emphasis on getting fewer or less costly people, those in power (fewer but more costly at the top) are trying to hold onto unnecessary empires of people. All of this has created an organizational atmosphere that has diminished the feelings of company loyalty and fostered an atmosphere of looking out for number one. Many organizations have changed a once supportive (but maybe patriarchal) atmosphere into a defensive atmosphere of dog eats dog. With a scarcity of real productive sought-after jobs, the survivors (those who still have a job) are fighting for their economic survival, sometimes earning less than before and working longer hours—an extremely defensive atmosphere. We really need to learn how to build supportive organizations and maintain them properly at all times, using the correct techniques for the situation. It's the people dummy!

THE GREATER THE ORGANIZATIONAL SUPPORT, THE GREATER THE EMPLOYEE'S RESULTS

Making employees responsible for meeting expectations and results through motivating self-disciplined behavior and an effective monitoring system eliminates the need for management personnel who exist mainly to police and control employees. Use of operating systems that make sense to the employees who use them and had input in developing them, within a working-together atmosphere and not a working-for atmosphere, increases productivity with fewer employees needed. The trick is to not add unnecessary personnel as you grow so that you are never in a position to have to cut back drastically. Many times, the company penalizes those individuals being laid off (a nice term for good bye) for something beyond their control. Curb the need to control others—its tough enough taking care of ourselves.

EMPHASIZE CONTROLLING RESULTS, NOT PEOPLE

Upward mobile organizational atmosphere, creates too much of the wrong kind of attention

The atmosphere was too permissive, things were going to get ugly

Organizational atmosphere affects one's attitude, positive or negative, and resultant productivity

Cohesion—It's Sticky

A lot of organizations talk about building employee cohesion, which is working together to be more effective. More recent euphemisms are teamwork and team building. While this is a positive concept and can be beneficial to the company, it can backfire into a detrimental force and become negative cohesion.

For instance, in Farber & Company, cohesion can take the course of likes attracting. Larry Farber, the owner and president, was mean and ornery. His rule was that a high bastard index would be rewarded. Over time, the management group took on Larry's attributes.

Those hired and promoted started to look like Larry, act like Larry, and even smell like Larry. Working there became a living hell. Each one promised one thing and then did another.

In some departments cohesion took the form of hating the boss; in others, work got done negatively to get the boss, and in others, the boss has delegated the entire job to others so that while the employees worked, the boss pranced to meetings and lunches. In these instances, the work atmosphere became open sabotage, which is “let’s get him.”

**TEAMWORK IS FINE,
AS LONG AS THE TEAM
MOVES TOWARD POSITIVE GOALS**

One of the basic business principles in the search for best practices is to work together rather than work against or to work for. Those designated as managers or supervisors, if necessary, need to be seen as active team members. Their role is to assist the team to maximize results at the least cost using the most efficient systems and methods. In most cases, management or supervision is not a full-time job but a series of responsibilities and tasks that need to be performed to create team cohesion—such as providing guidance and direction, creating a coaching framework, establishing plans and budgets, directing and controlling operations, and evaluating results. It is an overseer function whose responsibility can be assigned to one individual or shared within the team. Looking at cohesion from a project team viewpoint, all of these responsibilities can be accomplished on a shared or team basis. Each individual employee must be valued for his or her contribution to the team. And it is quite possible that an individual team member may know more than the designated manager or supervisor. We need to use the knowledge, skills, and abilities of all team members in an effective manner to maximize the achievement of results. Employee, and team, cohesion must focus on getting the right job done right, in the right way, at the right time. Of course, we need to know what the right job is—and normally a team effort can accomplish greater results than a directed dictum from above or a collection of individual egos.

An agreed-upon best practice is to create an organizational atmosphere where each employee feels valued for his or her contribution to results and is recognized and fairly compensated for his or her participation. In the present situation, this may mean forcing someone like Larry

Farber to release some of his ultimate control and allow greater freedom for employees to be themselves and participate in planning and decision making. The more employees feel that they are part of the process, the greater is the level of buy-in and commitment to making plans work to maximize results. The negative or vicious cycle that has been created in this organization needs to be turned around into a positive or virtuous cycle. A positive cycle can be created just as easily as a negative cycle and it costs no more. In effect, turn a vicious cycle into a virtuous cycle.

The Corporate Covenant

When an individual owns a company, he or she has the ultimate decision-making power, and whatever he or she decides, the cost comes out of his or her pocket. However, in a large public corporation, when a manager makes a decision, the cost is other people's money (OPM), that is, as long as the manager can convince higher management and the money is in the budget. Normally, if one manager gets an allocation for a special project, it means that there is less money for others.

The OPM Company was such an organization where empire and budget building ran rampant. Each operating division had built up a support staff that far exceeded the work staff. The organization was so top heavy that it was called the "leaning tower of appeasement." While sales and cost of sales had remained steady, general and administrative costs had skyrocketed to more than 300 percent from just two years ago when the new chief executive officer (CEO) had been hired. The cause of such empire building was the philosophy of the new CEO, which was to reward managers well so that they were loyal and produced results. The managers were loyal as long as the rewards kept coming. However, the only results they produced were personal perquisites such as club memberships, upgraded company cars, first-class travel privileges, and so on.

The employees reporting to these managers had become cohesive against management and accomplished as little as possible although they did it in more hours. The managers had become cohesive as well, supporting each other in a covenant to maintain their status quo. A short time later, the CEO was replaced. The new CEO downsized almost all of the managers out of existence with little impact on operations. In fact, in the short term, productivity increased greatly as employee morale increased. However, in the long term, the situation sunk back to where it was, as these employees received no rewards for their results. The new broom had swept everything clean, and in two years the dirt was replaced once again.

SHORT-TERM SOLUTIONS,
CAUSE LONG-TERM PROBLEMS

It's usually not management that gets you to the goal but the employees at the actual operations working level. Management can hold as many meetings as they want to discuss operating results and plan how to progress from here, but without the support of the workers (are they still called subordinates?) very little may get accomplished. Rewarding the managers to the detriment of the workers is usually foolhardy and a recipe for disaster—if not in the short term then in the longer term. Whether the workers realize it or not if they band together they possess greater cumulative power than management. So why do the workers go along with the corporate idiocy as handed down by management? The quick answer is that they want their piece of the pie and if they play the game correctly one day they will be managers—a ticket to heaven and permission to work less and make more. The better answer is to minimize management and administration, and maximize self-motivated disciplined employee worker behavior with a better chance of maximizing results.

Unless one desires the utmost control of others in the work place and basically mistrusts others to get the job done, that they know they can do better, management must learn to release authority and responsibility to those who actually do the work. While those at the top have the ultimate decision-making power and control (what I call Reider's Right to Be Obnoxious), greater results are usually achieved through all levels working together and open communication upward and downward and across functional lines. Compensation rewards must be based on the achievement of results rather than on organizational position or longevity. You should never hire or promote one to be a manager unless it absolutely adds value and is necessary to achieve desired results.

The Good and the Bad: The Stars and the Dogs

There are favorites (the stars) and not so favorites (the dogs) in organizations. The favorites are encouraged to perform and behave as they are—whatever they do is terrific. The nonfavorites are discouraged from doing anything—it doesn't matter what they do. Top management needs favorites to keep their hopes of a good future alive, and nonfavorites to keep their focus on why management is needed to watch these people.

Take the case of Timothy Brogran. Tim graduated magna cum laude from a prestigious Ivy League school. The company felt exceedingly fortunate that Tim decided to join them, rather than accept one of the numerous other offers, including four from competitors. From the start of Tim's employment, top management considered him a rising star. No matter what he did, it was terrific. Normally, all new college graduate employees were required to spend at least two years in the company's management training program. In Tim's case, at his request, he was assigned to the president's support staff.

Phil Wachstein started at the same time as Tim, directly out of college from an urban, state-supported university. Phil was glad to get the job, turning down his only other offer, from his Uncle Ned's produce business. Phil was assigned to the management-training program at one of the least desirable plant sites in Nebraska. Phil learned the ins and outs of the business and became an effective problem solver by the time he was transferred to headquarters. He was assigned to a planning group directed by Tim.

No matter what Phil did for the planning group, it didn't matter to Tim. Tim would tell him how unpolished his product was and have him redo it. Tim would tell him that, "It just wasn't in headquarters language." Tim attended all of the high-level top management meetings as befits a rising star. He would present the materials developed by his unit, which were always received positively. The truth was that Tim and the rest of the planning unit developed very little that was innovative; it was Phil who developed anything of substance.

Ultimately, Tim was promoted as vice president of operations, an area where he had spent very little time. He asked Phil to join him, but Phil had already decided that he would be much happier working with his

Uncle Ned in the produce business. He could apply many of the ideas he had developed at the company. Top management at the company believed that their star had risen to his rightful place. Phil knew that the snake had won again.

IF YOU'RE THE RIGHT PERSON,
NO MATTER WHAT YOU DO IT'S ALL RIGHT,
IF YOU'RE THE WRONG PERSON,
IT DOESN'T MATTER WHAT YOU DO

When hiring a new employee, especially through college recruitment, the prestige of the college attended and grade point average may be a fair indicator of future success, but not necessarily—although it does help to reduce the number of candidates to interview and consider. The real merit of the new employee is how he or she performs once on the job. The concept of *haloing* or designating someone as a star based on his or her college credentials and not job performance may result in more glitz and dazzle than real results—and the possibility of losing the most desired employees. You can't really learn business acumen, savvy, and moxie sitting in a college classroom, even in a prestigious college. It's the use of what is learned on the job that matters. Treat and reward all employees based on their abilities and the results they achieve, not on the reputation of their alma mater.

Develop adequate hiring criteria for all new employees—directly from college or from the job market. Know the attributes you are looking for in an employee, such as technical skills, interpersonal skills, problem-solving ability, personality and ability to fit into your organization, and capability as a team member. And of course don't hire an employee unless one is absolutely necessary and multiplies effectiveness and brings more value to the company than the additional cost. Once hired, provide proper orientation in a well-defined coaching and mentoring organizational atmosphere. Develop objective criteria for ongoing evaluations and reward and compensate each employee based on results achieved. If you are able to operate your organization with minimal (or none) assigned management staff then there is no need to use a management promotion as the ultimate reward. A good approach is to contract for specific expectations with each employee and hold them accountable for related results and growth.

Case Situation 1: Secret Agent Man

Sergeant Industries was a particularly oppressive organization. The powers ran the organization through fear and punishment. Each year as employees were evaluated, they felt fortunate to keep their jobs let alone get a raise or promotion. They were made to feel lucky to have such a good job and work for such a wonderful company—like still being alive at a death camp for sinners.

One of the top-level managers, John O'Shea, had an insatiable need to tell anyone who would listen all the gut-wrenching horror stories of what went on within the company. He had a partner in crime, Mike Mullins, who would sit next to him at management meetings. When John heard or thought of something particularly juicy, he would wink at Mike and whisper a special code word (such as "the King shat, the Prince pissed, the Queen has her period,") which meant to meet him in the men's room. As Mike entered, he would find John looking under all the stalls for the telltale sign of feet. When he was sure that there was no one else present, he would gleefully share the new horror with Mike.

Once after John and Mike's men's room meeting, Mike stayed behind. Over the flushing of the urinal, he heard a low cough coming from one of the stalls. Curious, he stood on the toilet and looked over the partition. Sitting with his clothes on and his feet against the partition was the vice president of personnel with a notepad and pencil. Mike stopped at the sink on the way out and washed his hands of the entire organization.

THE ORGANIZATIONAL GRAPEVINE
HAS DEEP ROOTS,
BUT THE GRAPES MAY BE SOUR

Basic Business Principles

Open and honest communications, and treating employees fairly, is the best organizational policy. The concept of fear and punishment to induce workers to produce more usually boomerangs on the organization as it creates mistrust and despair among the employees. If one needs to have a job and the job market is slim, he or she may put up with such a soulkilling organizational atmosphere until he or she can get out of there—or if a work-based masochist he or she may endure such treatment until he or she helped out. Such an atmosphere does tend to increase the odds of the good workers leaving as soon as they can, leaving behind the dregs to muddle on as they are told. And most times for most people job satisfaction and feeling good about oneself trump money motivation and job position. No amount of internal games can change an oppressive organizational atmosphere.

Best Practice Suggestion

Take a good, hard look at your organizational atmosphere that usually starts at the top. It is top management that sets the tone for the organization—be it fearful or joyful. If one has to work there should be a joyful element and an individual *wow!* factor. Employees feel best when they feel part of the organization—it's planning, decision making, and involvement as to what is going on. If your organization is too tight, loosen up; if it is too loose, tighten up. You want the best possible employees working for you. Incorporate into your organizational atmosphere those elements that make it fun for you to be there. If you are paying an employee to help you achieve results make him or her part of the process. Create an organization that fosters working together not against each other.

Case Situation 2: You're Going to Lose a Lot of Friends

Marsha worked for a wonderful company that had always made money. They treated employees fairly with comparative wages and a more-than-acceptable fringe benefits package. However, what was most important to Marsha was the relaxed work atmosphere. She was not the type to have a lot of friends, but here she felt everyone was her friend.

Before joining this company, Marsha had been a hard worker and felt good that she earned her pay. In this company, however, the emphasis was more on process and socialization, than on the achievement of results. When Marsha initially joined the company, she continued her hard-work ethic. However, after a short time, she saw what was going on about her and wanted desperately to be a part of it.

A coworker, Sandy, who sat next to Marsha, started to socialize and waste time with her. At first, Marsha resented it, but slowly spent more and more time talking to Sandy. Marsha spent her breaks and lunch catching up on the work, as it didn't appear that anyone else cared. Eventually, Sandy convinced her that breaks and lunch were coming to her, and Marsha started to go on breaks with Sandy and the rest of the office staff. For each 15-minute morning and afternoon break, they would get ready 15 to 20 minutes ahead of time and take another 15 to 20 minutes to get back to work—with a similar procedure before and after lunch and prior to quitting time.

Marsha had a rough time with this, but slowly found her joining the crowd, but not liking it. Within six months of joining the company she was one of the gang, for the first time in her life, and she was enjoying it.

WORKING WITH IS ALWAYS BETTER THAN WORKING AGAINST

Basic Business Principle

Working with your nose to the grindstone and your shoulder to the wheel is an extremely awkward position to get any work done. Management may expect that each employee is always working and increasing his or her productivity. This compulsion to have everyone working all the time is accompanied with an unpleasant nagging feeling to see an employee not working even for a minute. The belief is that if an employee is busy working then something must be getting done. However, looking busy is not the same as producing results. Certain employees can accomplish what is expected of them in half the time it takes others to accomplish similar results. It is not the hours that an employee puts in, but what he or she put into the hours. Individual expectations must be established for the work habits of each employee and compensation regulated accordingly. One doesn't need to be an oppressive taskmaster to ensure that work gets done, as that is the responsibility of each employee. And some socialization needs to be built into the day—not too much, not too little, just right (the Goldilocks principle). Socialization in the workplace is important, but not it if sacrifices results.

Best Practice Suggestion

Contract for expectations with each individual employee with agreed-upon results. Establish an organizational atmosphere that allows for each employee to meet his or her work needs. Some employees need more time to accomplish certain tasks; others need less time. Use employees to coach and train other employees so that proper motivation is established to get the work out together in a joyful atmosphere. Understand that breaks and socialization are needed in the work place and that most people cannot work continuously. But if you are compensating based on results then get out of the way and let the employee produce the results the way they work not how you expect them to work. Develop systems that ensure that results are achieved, allowing the employees to be responsible, creating an atmosphere that balances work and makes it fun.

Case Situation 3: Dance with Sharks

Douglas Plattnick is director of operations at one of the most autocratic, bastardly organizations in the country. The executives in this company are well known for their tough dealing with vendors, customers, and employees. Their brand of brutal human relations was legend among the major public corporations, and envied by all. Through their rough tactics they were able to achieve sales and net income unsurpassed in their industry. Everyone, including their employees, hated them, but money talks and they had bundles of it. When one of their executives became available, they were greatly in demand.

Periodically, there would be an internal riff and the losers would be out looking for other jobs. Douglas found himself victim of such a riff and out of a job. It wasn't long before one of the company's competitors offered Douglas the same position, at more money, as director of operations. While Douglas had learned that a high bastard index pays off from his previous employer, he liked to be liked and well thought of. His new company hoped that his rough tactics would shake up its complacent employees.

At Douglas's first meeting with his new staff he smiled a lot and told everyone to call him Dougie and that they were going to get along fine. The employees were charmed, particularly the females who thought he was cute, like a smiling barracuda. Very quickly the screws tightened, with Dougie pushing the staff harder, harshly criticizing each and every employee in turn. Results started to get worse and employees started leaving, with Dougie's helpful hand. In less than two years, the holy experiment was over and so was Dougie, returning to his previous employer after totally devastating his present employer's operations. Not one employee was left from when Dougie had started and morale was lower than a sidewinder's belly. Once you've danced with the sharks, you can't lie down with the lambs. Always stay with your strength.

A BASTARD IS A BASTARD IS A BASTARD

Basic Business Principles

Once the organization has established its prevalent atmosphere from top down, it is extremely difficult to change its stripes. And once its employees are indoctrinated and accept the atmosphere it is extremely difficult for them to change their belief system—in this instance those tough and bastardly rules. It is easier to stay with the prevalent atmosphere, even if it is seen as brutal by all concerned, once it has been implanted into every organizational activity. And many times such organizations with their practices of brutality and insensitivity do very well in terms of sales and net income—bad guys finish first. Employees are bought off to accept the system by higher wages and benefits than they could find at other companies. However, an employee who has grown up in such an organization, when he or she goes elsewhere to work, takes such nastiness with him or her—you can't outrun your conditioning. Fit the employees' personalities to the organization's culture and way of doing things.

Best Practice Suggestion

For the employee, try to match your personality and desires in a job and work atmosphere to the company you wish to work for. In other words, interview and analyze the company's prevalent atmosphere before employment and update your assessment periodically, especially as changes are made at the top. As an employee you always have the right to fire your employer. However, sometimes, economic conditions dictate the difficulty in leaving such an employer. In this case, your only recourse is to try to screw them from the inside.

For the organization, always lead with your strength. If you have accumulated an unhealthy organizational atmosphere as shown earlier, make it work for you. Use your nasty reputation for your own benefits—with employees, vendors, customers, and other stakeholders. If you are making money and more than an acceptable return on investment, bad behavior will likely be excused. While we may prefer an organization with a healthy atmosphere in dealing with employee and others, unfortunately, these organizations are not always the ones most profitable. You make the decision.

Case Situation 4: Be a Boss

Lance was recently promoted as manager of his department. He had spent a lot of years as an employee shaking his head over all of the silly things that went on in the department and the company. Now that he was a manager, he would do things differently. He would get his employees involved in departmental planning, decision making, and the development of systems for carrying out these plans. When Lance took over the department, he did just that. He and the department staff developed many innovative and more efficient ways to perform their functions. Lance's boss didn't agree with this philosophy and he told Lance, "Be a boss, and just tell them what you want done." However, he let Lance do it his way.

The new systems and procedures worked wonders as productivity increased together with overall departmental results. The rest of the company wasn't faring as well, as sales and net income were down considerably. Lance's boss was put in a bind; he had to cut costs or lose his job. Since Lance's department was doing so well, his boss felt that this was the ideal department to cut costs. Lance had to lay off four employees and had to cut his budget by 25 percent. The remaining employees who had trusted Lance felt betrayed and productivity and results decreased to worse than before the changes. Lance went to his boss and asked him what he should do? The boss said, "Be a boss, tell them what to do."

SUCCESS BREEDS CONTEMPT
LEADING TO ULTIMATE FAILURE

Basic Business Principle

Look at each operation on its own merits. When a specific function is doing well, learn from it (possibly some best practices) and make it better, and replicate such successful practices into other areas of the company. This is the area where you want to channel additional resources into, not cut back—run with the winner. Build on your successes—learn from your failures. Unrewarded successful results many times will result in employee resentment, sabotage, and an unwillingness to stay in the game.

Best Practice Suggestion

When you get lucky and come up with a winner, support it with additional allocations of resources (form your losers) and reward those employees fairly who brought you the winner. Encourage more creative thinking, innovation, and increased results. Search for the best practices and replicate them in other appropriate areas of the organization. Being a boss is maximizing results through working with others, not from telling them what to do—your way or the highway. Innovate, innovate, and innovate!

When everything is coming your way,
you're in the wrong lane

Case Situation 5: Motivating for Results

The process of allowing employees to do their jobs, assuming they understand what that is, in an atmosphere of self-disciplined behavior can be the most effective approach to handling personnel and achieving results. Ajax Group top management believed in this, it had to be better than the traditional policing and control model, and decided to implement such concepts. They started by ensuring that all employees fully understood their responsibilities and authority and how to go about doing their jobs. At the same time, they retrained supervisors and managers to become coaches and facilitators, so that employees could work within a support system.

Within the first quarter of operations, results showed sharp increases of improvements in all areas of the company. However, it became apparent that the company no longer needed the same number of supervisors and managers as before. In fact, many of them were just as poor coaches as they were managers, except now it was readily apparent. The management group hadn't been originally promoted for lack of smarts and quickly sensed the situation that they were as obsolete as a rotary dial phone.

They couldn't go back to being just workers as they hadn't seen real work in light years. So, they got together in their own quality circle and decided that they had to take corrective action, that is, sabotage the improvements. During the next quarter, under the guise of being coaches, each manager and supervisor gave their employees the opposite advice as to doing the right thing. Of course, results sunk to levels way below the time of the changes. Top management looked at the next quarter's results and before you can say, "motivating self-disciplined behavior" they put the organization back together the way it was before. While results didn't skyrocket, they stayed within a narrowly controlled range with no large ups and downs; management was back in control.

MANAGEMENT IS NOT GETTING YOUR JOB DONE, BUT GETTING THE RIGHT JOB DONE BY OTHERS

Basic Business Principle

Management in most organizations is in control. That is, they set the rules and working conditions that establish the organizational atmosphere. In some instances, it is a prevalent overall atmosphere that envelops each department, function, and activity. In other situations, it is each department manager that sets the atmospheric tone of operations. When an employee-controlled system, such as self-motivated disciplined behavior, takes hold in the organization or work unit it is the employees who are in control as to achieving results. In these cases, it isn't overseeing and overcontrolling management that is needed but increased coaching and facilitating to help each employee perform even better to increase results—that is, more coaches and less managers. The organization then has the problem of what to do with all of those managers who may be unemployable in the work force—make them coaches or make them obsolete. Make employees responsible through self-motivated disciplined behavior.

Best Practice Suggestion

Make the system of self-motivated disciplined behavior within a coaching framework work effectively—clear out the deadwood. If the company is truly in the business of maximizing results most economically using the most efficient systems and methods (best practices), then the company needs to go with what works. It then needs to deal with the residue of change, in this instance what to do with overpaid and underworked managers. Make coaches of those who are qualified, workers of others at adjusted compensation, and help the others out as they no longer are helping you out.

Respect for Employees

We've all heard the axiom *people are our greatest resource*. You would thus expect organizations to treat its employees with a high degree of respect. However, many times, the opposite is the case. Employees may be discounted or looked down upon for working for the company. The attitude is that anyone who would take a job with us can't be very good or he or she would be working elsewhere.

A particular company was appraising the present level of management and its criteria for promoting employees to management positions. Present managers identified a hardness and condescension of other managers toward those employees reporting to them. There were few kind words for an employee or the company. The employees, however, felt warm, friendly, and optimistic toward the company. They were basically left alone while the mangers attended meeting after meeting. It was a great place to socialize and sometimes work got accomplished. However, most of them didn't see staying with the company—they dreaded becoming part of the management group. They didn't want to be one of them. It was so boring and they would miss their friends.

THERE'S AN ALLUSION THAT WE'RE GOING SOMEWHERE

All employees of an organization need to work together. If you believe in a management structure, then each manager must be delegated specific authority and responsibilities as to managing and doing. Correspondingly, each employee needs to know exactly what authority he or she has to carry out his or her job responsibilities and the results to be achieved. Each manager and worker needs to know what is expected of him or her and how we all work together as a team to achieve desired results. It is best if there is a working-together atmosphere rather than a working-for atmosphere. However, in an organization such as the one described previously, where there is a clear separation between management and employee levels, we are most likely to have chaos—in this case management working for themselves and employees having a great time socializing among themselves. A healthy working atmosphere pervades all levels of the organization; a sick atmosphere kills at all levels.

A healthy organization needs to implement effective management techniques that allow management and employee levels to work effectively together, and remove the management barrier. Establishing a double standard or double tier of management versus employees normally leads to two enemy camps. The managers despise and disparage the employees—how can anyone get anything done with those clowns. If they need to work for us they can't be any good. The employees see management as its enemy—those clowns couldn't manage themselves out of the restroom. If they are still here after all these years they can't be any help to us. It's always a question as to whether to get rid of the managers or get rid of the employees—management trumps employees.

How Tight, How Loose, and Just Right

A hard-nosed company known for its demanding nature and better-than-normal compensation (money conquers oppression) is looking for a vice president for manufacturing. It wants the right individual to fit into its kind of organization, like the leader of a chain gang. Ron Down, a plant manager at one of its competitors was looking to leave his present employer, as he felt it was quite loose and operated on the philosophy that a crisis a day keeps the customers away. He was looking for a company with stricter discipline where he could accomplish something every day, and a boss who knew the difference between quality products and scrapola.

Ron was hired as vice president of plant operations, now he could be his own boss. On his first day, Ron was handed the company's manufacturing policies and procedures. He spent the morning reading over what was expected of him (such as on-time customer deliveries and zero inventories) and for what he was to be held accountable. He mentally added up the hours he would have to spend learning how to be efficient and perform his job effectively. As he read the procedures, a number of managers came in to welcome him aboard. He couldn't count one smile or sign of good cheer; the work ethic was appalling with this gang of solemnity. Ron went out for lunch, making excuses so as not to have to join anyone, and never returned. The next day he was back at his former job, and smiling.

FIT THE JOB TO THE PERSON, NOT THE PERSON TO THE JOB

Results, both financial and operational, are normally the evaluative measures of success for an organization. However, when the organizational atmosphere is so suffocating for the people working there and everything is done and evaluated by the numbers, some loosening of organizational constipation might be in order. Is it possible to increase results with employees who feel good about themselves and actually possess job satisfaction with a work ethic that is soothing to their souls—even when operations dictate a level of discipline? Discipline assists in getting the right job done, not in creating oppression and depression.

An organization needs to implement helpful systems that ensure getting the right job done, in the right way, at the right time. However, the organization can't forget the most important element in getting the job done—its people. So the right systems need to address not only how the job gets done but also who is doing the job. Do employees feel better

Table 6.1 Supportive and defensive organizational atmospheres

Supportive atmospheres	Defensive atmospheres
Description	Evaluation
Problem orientation	Control
Spontaneity	Strategy
Empathy	Neutrality
Equality	Superiority
Experimentation	Certainty

about themselves working in an organization that has its game together assuming that you are there to work or in one where everything is so loose that very little gets accomplished but the employees have more fun? Should the atmosphere be a work environment or a party? Develop helpful systems—eliminate oppressive systems.

MAKE IT EASY
FOR EMPLOYEES TO WORK
AND ACHIEVE RESULTS

Too much defense,
not enough support

The organization's atmosphere
was distracting from achieving results

The only thing constant
was the smell of can do
in the atmosphere

CHAPTER 7

Organizational Communications

Communication is shared feelings and shared understanding. If you can honestly achieve that goal—you are communicating.

In recent years, social scientists have studied the process of interpersonal communications systematically. Their studies have pointed out the great complexity of the communication process. By tracing step-by-step how an idea moves from one person's nervous system into another's nervous system, they have identified many *filters* and *barriers* that distort messages.

They have pointed out, for example, that whenever you communicate with another individual, there are at least six messages, each somewhat different, involved in the exchange.

There is always

- what you mean to say;
- what you actually say;
- what the other person hears;
- what the other person thinks he or she hears;
- what the other person says;
- what you think the other person says.

Experience shows that it pays to recognize these different messages, and to understand why this happens, if one is to avoid actions and decisions based on half-heard facts.

Each organization must determine the basic principles that guide its operations and the related communication systems required to operate within these principles. These principles become the foundation on which the organization bases its desirable results. They need to be communicated from the top to the bottom and from the bottom to the top to ensure that all organizational personnel are working from the same bases. It is such clear communication channels that differentiate the successful organization from the floundering one.

Possible Filters and Barriers

- Intentions and biases
- Norms and values
- Knowledge and intelligence
- Attitudes and perceptions
- Memories
- Behaviors
- Expectations
- Evaluations
- Emotions and feelings
- Emotional hot buttons
- Processing skills
- Responses—planned and automatic
- Attention span—general and specific
- Environmental conditions

Remember that silence
is sometimes the best answer

In disagreements within the organization,
deal only with the current situation

Share your knowledge,
it's a way to increase results

The best work relationship is one in which
your respect for each other exceeds
your need for each other

Approach work
with reckless abandon

LANGUAGE THAT KILLS COMMUNICATION

Which of the phrases that kill communication listed as follows seem particularly significant to you or exist within your organization?

Are there other phrases that, from your own experience, you can add to the list?

What solutions can you suggest for eliminating such an unfortunate use of language?

1. We can't afford it.
2. Send that idea to the lab, through channels.
3. It won't work in this company.
4. Bring that idea in sometime next week—make an appointment.
5. Write it up and drop it in the suggestion box.
6. We don't have the time to fool around with that.
7. What are you trying to do—turn things upside down or inside out?
8. For operating people, it would be simply ridiculous.
9. Let's not get fancy. Let's just do a little better, that's enough.
10. We tried an idea just like that a few years ago and it didn't work.
11. We're too small for that.
12. That's not our style. We don't do things that way.
13. That will make our entire system obsolete.
14. Good thought, but nobody will ever buy it.
15. We'll take it up at a meeting sometime.
16. Wha-a-a-t?
17. We've never done it before—it simply doesn't fit our ways.
18. You're two years ahead of your time. Let's get back to reality.
19. That's not our problem.
20. Let's face it—you can't teach an old dog new tricks.
21. The executive committee will never go for it.
22. We'd be the laughing stock of the company.
23. Has anyone else tried it—we don't want to be the pioneers.
24. It's against our policy.
25. Let's shelve it for the time being—bring it up again next year.

YOUR LIPS TELL ME YES, YES,
BUT YOUR EYES TELL ME NO, NO.
I'M NOT SURE I CAN SEE WHAT YOU'RE SAYING

CLICHES AWAY

Here are some examples of in-house jargon that sets up a filter or barrier to communication.

What does it all mean?

- Thinking out of the box? I can't even get in my box with all the junk in it.
- Shift your paradigm? What's a paradigm and why is it saying those things about me?
- Pushing your envelope? Don't you dare, it's my envelope and I like it where it's at. Now look what you made me do, I pushed it off my desk and now I can't find it.
- Learning organizations? Come on, they can't even answer the telephone right.
- Reengineering, reinventing, restructuring, and so forth? Just another name for letting you go.
- Downsizing or rightsizing? Just another name for letting you go.
- Stock options as compensation? Just another name for not paying you now.
- Customer care? Hello! Where are you?
- Employee empowerment? I think you mistake me for someone who gives a crap.
- Call our hotline—*we care*? All of our representatives are busy, but because we care about you, please stay on the line and someone will be with you in 12 minutes while you listen to yucky music you would never listen to.
- I'll be right with you. Right, while I die of thirst and hunger.
- No problem, don't worry. Now I start to worry.

Business cliches should be a learning experience.

MY PARADIGM HAS SHIFTED,
THEY PUT ME OUT OF MY BOX,
AND I PUSHED THE ENVELOPE OFF MY DESK,
AND NOW I CAN'T GET INTO MY CUBICLE

BEST PRACTICE ANNOYERS: TERMS AND PHRASES THAT WRANKLE

1. Good job—That palooka of a boss wouldn't know a good job unless it increased his compensation.
2. Thumbs up—Yeah right up my wazoo.
3. We're really excited about your work—From those who haven't done real work in light years.
4. No problem—Now I'm worried.
5. Don't worry, everything is under control—Now I'm worried.
6. All of our representatives are busy, but because you are important to us, please stay on the line, one of our representatives will be with you shortly—Good luck while you listen to music as the stomach turns.
7. Quality is us—But not the same as quality to me.
8. The customer is always right—Except in your case.
9. May I be of help to you—Sure if you only knew something about your business.
10. Good cop, bad cop—Now which one is which again.
11. The checks in the mail—Sure, and I'm Mahatma Gandhi.
12. Life isn't fair—And you had the same dot.com idea.

THE MORE YOU SAY THE SAME THING,
THE MORE IT BECOMES ANNOYING

CRITICISM AS COMMUNICATION

What Is Criticism?

Criticism is the act of making judgments, usually considered unfavorable.

Criticism in organizations, which might be considered constructive, is a judgment given for the purpose of positive change and approval.

Steps for Effective Criticism

- Giving criticism:
  1. Listen and establish communication.
  2. State the problem: in specific terms and in terms of the behavior not of the person.
  3. Ask for a solution or state the actions you want taken.
  4. Get a commitment, an approval, and an agreed-on contract for change.
- Receiving criticism:
  1. Listen to the criticism and repeat it back.
  2. Ask the criticizer to specify the problem.
  3. Offer or ask for a solution to the problem.
  4. Require a commitment and a contract for change on both sides.

Tips for Criticism

1. Do not get emotional!
2. Do not delay criticism.
3. Do not use generalities.
4. Do not criticize on the fly—no matter how busy you think you are.
5. Do not dump on others—focus criticism on specific areas.
6. Do not play favorites—criticize fairly.
7. Do not discriminate—criticize based on behavior not who he or she is.
8. Do not act as if you have never made a mistake—you are not God.

CRITICISM IS NOT NECESSARILY HELPFUL FEEDBACK

THE RIGHT TOOL FOR THE RIGHT FOOL

Table 7.1 Organizational communication methods

Method	Advantages	Disadvantages
Telephone	Verbally fast	Less personal
	Permits questions and answers	No record of conversation
	Convenient	Message might be misunderstood
	Two-way flow	Timing may be inconvenient
	Immediate feedback	May be hard to terminate
Face-to-face	Visual as to cues	Timing may be inconvenient
	Personal contact	Requires spontaneous thinking
	Can show and explain	May not be easy to end
	Two-way flow	Power of one person may dominant
	Immediate feedback	May go into undesired areas
Meeting	Can use visuals	Time consuming
	Involves number of minds	May be inconvenient timing
	Two-way flow	One person may dominate
Memorandum	Can be brief and concise	No control over receiver
	Provides a record	Less personal
	Can prethink the message	One-way flow
	Can disseminate widely	Delayed feedback
E-mail	Same as for memorandum	Same as for memorandum
	Quick routing	May not reach all recipients
	Less time to create	May be ambiguous
	Can be done from anywhere	May not respond quickly
	Content controlled by sender	May disregard as unimportant
Formal report	Complete, comprehensive	Less personal
	Can organize material	May take considerable time in reading
	Can disseminate widely	May not be understandable
	Can control content	One-way flow
	Can state audience	Delayed feedback

THE BUSINESS OF LISTENING

Listening takes up more waking hours than any other activity. For example, some activities and the percent of time used are as follows:

Activity	Percent of time
Waiting	9
Reading	16
Talking	30
Listening	45

How well do we listen? Immediately after the average person has listened to someone talk, no matter how well the person thought he or she was listening, the person remembers only about half of what was heard.

What happens as time passes? We tend to forget from 1/2 to 1/3 more within an 8-hour period. As a result, 75 percent of oral communication is ignored, misunderstood, or quickly forgotten.

Why are we poor listeners? We take mental vacations. Our natural physiology allows us (as American English–language speakers) to speak at a rate of 125 words per minute, while our ear and brain can process at a rate at least 4 times as fast.

How do we listen?

1. We hear (but do not always listen).
2. We select which information to attend to (selective attention).
3. We feel something about the information (positive or negative).
4. We respond (based on what we selectively process).

AND IT ALL OCCURS IN SECONDS

ALWAYS LISTEN FOR WHAT IS NOT BEING SAID

IT IS BETTER TO REMAIN SILENT, AND BE THOUGHT A FOOL, THAN TO SPEAK UP AND REMOVE ALL DOUBT

IF WE WERE MEANT TO SPEAK TWICE AS MUCH AS LISTEN, WE WOULD HAVE TWO MOUTHS AND ONE EAR

IRRITATING LISTENING HABITS

1. Does not give me a chance to talk.
2. Interrupts me when I talk.
3. Never looks at me when I talk.
4. Makes me feel that I am wasting his or her time.
5. Doodles and draws pictures all the time.
6. Continually fidgets with a pencil or something.
7. Paces back and forth as if impatient with me.
8. Maintains a poker face and manner.
9. Ignores me while taking incoming phone calls.
10. Gets me off the subject with questions and comments.
11. Asks questions as if he or she doubts everything I say.
12. Whenever I make a suggestion, he or she throws cold water on it.
13. Always tries to get ahead of me by finishing my sentences.
14. Rephrases what I say—puts words into my mouth.
15. Talks me around into a corner—makes me feel foolish.
16. Frequently answers a question with another question.
17. Asks me to relate what I just told him or her.
18. Always takes notes when I am talking.
19. Argues with everything I say.
20. Passes the buck on problems—and never smiles.

REMEMBER, IF YOU ARE TALKING,
YOU ARE NOT LISTENING
MOST PEOPLE DO NOT NEED A DOCTOR,
THEY NEED AN AUDIENCE

Case Example: Organizational Communications

Francisco Ishadi was the controller of all accounting functions for a mid-size company, Specialty Metals Inc. (SPI), which produced specialty products for the telecommunications market. Its customers included all of the landline and cell phone providers—basically a captive market. While the company's profit margins were relatively small (e.g., less than 10 percent for most items) due to the nature of repetitive volume business the company produced a more-than-adequate return on investment. While there was little that could be done on changing pricing policies to increase net profits there was always something that could be done to reduce costs—both manufacturing as well as nonvalue-added functional costs such as the accounting functions that Francisco was responsible for.

Francisco had started with the company directly out of high school as an accounts payable clerk. The company recognized him as a hard diligent worker with an eagle's eye for details. Francisco would scrutinize every vendor invoice that came within his domain not only for accounting accuracy but also as to the need for the items in the first place. While other employees learned to hate him for his fastidiousness to details that didn't concern him as to their operations, top management loved him for pointing out in-economies and inefficiencies in operations—that is, unnecessary expenditures. He became known in the company as Big F and not necessarily for Francisco or for his fastidiousness. As a reward for his assistance in containing unnecessary expenditures company management paid Francisco to go to college at night for an accounting degree, which he achieved in less than three years and then going on for an MBA.

His initial boss at SPI, Hans Horner, was a hands-off type of manager. As long as everything got done in time, just leave him alone. Hans was a meeting goer, attending one meeting after another from the beginning of the day until the end of his day. If one of the employees needed his approval on something, his standard reply was "do whatever you think is best, that's why you get the big bucks," always said with a little chuckle. The truth was that employees in the accounting department were the lowest paid and if employees complained that the workloads were getting too great, Hans would hire another accounting clerk. But he believed he saved the company money by being stingy on raises and promotions. The employees understood the system and did as little work as possible or left the company in frustration. Hans didn't care as there was always another snook that needed a job—an accounting clerk was an accounting clerk, and they were all interchangeable. Hence, enter Francisco, stage left.

By the time Hans retired Francisco had worked himself up to accounts payable manager and was saving the company large sums of money through his overzealous scrutiny of expenses. In recognition of his contribution of savings to the company he was given Hans's job as controller. Francisco's business life had to do with paper scrutiny not necessarily the necessities of company operations. In his zeal to question and eliminate all expenditures that he believed were unnecessary he had alienated almost everyone in the company including the accounting department employees. Francisco's mantra was "cut the costs, ignore the people." When he had first started with the company the accounting department was all male but now it was mostly female—who else would work for those wages. Gospel, according to Francisco, was that women weren't hard workers, wouldn't work nights, or do heavy work.

As a college graduate, the hard way, Francisco also gave special preference to college graduates as if the college degree made you smarter—and college graduates didn't get dirty. His experience in working with the plant employees was that so-called blue-collar workers were not good administrators and had no sense of economies and efficiencies—he would have to continue scrutinizing their activities.

When Francisco took over as controller he had developed minimal people skills. As long as he was primarily responsible for his deskwork he survived well. "You couldn't argue with what was there in black and white." But now he was responsible for all of those employees within the accounting functions such as accounts payable, accounts receivable, payroll, and the holy general ledger that Francisco kept as his personal domain.

Francisco continued to scrutinize every transaction from the confines of his office. He arrived earlier than anyone else in the department and left later. His door was always closed, as he saw no reason for any of the accounting staff to have access to him. That was why each accounting function had a manager. If the manager couldn't handle the situation then he would have to get another manager.

Francisco kept a memo pad (the pad of doom) by his desk. As he saw something he didn't like he would jot it down for the respective accounting manager. As he left each night and turned the lights off he would drop off these notes on the desk of the appropriate accounting manager. The unwritten message was to take care of these items ASAP if not sooner. The problem was that the manager had to guess what Francisco wanted.

While Francisco told each manager "my door is always open," it was a black-death experience to be caught in his office. Invariably, one of the accounting managers didn't do what Francisco thought he had clearly asked for. And when that got him in trouble with upper management he would call the accounting manager or accounting staff into his office and rant at them. "Look what you made me do. Because of you I'm in deep trouble with the big guys." The employee whined, "I did what you wanted." Francisco saw this as a sign of poor attitude and not being a team player (what team?) and in need of improvement or replacement.

**TWO-WAY COMMUNICATION
WITH MUTUAL UNDERSTANDING
IS ALWAYS BETTER THAN
ONE-WAY DIRECTIVE COMMUNICATION**

***He had to think once again,
and he never liked the experience***

Communication Principles

In a working-together atmosphere there needs to be clear communication—upward, downward, and horizontal. To achieve maximum results—that is, all employees singing from the same songbook—good communication requires both a speaker and a listener engaging in clear two-way communication. Without the ability to question there is little chance for clarification. When the manager dictates a request from an employee reporting to him or her, there is minimal opportunity for clarification, and since the employee can't read the manager's mind, there is a large possibility for miscommunication. And when the employee fails to properly carry out the manager's demands it is the employee who has failed. Very rarely will the manager look at his or her own behavior in the communication. If something goes wrong he or she has the employee to blame. Sometimes, such a manager finds an employee who can read his or her shorthand and somehow understands the manager—and is rewarded for this skill rather than competence and achievement of results.

Ensure that all employees are included in the company communication system. Eliminate all signs of stereotyped assumptions and build teamwork and a working together, not working for, organizational atmosphere. The burden of clear communication is on the manager as well as the employee. Many times, employees are promoted to management positions primarily for their technical skills and not necessarily for their communication skills in dealing with others. In fact, for many managers dealing with those employees reporting to them is scary—why can't they just do what is expected of them, do the job without bothering me. However, effective communication is one of the major requirements of an effective manager. Unless there is clear two-way communication between those giving orders or providing instructions and those receiving the message there is great likelihood that things will run afoul. I hear what you said but what does it mean? Directives without clarification are setups.

ONE CAN'T DO
WHAT ONE DOESN'T UNDERSTAND

Case Example: Evaluation Systems

Billy Blandon had always been an overachiever, an A student well respected for his hard and always complete and overcompetent work. Academically he breezed through school, undergraduate, and graduate schools culminating in an MBA from a prestigious Ivy League University. He was readily accepted in his first choice for employment at the largest New York investment banker. Through his hard work and competence he was always evaluated as outstanding and was on the fast track to a vice presidency. Most of his fellow employees who had started at the same time as he had were no longer with the firm—either having left on their own (seeing the handwriting on the bonus check) or helped out by management. At this point, Billy was competing for a top spot with all of the other survivors, each of whom reported to a vice president. Billy had survived through his hard work, competence, and long hours. He knew that some of the other survivors had risen through their more personal traits and schmoozability. While top management liked Billy's work, they liked the other survivors better personally. It was the age-old question of promotion through hard work or through personal liking.

When the next vice president promotion was announced Billy believed that he was a shoo-in. He worked harder than any of the others, putting in longer hours and producing better results. He avoided the camaraderie of lunches and happy hours with the staff and the higher ups—what did that have to do with getting the job done? When the e-mail came out naming Lance Ralston the next vice president Billy was shocked. Lance was everyone's buddy, a party boy, and rumors were that he took care of top management in the female department—do I have a girl for you. In fact he was known in the firm as *the matchmaker*. Billy went to the head of human resources, Phil Glaxner, a vice president of long standing. Billy confronted him with his past evaluations, outstanding in every category since he started with the firm. He knew that Lance couldn't compete with his evaluations. With respect to Billy's long standing with the firm Phil confessed that all of the candidates for promotion had outstanding evaluations throughout their careers with the firm. How else could they have survived?

Billy shook his head very confused, "I don't understand how I am getting outstanding evaluations while those other people who do much less work with less results are getting outstanding evaluations as well." Phil looked at Billy, "I think you need to take that up with each of the candidates' direct managers. I can't question a managers' evaluation, yours or any others."

Billy looked Phil overconfused, "I thought the purpose of an employee evaluation was a communication tool to inform you of how you were doing and whether there were any areas where you needed improvement. And that the role of the manger was to coach the employee to make such improvements."

Phil smiled, "Absolutely, communication is the key. That's why our system works so well."

EMPLOYEE EVALUATIONS
ARE A DOWNWARD COMMUNICATION TOOL

It is one of the organizational communication golden rules that every employee, staff, or management must know exactly what is expected of him or her, the manner in which he or she would be evaluated, expected results, and related rewards. In this manner, there are no surprises or subjective judgments by those higher up in the organizational hierarchy. It is always a plus to those who report to you (and follow your orders), but objective evaluations must be based on performance (technical and behavioral) and results achieved—whether you like the individual or not. Employee evaluations are meant to be a communication tool to provide objective feedback to employees as to those things they are doing right and should continue, and those things not so right that the employee needs to work on with coaching from management or other employees. As the employee grows by increasing the achievement of results, so does his or her rewards. In addition, an astute manager can pick up positive traits of one employee that can be shared with other employees—that is, peer coaching. Effective communication requires both the speaker and the hearer understanding the same message.

Enforce the use of employee evaluations as to consistency and accuracy and use as a communication tool to provide usable feedback to employees and as a basis for an effective coaching contract. Understand that employee evaluations are not an annual event to be dreaded by management but a continual evaluation system that helps each employee make desired positive improvements. This, of course, requires managers to be able to effectively provide coaching for those employees to improve. As each employee improves so does the overall result of the work unit. Treating employee evaluations as an annual task, that is, taken lightly by giving all employees positive evaluations serves neither the employee nor the organization. The process of rewarding all employees similarly with no distinction for outstanding work or less-than-satisfactory work, usually results in moving all employees along—the good, the bad, and the ugly. Communication suffers and employees come to the wrong conclusions, that is, it is less important what results you achieve and more important who you can influence (or bullshit).

EMPLOYEE EVALUATIONS
ARE A DOWNWARD COMMUNICATION TOOL

Case Situation 1: Three Card Monte

Roger Spikes, a manager of research and development, was a very permissive-type manager. He left his employees on their own to do their jobs while he maintained communication with the higher ups. Roger and the 22 professional staff reporting to him were all graduate engineers. Most of these employees had graduated from college in the past five years, many with advanced degrees in areas such as laser technology and computer sciences.

Roger has been out of school for more than 20 years with only a bachelor's degree in electrical engineering. The state of the art has passed him by; he feels he can still manage administratively but not technically. He receives research and development projects from the top management, and feels quite confident as to assigning of personnel and developing time schedules, but leaves the technical aspects to the assigned employees. When the project is completed, the project team briefs Roger so that he can communicate results to the upper management.

One of the engineers, Ellis Rodent, in the course of working on a project, developed a revolutionary method of manufacturing the company's major product that could possibly save the company millions of dollars a year. Ellis presented the concept to Roger, who understood almost nothing Ellis was saying, but assured Ellis that he would present it to top management immediately, as "this was a real breakthrough." After eight months and not hearing anything about his discovery, Ellis went to Roger, who denied ever discussing Ellis's new method.

Ellis, fuming in professional disgust, went over Roger's head to the vice president of operations, who of course knew nothing about what Ellis was screaming about. Ellis left a copy of his report with the vice president, who assured him he would hear something soon. As soon as Ellis left his office, the vice president called Roger who claimed he knew nothing about such a method and joked about having to deal with crazy engineers. They both agreed to keep a close watch on Ellis as a potential troublemaker. Ellis brought nothing more to Roger that was above his job assignment. He would leave the company if there were anywhere else to go, but when there is a way he goes.

MANAGEMENT GETS IN THE WAY OF DOING THE RIGHT THING

Basic Business Principle

To be most effective, an organization must have free flow of communications and information in all directions—upward, downward, and horizontal across employees within a department and across functional lines in different departments. The manager of a functional area is responsible to achieve maximum results from those reporting to him or her through the effective exercise of expecting management roles, such as communication. Such communication must encompass not only the technical aspects of the job but also having the manager act as a communication conduit to other parts of the organization. The manager cannot be in the position of communication blocker for information affecting the department or other areas of the organization. The organizational communication system must flow smoothly horizontally and vertically throughout the organization. The manager cannot hide behind his or her position to shield his or her own deficiencies as a manager or communication link.

Best Practice Suggestion

Analyze communication systems throughout the organization, eliminating all bottlenecks, so that communication channels are open. As employees are evaluated periodically, so must each member of management be evaluated as to management as well as behavioral characteristics including technical expertise and communication skills. As time passes, the technical skills with which an employee, and then a manager, enters the company tends to become dulled due to changes in technology and acceptance of how things work within the company. There reaches a point where the employee's technical and other skills reach a point where they are no longer effective or continue to provide value to the company. Effective evaluation procedures should identify such employee and management weaknesses and take remedial action before such dulling of skills creates large costs to the company.

Case Situation 2: Read My Mind

Matthew T. McClatchy is a well-disciplined manager of corporate relations for a fairly large national corporation. He is an extremely proper, older gentleman who always sits and stands upright and never takes off his jacket to his three-piece suit. He gives instructions to his employees in very terse language and never affords them the opportunity to ask any questions. He is a man of very few words and rarely uses them. The employees call him Mr. McClatchy when with him and MT among themselves. When an employee completes an assignment, he or she submits it to Mr. McClatchy for review. He does not discuss it with the employee, but reads the written materials and prepares a written critique that invariably states that the employee is an imbecile and can't follow simple instructions. The employee always does exactly the opposite of what he wants. The employee redoes it and the same process ensues. The employees go along with this game of *read my mind* until eventually Mr. McClatchy rewrites the assignment exactly as he wanted it in the first place. The employees wonder why they are there. Without them, McClatchy's game would be no fun.

EMPLOYEES MULTIPLY YOUR EFFECTIVENESS, NOT DO WHAT YOU CAN DO

Basic Business Principle

Organizational communications systems are established so that communication flows smoothly in all directions. A manager who is unable to communicate clearly or uses his or her position to control those employees reporting to him or her is considered a communication blocker. Employees who are not clear what is expected of them in general or on a specific assignment will very likely not produce what the noncommunicative manger expects of them. As a communicator it is incumbent upon the manager to clearly communicate what is expected from each employee and then to hold the employee accountable to produce agreed-upon results. If the employee doesn't comply, the manager needs to ascertain if the employee requires his or her coaching or if the employee is untrainable. Belittling the employee very rarely produces positive growth. If the situation displays an incompetent manager, the manager needs retraining or replacement. One bad manager spoils the entire pot. Employees are responsible for their work, and managers coach and mentor.

Best Practice Suggestion

Review and analyze the organization's communication systems to determine where the system is most effective and those areas where there are blockers to effective communication. Such blockage can occur at any level within the organization, from the top to the bottom, and the blocker can be an individual, an activity, a function, or an entire work unit or department. Once such communication blockers are identified then remedial action needs to be taken that can take various forms from retraining or coaching to dismissal. Reappraise the manager and employee structure so that employees are most effective and managers are only used as needed—more coaching and less controlling. Develop an effective plan for moving the organization's communication systems toward best practices with a program of continuous improvements in place whereby all employees have input and can voice their concerns without retribution.

Case Situation 3: Dances with Words

Ellsworth T. Emright was an intellectual genius with a PhD in nuclear physics. Ellsworth joined the Sparks Company, a large defense contractor, as a research engineer. It was evident from the beginning that while Ellsworth was a scientific genius he was a social imbecile. He couldn't get along with any of his coworkers and resented working for a boss who was dumber than he was. There was only one thing for the company to do if it were to continue to employ Ellsworth, and it did it, it made Ellsworth the manager. While this pleased Ellsworth and he continued to work on projects no one else understood, he also continued to speak in highly scientific jargon that not only was above the heads of those above him but also those employees reporting to him. Ellsworth was individually effective but his department was not. There was only one thing the company could do, and it did it, it made Ellsworth the vice president of engineering. No one still understands him, but he says it so well.

IF THERE'S NOTHING ELSE YOU CAN DO,
KICK HIM UPSTAIRS

Basic Business Principle

Communication with each employee begins at the point of employment—and sometimes prior to employment in the hiring phase. Putting each employee in place within the organization's communication system can sometimes be difficult especially with an employee possessing an overcompetent and superior attitude. Sometimes such an employee needs to be singled out and isolated from the mainstream communication system—such as a technical expert who has difficulty communicating to others. Avoiding the obvious and promoting such an individual to get them out of the way usually results in creating a poor manager and penalizing those reporting to this person. Use the skills and abilities of your employees in the best manner possible—those who can manage, those who work well with and for others, and those that should work by themselves.

Best Practice Suggestion

Develop a plan, with effective procedures for implementation and operating, as to how to best use technical skills and administrative skills, without using management promotion as the reward. Reward employees for their individual and group contributions to results including their ability to communicate and work together with others. Don't ignore individual communication problems based on the employee's technical contribution to the company. Implement evaluation procedures that ensure that such communication issues are detected with a plan for remediation. If an employee is clearly possessed of greater technical skills than other employees, use that employee to teach and coach others to bring them up to the same level of technical skills. An overcapable employee who will not work with others and looks down upon them as to communicating with them most times becomes a company liability.

Case Situation 4: Put Me in Coach

Evelyn was the only female on the professional internal audit staff, other than the support personnel. Management frowned upon having female staff travel to company locations with male staff. Evelyn was thus utilized only at the headquarters location where travel was rarely required. Her director, Shaun, another male, considered her one of his top employees but he couldn't buck the company's puritanical policy of female travel. He knew that other companies were more lenient in their travel restrictions and attitude especially in the 21st century, but what was he to do. Evelyn continually urged him to put her on the more important location audits and reviews but he had to turn her down—it was against company policy and his hands were tied.

Shaun continued telling Evelyn what a wonderful job she was doing and giving her generous salary increases each year. Evelyn liked working for Shaun and the company but she wanted more challenging and differing assignments; she couldn't continue performing the same audits at headquarters year after year. She was becoming stagnant and thought about going to another company where she could get broader assignments and experience, but she really didn't want to leave the company.

She confronted Shaun about her dilemma. She told him "I don't know whether I'm doing a good job or not. It's the same job over again. You never tell me if I'm doing well or need to work harder. I need more challenging work. I don't think I can get it here at headquarters."

Shaun looked her straight in the eyes. "You are doing a fabulous job. Just keep plugging and I'll see what I can do to get you on some other location audits." He couldn't tell her that the female travel policy would probably never change—not with old man Harriman as president.

Evelyn went back to work, worked even harder, but nothing changed. She would have to be happy with the way things were or go elsewhere.

SOMETIMES THE POLICY IS WRONG AND NEEDS TO BE CHANGED

Basic Business Principle

Organizational policies are the turf of top management. As owners or managers they have *Reider's right to be obnoxious* in setting whatever policies they want for their employees. Such policies might be capricious or based on an individual value system but if employees want to continue working there they need to comply. Normally such polices are not negotiable, that is, the employee must conform. Should an employee question a policy that he or she believes is unfair or irrational, it tends to only get him or her into trouble. However, sometimes the policy is wrong, and rather than the employee conforming to a damaging policy, the policy needs to be reviewed and changed to conform to current circumstances. Policies dealing with such things as working hours, dress code, gender preferences, organizational hierarchies, expected behaviors, power by position, excessive controls, delegation of authority and responsibility, and so forth need to be continually reviewed as to changing with the times. Policies are set by management and need to be effectively communicated to all levels of employees.

Best Practice Suggestion

If a policy gets in the way of a company's effectiveness then change the policy, rather than looking for violations of a bad policy. When one is promoted into a management position it is a very heady ego trip to set your own constraining policies and then play the game of gotcha when an employee violates such policies. Policies are a communication tool to let employees know the ground rules upon which they perform their work. Policies may have a direct effect on the work such as deadlines for submitting certain work products such as weekly reports or may affect the conditions of work such as proper dress code in the office or level of politeness to others. If policies are helpful in getting the work done better or assist in increasing results, these policies are most likely helpful policies. However, if the policy merely forces others to comply with the policy maker's belief system without any value-added contribution, the policy should be reviewed for change or elimination.

Case Situation 5: Excuse Me!

Rodney worked as a senior systems analyst in the information technology (IT) department at the Garber Tool Company, a manufacturer of auto and airplane parts. Rodney was the project leader on the team assigned to implement manufacturing control systems for all of Garber Tools' locations, both domestic and international.

Rodney and his team had spent time at most of the plant locations observing and talking to plant personnel as to their requirements and needs with the new system. He and his team then came back to headquarters and proceeded to develop the computer system. Rodney and his team members had frequent conversations during the course of systems development, but he wasn't sure what manufacturing personnel were always saying and they weren't sure what he was talking about. Each one was afraid of appearing stupid or incompetent by frankly admitting that he or she didn't really understand what the other was saying or the meaning of certain terms being used. It was a case of the receiver of the message on both sides not knowing what questions to ask and what they were supposed to know or not.

When the system was completed Rodney presented it to all of the locations with much fanfare. He was quite proud of what his team had accomplished in a relatively short time—only five months over schedule, the best IT had ever done. Manufacturing personnel were quite impressed with the system installation—it actually worked. However, over the next few months, they discovered that the system provided them little of what they really needed. Rodney insisted that the system effectively did what he understood they wanted. One by one, each plant location went back to its old outdated system—at least it told them something that they could rely on. Rodney stood behind his system as the IT ship sunk.

IF YOU DON'T ASK THE QUESTION
YOU WILL NEVER GET THE RIGHT ANSWER

Basic Business Principle

Always ensure that there is effective communication between the sender and receiver—upward, downward, and horizontal—before proceeding on any action. In working in a staff capacity to fulfill another's requirements it is paramount that clear communication be present. When working with different disciplines it must be recognized that each discipline has its own jargon and methods of communicating—for instance, the use of acronyms, initials, and code words and names. In this case, IT speaks one language and manufacturing speaks another. For IT to be helpful to manufacturing they must learn the other's language and to a lesser extent vice versa. Until absolutely clear communication is achieved there is a greater chance that miscommunication will occur. For a project such as developing and implementing a computer system without clear communication the chance of error increases substantially. Before things are set in stone (in this case programming language) each side needs to be clear as to what is being done.

Best Practice Suggestion

Construct an effective communication feedback system on any project involving multidisciplines, especially where differing technical terms and jargon exist. It is a good idea to enlist the services of an interpreter, who is one who understands both sides of the communicators, to ensure that each party fully understands the other. It is more difficult to expect one party or both to change their communication pattern to fit a specific situation. It would be ideal to expect everyone to communicate in the same manner throughout the organization but unfortunately each discipline has developed its own method of communication. We all speak the language of our own field of endeavor—accountants, sales, marketing, manufacturing, personnel, legal, human resources, management, quality control, customer service, and so forth. We need to understand this principle when communicating with others. As it helps to know the foreign language when dealing internationally, it is also helpful to know the internal language of those we work with.

Listen, Rethink, and Relearn

CHAPTER 8

Management

The typical hierarchal organization structure tends to create varying layers of management. This model, rather than being a helpful system, usually results in additional cost inefficiency, and less-than-desired results. Differential systems for organizational, departmental, and functional management (i.e., a coaching or mentoring model, helpers and facilitators, motivating disciplined behavior allowing the employee to self-manage, participative or shared management) need to be used to bring the three Es (economy, efficiency, and effectiveness) back into the organization and to keep them there. Top management needs to be convinced to make the necessary changes even when they are strongly resistant and want to keep the old ineffective system going, as it may selfishly be working for them. The role of management and its purposes need to be reexamined, redefined, and recast in the organization. We need to decide what the real role of management is and then get back to the purposes of why the organization is in business—that is, customer service, cash conversion, and of course to make money.

Most organizations place positive values on employees who desire to move upward in the organization—that is, into a management position. If you can't move up we'll have to move you out. What sometimes results is a system where employees actively seek the reward of a management position that may be in their own worst interest—making an insecure position more insecure. A healthy organization is one where the employees feel good about themselves and the organization. Usually this occurs where policies, procedures, systems, and expected behaviors make sense to the employees. What is happening in some organizations is that employees are being pressured to move from relatively comfortable positions as employees to personally uncomfortable positions as managers—or replaced by less expensive personnel to do the same job.

**DO YOU WANT TO MANAGE,
AND DO YOU HAVE THE RIGHT SKILLS**

Much has been written, and many training programs exist, regarding the so-called *management functions* and how a good manager must master them. While these management functions need to be understood, it is only to the extent that they apply to the specific organization and the expectations of the position. Not all managers are expected to perform all of these functions, nor should they be expected to perform them in the same manner.

Major Management Functions

Although there are many so-called management experts and numerous volumes written about the management functions, the following seem to form a consensus as to the major management functions.

Planning

This function normally consists of activities such as data collection, forecasting, setting objectives based on desired results, developing strategies, identifying needed resources, specifying constraints, programming activities, budgeting resources to results, setting procedures and systems, determining policies, considering alternatives, evaluating pros and cons, making decisions, determining schedules, implementing plans, evaluating, and replanning. The planning function can encompass overall organizational planning such as long-term and strategic planning, departmental and functional planning of a shorter nature (usually one year or less), detailed planning as to how to achieve results using best practices, and the monitoring process to ensure that plans are successful and desired results are achieved.

Organizing and Staffing

Although many times managers become heir to an existing organization structure, the manager still must be held accountable to effectively organize (or reorganize) and staff those functions that report to them. To accomplish this the manager may be involved in the following management activities: the establishment of the desired organizational structure, defining related relationships and job responsibilities, creating position expectations, setting job qualifications and expected results, selecting the right employees and not more than is necessary, training–coaching–mentoring, and developing staff to achieve results.

Directing

There is usually a confusion by most managers, especially new managers, as to what is required of them as to performing the task (of which many have been promoted to management based on how well they accomplished their tasks), and what is their role in directing others to accomplish the necessary functional tasks (i.e., achieving effective results through others). For instance, the directing of managerial activities such as the delegation of employee responsibilities and authority; motivating personnel to achieve results; coordinating interrelated activities; communicating downward, upward, and horizontally; managing differences; and effecting change.

Controlling

As an employee the individual is mainly responsible for accomplishing his or her own task assignments. Now that one is a manager, he or she is now responsible for controlling the activities of all employees who report to him or her. This usually requires some degree of people skills as well as knowledge of the tasks involved. Included in this management function might be things such as developing objective performance criteria, establishing meaningful and helpful reporting systems, measuring and objectively evaluating results, taking appropriate corrective action, and rewarding performance based on objective performance criteria.

THE MANAGER IS THE ONE WHO ANNOYS THE EMPLOYEES
BY ASKING FOR SOMETHING TO GET DONE

Unbridled management quickly becomes
power without wisdom

The exercise of management ensures
that no good deed goes unrewarded—
many times negatively

Management needs to be
as much giving as it is taking

Do managers possess wisdom forged by experience—
or experience without learning

Managerial Attributes

There are as many managerial attributes as there are so-called management gurus, but here is a list of those that I consider the most important.

1. Ability to spot the opportunities—recognize the wow! factor.
2. Freedom (not power) to control things.
3. Thrive on change—love the challenge and make it work, not look for why it won't work.
4. Confidence—persistent and patient that it will work.
5. Creativity—building the better mousetrap, looking for your uniqueness.
6. Self-confidence—I know and it's true that I can succeed better than the others.
7. Feet on the ground versus pie in the sky—practical with your dreams.
8. Know thyself and learn from mistakes—yours and others.

Functions of a Manager: A Facetious Scenario

As nearly everyone knows, a manager has practically nothing to do except

- decide what is to be done;
- tell somebody to do it;

- listen to reasons why it should not be done, why it should be done by someone else, or why it should be done differently;
- follow up to see if the thing has been done;
- discover it has not been done;
- inquire why it has not been done;
- listen to excuses from the person who should have done it;
- follow up again to see if the thing has been done, only to discover that it has been done incorrectly;
- point out how it should have been done;
- conclude that as long as it has been done, it might as well be left where it is;
- wonder if it is time to get rid of a person who cannot do a thing right; to reflect that he or she probably has a spouse and large family and certainly any successor would be just as bad and maybe worse;
- consider how much simpler and better the thing would have been done if one had done it oneself in the first place;
- reflect sadly that one could have done it right in 20 minutes and now has to spend two days to find out why it has taken three weeks for somebody else to do it wrong.

**THE ART OF MANAGEMENT
IS TO GET OUT OF THE WAY AND ALLOW OTHERS
TO DO THEIR JOBS AND ACHIEVE RESULTS**

***First you are scared of the wolf,
then you want to dance with the wolf,
now as a manager you want to be the wolf***

***It's not the shape or color of the cat,
but whether the cat catches the mice***

***Those who do not learn from their experiences,
are condemned to repeat them as managers***

***When I need the experience,
I find that I have not had it yet***

Does the manager fail the business, or does the business fail the manager

Being promoted to a management position, does not mean you own any management skills

Best Practice Passions: Managers and Those Other People

Often employees are promoted to management positions (as new managers or from one management position to another) based on more subjective criteria such as loyalty, seniority, obedience to directives, favoritism by their boss, and so forth, rather than more objective criteria such as the possession of desired management attributes and the ability to lead and direct others to accomplish results. Accordingly, here are some best practice directions to move toward.

- The art of management is to achieve maximum desired results with the minimum allocation of resources. Much of present management consists of getting in the way of others.
- Managers are to be rewarded based on results achieved not on building budgets and unnecessary empires.
- An employee is never hired unless he or she can multiply the effectiveness of the manager and his or her cost is less than the value received.
- Effective managers ultimately work themselves out of a job. Not every function or activity needs a manager—let the employees do their job.
- As intelligent and functioning adults, employees need to be given the permission to be themselves (do the job their way but achieve results) and the permission to fail (and to learn from such failures).
- Managers help employees to motivate self-disciplined behavior so that they are fully responsible for results—the manager provides the coaching.

- Managers should be rewarded based on results such as decreasing budgets. If the manager saves the company money, be prepared to share the cost savings.
- The less amount of management, the easier to manage the company and the more efficient the operations.
- Eliminate nonvalue-added management that merely polices and controls the work of others—start with the chief executive officer (CEO) and his or her entourage and work downward.
- Change the concept of management
  - From one of
    - executive—directing the work of others
    - governance—establishing the rules for work
  - Officiate—ensure and evaluate that the work gets done your way to one of
    - coach—employees to work more efficiently
    - help—employees to increase results
    - assist—employees to learn
    - mentor—employees in best practices
    - problem solve—to fix the cause not the blame

RESULTS, NOT CONTROL,
IS THE BUSINESS OF MANAGEMENT

The manager is responsible for deriving greater benefits than the cost of each employee

The effective manager adds employees only to increase overall effectiveness

More employees do not always produce greater results

It's not the number of employees, it's knowing how to use the right employees

Motivating employee self-disciplined behavior makes the manager more effective

Emphasize controlling costs and results—not controlling the people

From Employee to Manager

Most new, young employees feel insecure around older management personnel, as management has the power to evaluate and eventually promote you—as well as the power to fire and rehire someone else. Such power is especially effective in those companies where employees are considered interchangeable, no one is indispensable, and an employee unless considered for a management position becomes too costly after a number of years (would you believe three to five years?). A normal reaction to management in such an organizational atmosphere is to say as little as possible to them, thus reducing the chance of saying something wrong. The new employee learns quickly to become an obedient child and only answer when asked. Many times they shake their heads at the incompetence of their boss and the inability to recognize what needs to be done. The good employee, the one who best performs this dance of obedience, eventually is promoted to perpetuate the cycle.

Jack works for a company where this type of management is practiced. Jack is a fairly smart guy, dean's list with a 3.8 grade point average, and understands what is expected of him. That is, do what the boss asks him. He does the work, the boss reviews it and has him redo it, and then the boss shows it to his bosses as if it is his own. Jack does the work, the boss takes the credit—Jack gets the A and the boss gets the bonus and the preferred parking spot. Eventually, Jack is promoted to a manager's position. One would expect that Jack would correct the bossing behaviors that he had complained about for years. However, Jack became just like the rest of the managers, assuming the bossing style of intimidation. He started to dress like a manager on the rise. While Jack looked like a manager (dressed for his success, but his employee's distress), his incompetence was written all over his club tie.

CLOTHES MAY MAKE THE MAN, BUT THEY DON'T PRODUCE RESULTS

Managers are expected to assist those reporting to them to become the best they can. Such an arrangement is in the best interests of the company. Assuming the role of intimidator for those employees reporting to the manager usually creates an adversarial relationship between the manager and those reporting to him or her. The boss looks down on those employees supposedly under his or her charge—what can you do with such idiots—and the employee produces out of fear of a bad evaluation, becoming unpromotable, or losing his or her job. The employees may shirk from their bosses, hiding so that they avoid the boss's wrath. After living under such abominable conditions for some years, it is remarkable that when an employee is finally promoted to a management position, he or she becomes just like those menacing bosses. Power and control become a heady aphrodisiac. The manager is the coach or team leader, not the director of intimidation.

Once the decision has been made as to where and how many real managers you need to be most effective, there must be an effective process whereby employees are trained to become effective managers prior to becoming managers. And once a manager there needs to be an effective process to continually coach and train those individuals as to becoming the most effective managers. As employees need feedback and periodic evaluations of their performance in producing effective results so that they can become better at their jobs, so do managers. So who manages the managers? Whether an employee or a manager, one must know what is expected of him or her.

Management Styles

There is some best practice concern as to management or bossing styles; that is, the best style to achieve results from others. As I understand this concept, the manager adapts the prevalent management behavior that fits the organization and the employees being managed to successfully achieve desired results. This sounds good, but can most managers really change their basic ways of behavior? There are training programs and tests to determine an individual's predominant management style and what needs to be changed. However, many of these managers have lived under subservient conditions most of their working lives, characterized by critical parents who tell you when you screw up, but say nothing when you do something right. It is a working atmosphere where the boss is always right and the employee is always wrong—I'm OK, You're Not OK. When these individuals become managers, they follow the same formula; now they are right and the employees are wrong.

Peter Rogers had a boss who never had anything to say to him except a disapproving scowl—a message conveying dissatisfaction, gas, or acid indigestion. Pete felt like he was doing more than an adequate job, maybe even a terrific job, but he was getting no feedback. He competently did what he thought was expected of him, but received no encouragement from his boss. He felt very not OK, as he watched other employees coming and going from the boss's office. At his next annual review, the boss gave him a very positive evaluation. Being even more confused, he asked the boss why he was being ignored. The boss looked down at him with scorn and said, "If you were screwing up like the rest of those bozos, you'd be in my office too." He left the boss's office thinking "if I'm so OK, why do I still feel not OK."

RATHER THAN SEARCHING FOR YOUR BOSSING STYLE, TRY BOSSING WITH STYLE

One of the manager's key roles is to motivate employees to develop work habits that maximize the results expected of them. The manager is expected to coach and lead each employee based on each employee's strengths and weaknesses and skills and abilities. The competent manager recognizes that each employee is different and plans his or her coaching methodologies based on each employee's needs. While the manager may set the course for the work team, the effective manager needs to learn how to release and let go of a tendency to overcontrol so that each employee can meet expectations. Employee evaluations should be continual with employee feedback an effective communication tool between the manager and the employee—with adequate rewards as a form of positive intermittent reinforcement for those exceeding expectations. The manager's role is to encourage, not discourage employees.

Ensure that all employees who are promoted (or hired from the outside) into manager positions have been properly trained in the intricacies of what it means to be a manager. Placing individuals into management positions without the knowledge or abilities to manage and deal with people who report to them is like electing politicians because they put on the best advertising campaign. As management can be defined as the art of maximizing results through others, it is logical that each manager should possess the skills to do just that. Titling someone with a manager's title does not make a manager. The practice of promoting individuals into management positions because they have put the time in with the company or because there is an open spot on the organization chart should not be the criteria for making one a manager. Forcing individuals to work with managers who cannot help and coach them to be better at their jobs creates a gross disservice to employees. What the organization needs are more capable mentors and coaches, and less controlling managers who seem to get in the employees and the company's path to successful results.

Management Is Knowledge

Many companies have no formal or effective training program or promotional criteria for new managers. They may however have a policy of promoting from within and work under the concept that the manager is in charge and is always right. If an employee questions the manager's decision, it is considered insubordination and cause for dismissal. Promotions to management positions many times emanate from the existing manager recommending one of those who reported to him or her. Thus, existing managers have ultimate decision-making power as to who else gets promoted into the management ranks. The personnel department may process the paper work but may have no real decision-making power as to management promotions. Many companies believe that this system of manager selection works best as it maintains control within each department.

The production control (PC) department is in need of a manager, as its manager has just been promoted to a higher position. Sam, the production manager, to whom the PC manager reported, asked him whom he thought should succeed him, and he suggested Frank Hayes. Frank was a very outspoken individual, but an excellent worker who always got his job done, and knew the PC systems inside and out. Frank, however, had a number of run-ins with the production manager, who considered Frank a troublemaker.

So instead of promoting Frank, Sam the production manager selected Kevin Cloud, a mediocre worker who always followed orders. Kevin had been with the PC department for only a few years but had never given the production manager any trouble and always said "yes, sir" and knew how Sam liked his coffee—stirred not shaken. As soon as Kevin took over the job as PC manager, he made it clear how things would work. Somehow, over the weekend, he had learned everything he needed to know to be a manager. He ran the department strictly in a controlled atmosphere, doing whatever the production manager asked him to do. While morale and potential productivity suffered in the department, management was satisfied.

IN THE SEARCH FOR EXCELLENCE,
MEDIOCRITY PRODUCES MEDIOCRITY

We need to know why we are in business, from the very top to every function and activity within the organization. To achieve such results it is incumbent that the company has the right employees working for the right manager. Most managers find it easier to work with those employees who take direction and follow the orders of the manager without questioning (the obedient child). However, sometimes the manager is wrong and certain employees might question the wisdom (or idiocy) of the manager's approach (the rebellious child). It is these employees who cause trouble in the mind of the manager—in spite of the possibility that the employee might be right and the manager wrong. When the time comes for promotion, often the obedient child gets the promotion and the rebellious child who might be the better candidate gets the bad reputation. In this manner, the organization builds a management team of followers while creativity and innovation get ignored. A possible best practice is to reward employees based on results, and promote based on ability.

In the search for best practices, the company should redefine its promotion criteria so that for those management positions vacant the best individual is selected based on clear and objective criteria. Innovation and creativity should be rewarded even though such individuals might be more difficult to manage. Functions and activities should be reviewed and analyzed as a team effort, with each position filled with the most capable individual including the management function. The team player isn't necessarily the one who follows orders best but possibly the one who questions why we are doing something in the first place—and possibly has a better way of doing it or maybe even eliminating the need for the activity. Not every employee wants the responsibility and the necessity of dealing with others—they just want to do their job the best way possible. Reward each employee for the results he or she achieves not for his or her organizational position. Don't pay for unnecessary functions.

Employee Versus Manager

Most employees don't need a supervisor or manager to oversee their work in a policing, control, review, and redo modality. What employees need from the time of hiring and throughout their tenure with the organization is initial adequate orientation as to what is expected of them, specifics of what their job entails, and then ongoing coaching as to how to be most efficient and effective in their jobs as they progress within the company. Each employee needs to understand what is expecting of him or her, via an oral or written contract for expectations, through effective communication with those in positions to evaluate his or her efforts and results. Such contracted expectations and results form the basis for compensation that should take the form of intermittent positive reinforcement—no need to wait for an annual review, as employee evaluations become an ongoing process. Trusted employees must be trusted; otherwise, you have the wrong employees. You don't need more managers; you need self-motivated disciplined employee behavior with effective coaches. You are not in the management and administration business, you are in the results business.

Hire employees based on well-defined criteria that provide for employees that can help your business to grow and prosper. Employees don't need managers who direct them as obedient children but as mature functioning adults. Achieving organizational results is every employee's business, manager or not, and each employee needs to be accountable for his or her own results. Don't build an organization based on the typical military model with its constraining and controlling chain of command, but build your organization with competent personnel who know what they are doing and can accomplish what is expected of them without being unnecessarily overmanaged. Each employee becomes an entrepreneur and a profit center within the company focusing on multiplying the effectiveness of the organization. Minimize managing, maximize coaching, and multiply effectiveness.

For instance, the owner and CEO of a very old line, conservative, industrial company is Donald Matthews, an ex-military man from the Second World War. He likes things organized and by the numbers. The company's organization chart looks like a battle battalion, with all divisions with the same chain of command. He is known as *the general*.

With business down, the general desires to streamline operations. It is apparent that the company is extremely top heavy with management. However, those in management positions are not going to blow their own security whistles. After two relatively bad quarters, the board of directors (known as what else but the *joint chiefs of staff*) is pressuring the general to cut costs by decreasing staff. A plan was developed that streamlined each division by eliminating unnecessary levels of management and supervision. Within a month, the general posted a list of employees to be furloughed (in a terminal manner). Not one of those on the list was a manager or supervisor. Generals don't dispose of officers—enlisted men can be replaced.

ORGANIZATIONS DON'T NEED OUTSIDE ENEMIES, THE ENEMY LIES WITHIN THEIR OWN WAR ZONE

Management Promotional Criteria

A number of businesses embrace the philosophy that they shouldn't reward employees until they have been with the company a number of years and have proven themselves. Accordingly, they offer lower starting salaries with the prospect that the employee will make better money once he or she is promoted into a management position—the spoils-to-the-top philosophy. The concept of promoting from within for loyal and faithful service sounds humane and supportive to long-term employees. However, one must question the growth of each employee's contribution to the company to warrant the promotion to management. And under what conditions have those employees served and what did they learn while completing their servitude as nonmanagement employees. You put in the years and put up with us and you'll be rewarded. And what kind of manager do these employees become. In effect, a top-heavy organization is created with high costs and minimal contributions. Where every employee, or a large percentage, is a manager, what is left to manage? And, as in this situation, is the organization flexible enough to adjust to changing economic and industry conditions? The internal focus and plans of the company need to be flexible with regard to external changes in the environment.

One of the responsibilities of the management is to maximize results at the least cost with scarce resources through the use of the most efficient systems and methods. This entails using personnel resources in the most efficient manner—that is, achieving results with the minimal number of employees and managers. Using a promotion to the management ranks as an inducement and reward to employees for loyal service not only creates a competitive (and possibly back biting) employee atmosphere but also eventually a top-heavy and costly management structure. The organization, especially one that is employee dependent, must analyze how to accomplish results with the least number of employees and management personnel to provide desired services and maintain their competitive position. The company must continually plan and replan as internal and external conditions change so that the company always operates most efficiently and effectively.

As an example of this philosophy of management promotional criteria let's look at the Semple Store, an old, family-owned, regional department store chain. William Semple, the CEO and grandson of the founder, perpetuates the company's business philosophy of promoting from within, as a reward for loyal and faithful service. Although they pay less than other businesses in the area, once an employee becomes a manager, his or her compensation far exceeds the others. William believes in rewarding his managers, for past services and current contributions to the management team. The company has a large proportion, more than 40 percent, of its employees with more than 20 years' service. Most of these employees are presently in management positions, as the criterion for promotion to management is mainly seniority.

The company has always enjoyed a favorable reputation where it has stores, usually the keystone store in the downtown area, emphasizing quality merchandise and service. However, the trend over many years has been a migration to suburban malls with an emphasis on discounting both price and service. Due to these conditions, the company is having financial difficulties for the first time, with sales decreasing sharply while costs remain stable.

The company's promotion philosophy has resulted in a top-heavy management structure with a management team of blind devotees to company policy and a work staff of robotic followers. As long as the company stayed in its niche, it was able to survive. However, with drastic changes taking place in its market, it is no longer able to compete. It had succeeded in creating an organization that could move in only one direction; unfortunately the direction had changed. It had developed a work force that could adjust to neither the present condition nor be employable elsewhere. It had destroyed its own personnel's employability.

WE CAN NO LONGER DEPEND ON THE MARKETPLACE, WE MUST LEARN TO RUN OUR OWN BUSINESS

Employee Conditioning

If management treats their employees like idiots, lo and behold they will perform as idiots. With management's expectations so low there is little chance that any employee will perform to management's satisfaction. Should such an employee surface with creativity and curiosity, he or she will normally be pressured down into the accepted norm for idiocy or burn out and leave the company trying to change things that he or she believes even an idiot should be able to see. They tire of shaking their heads negatively and having to put up with gross incompetence. It's also interesting how an employee can live within this type of management by harassment. And when an employee is finally promoted into management it isn't long before he or she adopts the same management style as the others. Power—how sweet it is. A good organization is good at all levels, starting from the employee to the CEO. Condition your employees to be the best and you create the possibility of them becoming the best.

Personnel at the employee level have greater potential to impact the organization than those at the management level. However, in many organizations, managers may feel threatened by their own employees creating pressure to keep employees under their control. If an organization is to grow and prosper and be successful it must learn to release such power down to the lowest levels, and make each employee self-sufficient and responsible for his or her own contracted results. The role of management then becomes more one of oversight and coaching employees to be the best that they can be. Management needs to be looked at as a function and not as a position of reward for putting up with the company's crazy making over a number of suffocating years. Distribute power down to the lowest levels possible within the organization and then let the employee do his or her job. Get out of the way of those doing the work and results might actually improve.

Jim works for an abominable organization as to pay, working conditions, and management. This is Jim's first job out of college, at the time glad to get any job. Jim would continually complain about the company and how his bosses treated him like an idiot. Jim, of course, is smarter than the real idiots. Jim said he stayed there because he valued loyalty and he appreciated that the company hired him, but the real reason was that he was afraid to work anywhere else. He knew what he had here and he was accepted, even if it was as an idiot.

Over a period of years, Jim has moved up to a supervisor's position—a nice title but little additional responsibility or authority—basically a chief worker. However, Jim is now closer to the workings of the company and the management structure. He realizes how management gets the employees to do the work and then undermines them and takes full credit for the results. Eventually, Jim persevered within this system and was promoted to manager. Jim still feels that the company is just as bad, but now that he is a manager he can live with it easier. In effect, he has joined the enemy. He knows it, but he tells himself that he just wants the power after all the years of taking it.

IF YOU TEACH SOMEONE TO TAKE ORDERS, THAT'S WHAT THEY'LL LEARN TO GIVE

The Need for Management

Does every function need an assigned manager to ensure that it functions properly and that all employees are doing what they are supposed to be doing—that is, policing and controlling employees' activities and output? Can there be a function within an organization where such management can actually get in the way of employees' desired results and create more trouble then help. In a professional function (such as engineering and information technology [IT]) that requires highly skilled professionals who assumingly know what they are doing, do these employees need a manager to oversee them or someone who can assist them in doing their work more efficiently to achieve increased results? Are there other ways of providing such assistance such as shared managing and coaching, team management, and participative management with no one actually assigned the title of manager in name only? Can we effectively reduce or eliminate nonvalue-added functions and activities such as unnecessary management through the use of other methods?

Organize each function so that it is most effective and allow each employee to do the right job the right way. If a manager or a management function is needed over specific functions or activities, determine the best way to provide for this. This doesn't mean that each function has to have a person assigned as a manager but requires that all managerial needs be met. There are many ways to achieve results other than having a manager to police and control the efforts of employees. Sometimes doing nothing is the best approach, allowing each employee to feel free and comfortable to ask for assistance—without retribution. Compensation need not be based on organizational position but on the achievement of efficient and effective results. Paying individuals to police and control others is usually a nonvalue-added costly activity.

Tom Jenkins, the vice president of the actuarial division has a reputation of being an excellent actuary, a legend within the company, but has limited skills and experience as a manager of people. The employees who report to him are primarily professional actuaries, all of whom can capably perform expected actuarial services. Tom is a totally permissive manager; that is, he leaves the employees to their own devices. Tom believes that his employees know what they are doing, so what more can he do to help them. The more he gets involved with an employee and his or her work the more trouble he causes—and who needs that?

The question then is why do they need a vice president? The answer is that someone has to police the employees so that they get their work done. Tom represents the specter of authority and retribution, even though in his case it is a myth. Another vice president in the organization put his finger on it as he said, “Yes, Tom really does nothing, but he does it better than anyone else in the organization.”

SOMETIMES IT’S BETTER TO DO NOTHING THAN DO SOMETHING THAT JUST GETS IN THE WAY

Case Situation 1: The Elegant Solution

Enright Electronics prospers due to its development of a proprietary product used in personal computer motherboards. Last year, its patent ran out and its competitors raised their antennas on such a profitable product. Their competitors quickly determined how to produce and sell much less expensive copies of the product—diminishing Enright’s sales and resultant net profits. Enright was forced to advertise, market, and aggressively sell its proprietary product for the first time.

Unfortunately, Enright has always relied on this one product for its bulk of sales and profits, with little sales efforts. The one product has accounted for more than 90 percent of its total sales, the other 10 percent coming from related items that it provides as a convenience to its customers as resellers. Enright has been unable to develop another such product. It has become a one-product cash cow.

Enright management has done everything they can think of to save the company, but sales and net income continue to fade. As a result, employee morale has hit bottom. The management has considered becoming an offshore purchaser and reseller like their major competitors, but they would rather drown with the company. They can't find much else to be done to save the company.

The company has been killed by its own inertia over the years—complacency is its own murderer. The one thing it still possesses is its name in the marketplace, which has always stood for quality and service. The elegant solution is to sell the company while they can still get a fair price. However, the founders see this as akin to selling their first born into slavery. The elegant solution was rejected and six months later the company was bankrupt. They still had their honor, but the creditors had the company.

A FOOL AND HIS OBSTINANCY
ARE SOON BANKRUPT

Basic Business Principle

The role of management is to provide the proper direction and guidance for the company through strategic planning and identification of competitive advantage. The employees are expected to follow through on such guidance so that all personnel are moving in the same desired direction. In this case, the direction was ill conceived with almost total dependence on one major proprietary product. The employees did what they were told and directed to do but management accepted the status quo—standing still is losing ground. When its patents expired the company had nothing to fall back on. The resources accumulated from the company's one cash cow were poorly used to build the business while they could. When competitors swept in like vultures picking the bones of a dying carcass it was much too late. Management had failed the company and the employees. Know when to hold them and when to fold them—when to innovate and when to retrench.

Best Practice Suggestion

Every company is searching for that one (or more) product that provides that unique niche in the marketplace that grants it the ultimate competitive advantage for a period of time. When this happens the company needs to know how to harvest such a competitive advantage and how to use the accumulation of wealth that such a product brings to its bottom line. While in the harvesting period, the company needs to develop product innovations or new products to maintain its competitive advantage in the marketplace. If not, such an advantage tends to dissipate either through market saturation or competitors entering the marketplace with similar products with increased quality or lower pricing. And in today's economic world of decreasing time to increase technology the company needs to accelerate its product development and innovation processes to maintain or increase its competitive advantage. Do the right thing at the right time—face reality and it is yours.

STANDING STILL
IS LOSING GROUND
AND THE COMPETITIVE ADVANTAGE

Case Situation 2: Success Breeds Contempt

Owens Corporation is the leader in the field of specialty stainless steel products. It produces a top-quality product, provides the best pre- and postsales customer service, and has the most excellent employee relations. It is the envy of the industry, and its competitors envy and hate it. Three of Owens's competitors decided to band together and temporarily lower prices so that, in their minds, customers could not afford to buy from Owens but from them. Within the first year of this lower pricing strategy, this consortium was able to gain more than 40 percent of Owens's customer base and market share.

Owens was forced to greatly cut back production and employees. Management decided that they couldn't compete at such a lower pricing structure. They decided to sell the business to a foreign interest. The new owners bought offshore products, decreased the domestic work force by more than 60 percent, lowered prices less than the consortium, and captured back more than the lost customer base. The three competitors in the consortium and their contempt for Owens's success resulted in the effective loss of a large segment of the domestic specialty stainless steel market, the loss of many domestic jobs and manufacturing facilities—and the ultimate loss of their businesses as well.

WORKING TOGETHER IS BETTER THAN NOT WORKING AT ALL

Basic Business Principle

A successful business is the one that best meets the expectations of its stakeholders, such as employees, vendors, customers, owners, and management. However, it is often the case that stakeholders' needs are sacrificed to meet the threats of its competitors. And in many industries competition can be quite life threatening. It is management's responsibility to build the best firewall against such adversary competitive practices. Employees can produce the best-quality product, provide exceptional pre- and post-sales customer service, and maintain excellent working-together employee relations, but they can't reach out and make executive decisions as to pricing and cost considerations—this is management's turf. However, management's bad cost and pricing strategies may cost employee jobs and not necessarily management jobs. And cutthroat competitive practices may cost everyone their jobs and their businesses. Corporate arrogance is its own worst enemy.

Best Practice Suggestion

Operate your business most economically, efficiently, and effectively—providing top-quality products and services at all times. When competitors attempt to steal your marketplace through cost and price cutting management needs to be prepared as to how to retaliate without sacrificing quality and service. This means that alternative strategies need to always be part of the strategic planning process of the company to combat such competitive threatening practices. This is what we need to hold management accountable for. Unfortunately, many times their poor performance cost others their jobs and sometimes the demise of the business but maybe not their management bonuses. Operate your business as if you are always chasing the leader.

Case Situation 3: Help Me Help You

Jim Pierce has been the customer relations' department manager for the last 12 years. No one remembers exactly how he became manager, except that most of the other employees had already quit the department at the time of his promotion, due to the overbearing nature of Jim's predecessor. Jim, who was taught to never be a quitter, stuck it out and stayed on in spite of how he was treated. Since he had seniority over the other two remaining employees—two months with one and four months with the other—his *loyalty* was rewarded with promotion as manager when his predecessor finally left—quit or fired, no one ever really knew for sure.

Jim is a rather unassuming person, and this trait carries over to his managing. He leaves those employees reporting to him to work on their own. Jim's philosophy of managing was "just do your job and don't get into trouble." A number of his employees have been promoted to higher positions in other departments. However, no one has threatened to take his job. Top management receives very little complaints about Jim's department—from employees or customers. As far as top management is concerned, Jim does a good job—nothing adverse, nothing to complain about.

At present, there are 14 full-time employees in the customer relations department plus Jim and a secretary. The department's stated mission is "to clear all customer concerns at whatever the cost." For example, departmental employees grant customer credit and ship additional merchandise without investigation, but with great cost to the company. Although in some instances this is the correct best practice remedy, most of the times this is not the case. In effect, Jim does not effectively manage the department, but manages his staff to mechanically process customer complaints. His contract with his staff is that if they help him look like a good manager, he helps them get promoted elsewhere in the company. He spreads the virus of poor management throughout the company, but who would believe it?

ACHIEVING A GOAL OF MEDIOCRITY, OBSCURES THE POSSIBILITY OF EXCELLENCE

Basic Business Principle

As there must be objective criteria and expectations for evaluating the performance of employees, there must be similar criteria and procedures in place to evaluate managers. However, in many organizations, once one becomes a manager there is no effective means for evaluating one's performance and results as a manager. As long as there are no complaints or personnel issues and everything appears to be operating with minimal problems the manger must be doing a good job. To maintain the manager's feeling of job security and the threat to his or her own position a good scam is to get your employees promoted to management positions in other areas of the company. The employee is grateful for the shove up and tends to remain loyal to his or her previous boss. What results is spreading the specter of bad management throughout the organization. Bad management breeds bad operating practices. Do the right job, the right way.

Best Practice Suggestion

Each necessary manager must understand the reason why his or her operating area exists and what his or her role is in managing the area. While excellent or even good customer service is one of the most important reasons for the organization to be in existence, it does not give *carte blanche* to always give customers what they want or give them anything to satisfy them. Costly inefficient practices such as automatically granting the customer credit or shipping them additional products when not entirely warranted can become a costly practice. The fear of customer or employee complaints is never a good reason to abrogate management's responsibility to do the right thing. It is better to determine the cause, not the blame, for the number of customer complaints and then work toward reducing and eliminating such complaints—ultimately putting the customer relations department out of existence.

Case Situation 4: Management Is Easy

Jack Doyle has worked at the bank for a number of years since he graduated from college. Jack is being promoted as vice president of operations. He has always held staff-type positions, the kind of jobs where you give advice but never do things yourself. His new job entails managing more than 100 employees, including 20 managers. He is scared as to what to do, as he has never managed anyone before, not even himself. He recently attended a professional manager's seminar that dealt with things like effective motivation and delegation, and the ability to get work done through others. He now thought that he knew everything there was about effective managing—motivate the employees to do the work and sit back and watch them work.

After six months in his new role as vice president, Jack had assumed the pose of a vice president. He now knew more than any of his employees; gave sharp directions and expected them to be followed, and attended a lot of meetings (with other vice presidents). One of the others who had counseled Jack through his initial trepidation at being a vice president responsible for others pulled him aside at one of these meetings and asked him how he was doing. Jack struck his vice presidential pose, pipe in hand, watch fob in pocket, and said, "As usual you were full of it, management is easy, if you can just get rid of these damn people."

MANAGEMENT IS EASY,
IT'S THE PEOPLE WHO ARE DIFFICULT

Basic Business Principle

Being promoted to a management position does not necessarily make you a manager—nor does the attendance at management workshops and seminars. The art of correct management must be ingrained into the employee from the beginning of his or her tenure. Management is not as much a position in the organization's structure of chain of command as it is the exercise of specific managerial functions—directing, controlling, planning, organizing, staffing, and doing. Therefore, the need for management may not always (in fact hardly ever) be a full-time job. With time to spare and minimal guidance as to how to use it effectively the manager will find ways to use his or her time—such as meetings with other managers (spends my time as well as yours), planning sessions, policing and controlling employees whether they need it or not, coming in late so you get to leave early, long breaks and lunches, and other worthy management functions. What is lost is the reason for the manager; that is, maximizing results through others. The art of management is maximizing desired results from others with scarce resources and efficient systems.

Best Practice Suggestion

Determine the level of management for each function and what type of management, if any, for each function. It is not an organizational exercise in creating sufficient management positions so that employees can be rewarded with promotions. Each learning organization must determine the best use of each employee (let the static job description be damned) and the need if any for a manager to be assigned to each function. As the goal is to motivate employees (and maybe make work fun and a wow! experience) to do the best job possible with the support and encouragement of other employees and so-called managers, by creating a structure that makes sense to the employee and keeps him or her involved in the planning and execution phases so as to ensure success in achieving maximum results.

Case Situation 5: Praise the Disasters—Ignore the Results

Joey Richards is the ultimate manager of crisis. He isn't sure what he should be doing, but he can put out a fire better than anyone else in the company. Joey gives assignments to those reporting to him, with ambiguous instructions intended to create havoc. When the employee hits the wall, voila, there is Joey to bail him or her out. Through these personnel policies, Joey has developed a staff of dependent kamikaze pilots—flying by the seat of their pants without a parachute. The more an employee needs Joey, the greater the praise by Joey, and an ultimate raise and promotion.

Marsha has just completed the company's management training program, with high honors, and has been assigned to Joey's department. Top management hopes that Marsha can find out what the trouble is in Joey's area and suggest ways to straighten it out. Marsha is conscientious and quite competent. Joey assigns Marsha a job, and in spite of his inability to communicate what is expected, Marsha produces the results without any help from Joey.

Needless to say, the two of them do not get along. They live in peaceful coexistence, with Marsha the only bright light in the department. Marsha produces results, while Joey continues to produce crises. Joey, of course, ignores Marsha while he saves the other staff members. After the company paid for Marsha to go back to school for an MBA, she quit the company abruptly. Now Joey has a real crisis, and he is happy.

MY WAY IS ALWAYS BETTER THAN THE OTHER WAY—OR THE RIGHT WAY

Basic Business Principle

A lot of us need to be needed. However, this is not the role of a manager. The manager is there to coach and assist each employee to be the best he or she can be, recognizing that each individual is different and needs differing help. A manager who is not quite sure what he or she is supposed to be doing may feel more comfortable to be needed and creating crises. And it may be a warm fuzzy for the employee to have the boss work with him or her to put out a fire that the manager was responsible for creating. It's nice to get the bosses attention, but it may not increase results other than sharing unnecessary time together. And the one who doesn't play the game of *rescue me* may become the boss's enemy—the one who is screwing up the prevalent game. Management enables employees to do the best job possible, not get in their way.

Best Practice Suggestion

Establish basic business principles for the overall organization as well as each department, function, and activity. Included in such principles is the results to be achieved and how to achieve such results including the need and type of management required in each area—no one size fits all. Create the ability to identify your *stars* and nurture them so that one day they will be running operational areas of the company. Define those attributes you desire in each employee with an eye on the future and their potential for increased responsibilities and acceptance of authority—and their ability to be self-sufficient under an atmosphere of self-motivated disciplined behavior. Blind followers oftentimes keep you in the dark. Evaluate the need for management, what is desired, and who is and who is not performing, and then make the necessary best practice changes.

CHAPTER 9

Personnel

Organizations are basically a group of people working together (and not for) to accomplish a common purpose. However, most organizations, over a period of time, develop certain accepted ways of doing things. Many times senior management likes things the way they are, as this is the system in which they have progressed and they are now in a position to dictate how things should be. If employees want to progress and be promoted, they must conform to the organizational rules and norms. Some of these rules may make sense, while others may seem silly and ridiculous. It needs to be determined which personnel policies and practices are effective and which ones are getting in the way of achieving results and should be changed or eliminated.

REWARD EMPLOYEES BASED ON RESULTS, NOT ON TIME IN

Many of you who are still employed must function in organizations where your expected behavior has been defined for you, that is, to behave like an obedient child. Past and present management has created an organizational atmosphere that defines the behavior that will be rewarded or evaluated as favorable—and the behavior that will not be rewarded or punished. Many times creative and innovative employees, that is, the rebellious children, are recognized as trouble makers and are stagnated or *helped out* of the organization. And these rebellious children may be the very ones who can most help the organization to grow—if only someone in the management would listen to them. Those employees who desire to progress in the organization usually learn the expected behavior patterns early in their careers and decide to adapt their behavior to the organizational norms. In many instances, this may cause individuals to subvert their real personalities and behave in a manner that may not be comfortable for them.

THE OBEDIENT CHILD GETS PROMOTED,
THE REBELLIOUS CHILD IS HELPED OUT

We should be working toward building healthy organizations, where employees work in an atmosphere that allows them to grow and develop in a positive manner and gives them permission to be themselves and to have the permission to fail and learn from such failures. Although there are organizations that generally possess such a healthy atmosphere, these organizations may have operational aspects or behavioral expectations that create inefficient and ineffective personnel. Such situations must be identified in a nonthreatening climate and desirable best practices made from top to bottom within the organization. Only in such a working together atmosphere can such changes be successful.

EACH EMPLOYEE MUST HAVE THE PERMISSION:
TO BE HIMSELF OR HERSELF AND ACHIEVE RESULTS,
AND TO FAIL, BUT TO LEARN FROM IT

Hierarchal System of Employee Compliance

The so-called traditional organization normally worked within a hierarchichal or pyramid organization structure. The formal or informal organization chart displayed what came to be known as *the chain of command* that depicted reporting relationships from the top to the bottom and vice versa. Such an organization chart made it quite clear who was in charge and who basically took orders from others. It became a blueprint for employee compliance. The following chart displays the differences within such an hierarchal organization for management and employees.

Manager	Employee
Manager directs	Employees are directed
Manager knows everything	Employees know nothing
Manager does the thinking	Employees are thought about
Manager talks	Employees (appear to) listen
Manager disciplines (spanks)	Employees put down or rejected
Manager enforces his or her choice	Employees comply (or else)

Manager acts	Employees have illusion of acting
Manager decides the course of action	Employees adapt
Manager uses authority	Employees lose freedom
Manager is subject of results	Employees are objects
Manager controls survival	Obedient employees survive, rebellious employees perish

GET OUT OF THE WAY
AND THE EMPLOYEE MIGHT JUST DO THE RIGHT JOB

The hours are good,
but the minutes are lousy

Open yourself to change,
but don't give up your values

Don't bring up the past,
evaluate each employee on the present

In evaluating personnel,
respect the employee,
expect respect for yourself,
and hold employees responsible for their actions

Competition Versus Cooperation

A personnel motivation system that rewards each employee based on the achievement of desired results is normally more effective in increasing productivity and decreasing costs than an incentive system that rewards employees with a management promotion and increased compensation. While at the employee level personnel need to be responsible for their own results rather than continually jockeying to impress their manager with hopes of being promoted to a management position. Over time, such a system creates more managers than necessary and shifts the emphases from employee responsibility to management envy—the reverse of best practices. The carrot is not to become a manager with higher compensation with less value-added contribution, but to do what you do best and be rewarded for achievements not for watching others do the work. Management may not produce value-added work and may not be necessary in the first place, while self-sufficient and self-motivated disciplined employees produce real value-added results at less cost and more efficiently.

In a situation where personnel practices have resulted in an overabundance of management personnel at a high cost in terms of compensation and inefficiencies proper measures need to be taken to reduce the present condition of overmanagement and bringing responsibility for results back to the employee level. For instance, take stock of all of the present managers. How many can actually be put back to work on the basis of compensation for results—turning them into value-added employees? How many can be used effectively as coaches to those actually doing the work possibly paying for themselves through increased productivity? And how many cannot be salvaged—deadwood retired in place—cost centers creating a negative impact on operations? This may be a drastic approach for those presently in management positions but unless something like this is done a bad system will continue to perpetuate. At the same time, establish a system of self-motivated disciplined behavior backed up with a system of compensation and rewards for results—establishing oral and written contracts for expectations with each employee, whether a worker, coach, mentor, or having management responsibilities. Reward employees based on results produced, creating cooperation rather than competition.

A fairly sizeable food processor desires to determine if the present organization structure is the most efficient. Management is concerned about the spiraling upward costs of personnel, specifically the number of long-term employees and managers. They feel that they aren't getting increased productivity for what they are paying. In effect, the same amount of work is being spread out among a larger number of employees.

Levels of management and supervision have risen without much value-added work, in fact less. Competition to become a manager has arisen, as such a promotion is the reward for past services and permission to stop real work and review the work of others. Employees spend more time impressing their bosses with fancy footwork leading toward promotion rather than just doing the work. This is due to annual incremental pay increases for employees while management increases are geometric.

The company belief system is that this system of management promotion incentive makes employees more competitive, increases individual productivity, and makes for better managers. In reality, employees knock each other out to get to the boss to show what they do and talk down other employees. More time is spent impressing the boss than on doing the work, resulting in more employees being needed to do the work not getting done.

To turn this detrimental system around, making a vicious circle into a virtuous circle, management is considering a system of individual employee expectations and results where the employee is rewarded based on achieving results. This best practice approach puts the burden of productivity on the employee and eliminates most of the need for managers to police and control. The employee now competes only against his or her expected results with pay rewards tied to performance. Productivity increases reducing the need for as many employees and managers to watch them. Employees can concentrate on what they do best, their work, creating a greater feeling of working together and cooperation.

COMPETITION CREATES ONE WINNER—THE REST LOSERS
COOPERATION CREATES ALL WINNERS—NO LOSERS

Different Strokes for Different Folks—Individualizing Expectations

Know each individual employee as to his or her strengths and weaknesses and desires—that is, find out who he or she really is and what motivates him or her. Typically, employees are hired to fill a technical need; that is, to perform certain functions that contribute to the overall well-being of the company. However, most jobs have a starting salary, a salary range, and a salary ceiling. Within such a salary range the employee can be granted salary increases usually related to some kind of annual employee evaluation. Other than cost-of-living increases, where they still exist, once the employee reaches the top of the job salary range he or she is at the end of the compensation line. In many cases, to make more money the employee needs to be promoted to a management position under the corporate wisdom that managers are worth more than the employees who perform the actual work. So we reward excellent employee performance with a management promotion—possibly turning an excellent worker into an ineffective manager. Fit the employee to the job, not the job to the employee.

Get by with the least number of employees and managers. Use each employee to the best advantage taking into account his or her skills and abilities, both technical as well as behavioral. In most cases, self-motivated disciplined employees don't need managers to police and control them but a coach or mentor to assist them to do the best job possible while maximizing each employee's results and increasing productivity. Where management functions, not a full-time manager, are needed, assign employees to those functions without making it an unnecessary higher-paid full-time job. Create a working together team rather than a debilitating working for management structure that tends to discount its workers. Put the wow! factor back into each job. Employees feel better about themselves and possess higher job satisfaction when they are involved in those activities that they do best end enjoy doing. Reward each employee for the results achieved, not with a promotion to an unsuitable job.

Malcolm Roberts is a graduate engineer with a specialty in laser optics. He is an excellent engineer who loves what he does. He has ten patents to his credit. He was recently rewarded with a promotion to department manager. He tries to continue his fine work, but the company requires him to wear a suit and manage from his office—no need to work in the lab anymore. When Malcolm works with other engineers he is excited and enthusiastic. However, with employees reporting to him, he is disinterested, bored, and depressed.

The vice president of operations asked Malcolm why the Dr. Jekyll and Mr. Roberts. He responded that when he worked with other engineers he felt young again (he was only 37 years old) and stimulated and able to use his problem-solving skills. However, when he did his manager's job he just didn't care; any fool could listen to engineer's talking jargon. He felt so far away from the field that he had no more idea what his engineers were talking about than the executive restroom attendant. When asked why he stayed if he was so unhappy, he replied, "who else would pay me this kind of money to listen to engineers." You gotta love it.

**WE ALL SELL OUT EVENTUALLY,
IT'S JUST A MATTER OF TIME AND PRICE**

Employee Reviews and Evaluations

The norm in most organizations is to continue to reward employees each year at their annual review in the form of a salary increase. Each employee, whether a positive contributor or not, expects such a salary increase just for staying there another year. Those who evaluate these employees may see the annual employee review as a *get you back* exercise for recalcitrant employees and as an *atta boy* cheer for those well thought of employees. In either case, it is rarely an objective feedback session. In fact, the employee walks away with a minimal learning experience other than the amount of his or her salary increase that rarely makes him or her happy. The purpose of the employee review should be to provide feedback to employees as to what they are doing right and not so right and develop a prescriptive program of change between the manager and the employees. For difficult employees (DEs) the manager must confront the employee's undesirable behavior, hopefully nip it in the bud, and work with the employee to correct the situation so that the employee feels valued and listened to. It does neither the employee nor the company any good to encourage or ignore a DE's unacceptable behavior. As results are rewarded, lack of results must be punished—and corrected. Each employee must be held accountable for his or her results, mistakes and whether he or she learned from them, improvements in technical skills, behavioral issues—using the right behavior in the right situation and incidences of wrong behavior to be corrected—and the acceptance of effective coaching.

It would be wonderful if every organization's hiring practices ensured that all new employees perfectly fit with the company's requirements. However, this is close to impossible, as the company tends to gild its organization, and the prospective applicant tends to share the good stuff and hide the bad stuff in the initial interview. It is not until the employee meets the organization that reality sets in and one or both realize the mistake they made. If it's the new employee who doesn't fit the organization, it's unlikely that the organization will change and unlikely that the new employee will want to change for the benefit of the company. It becomes a matchmaking stand off and something needs to be done. To keep quiet, on either side, merely festers a rash that can't be scratched. The employee must be confronted (something most managers see as a black-death situation) while still on probation to develop a program for change. If the employee is unwilling to change (after all it's you guys who have the problem) then it's time to terminate a poor match. Internal gamesmanship never eliminates a problem; it only moves it within the organization for someone else to handle ineffectively.

The Johnson Company is finding it difficult to get rid of employees who are considered unsatisfactory in their job performance. Company policy makes it almost impossible to terminate an employee without eliminating the position (which may be needed) or closing down the entire department (which may not be desirable), and top management is considering such an approach for certain situations.

Those managers who have to work with such DEs are forced to resort to devious means such as giving these employees meaningless assignments, sending them out of the office, loaning them to other departments, having them do nothing, and so on. A longer-term solution for some managers is to actually praise these DEs and give them excellent ratings in the hope that they can be peddled to another department. This ploy sometimes works so well that the individual DE is not only transferred to a better job, but eventually gets promoted to a management position with his or her own DEs.

DOING SOMETHING IS NOT THE SAME THING AS ACCOMPLISHING SOMETHING

Individualized Career Tracks

A healthy organization, and there are still a few left, handles its personnel on an individual basis by finding a place within the organization that fits each one's skills and abilities—both technical and behavioral. There are multitracks that allow each employee to know what his or her future is within the company, without any internal gaming or deceptions. Those who have the potential to become top management, such as principals, vice presidents, and maybe even the chief executive officer (CEO), are groomed accordingly. Those that are employed or determined later to be expert technicians are also informed and coached and supported to be the best they can be—with a desirable compensation program. Those that either don't fit either criteria or are incompatible with the organization are *helped out* before they become too entrenched within the organization—or hopefully prior to the end of the probationary period. Personnel are not there to be played with; they are there to assist the organization to become the best they can be. Use your employees in the manner that they can be most effective; don't force them to be like you; and allow them to be themselves and multiply your effectiveness.

Establish clear personnel practices so that each employee knows exactly where he or she stands within the organizational structure and what specifically is expected of him or her. From the employee's first day there needs to be clear communication as to his or her role and future with the company. The organization must provide effective coaching and mentoring to ensure that each employee achieves the best possible results. Periodic, if not continual, review and evaluation of each employee is done to maintain each employee on the right track and in the right direction. Remember your personnel are the organization, and the organization is only as excellent as the weakest link. It's usually the nickel an hour or entry level, or disenchanted, employee that pulls the company down and creates the reputation within the company and with their external customers and others. Integrate personnel practices and systems so that they complement your employees and provide opportunities for each one—don't hammer different-sized nails into the same holes.

Engineers 'R Us is an engineering consulting firm that employs more than 100 professional engineers who work on client projects. They have a career path beginning at the apprentice level and ending as the principal. The system of hiring, evaluation, and promotion is geared to hiring only those employees who have the potential to become principals within a reasonable amount of time, usually within eight years. Finding acceptable applicants is difficult; so when the firm hires an employee it is resistant to let him or her go. Unfortunately, not everyone hired turns out to be principal material. Although, present principals identify those employees who will never become principals, they are unable to tell them.

Unofficially, these employees are considered permanent engineers, and the other employees call them flatliners (stuck in place and time). The flatliners became just that, flat, doing what they have to do but not very enthusiastically or with any firm commitment.

One of these flatliners, Jason Ohm, after six years, finally left the company to take a parallel position with a similar engineering consulting firm. His new company provided him with whatever supports he needed and gave him freedom in his assignments to do it his way. Jason flourished and moved quickly from one critical assignment to another. Within three years he was promoted as principal, with responsibility for bringing in new business. Within the next six months, he successfully brought more than $3 million worth of work from his previous employer. A flatliner in one place is a headliner in another place.

THERE'S A PLACE FOR YOU,
BUT MAYBE NOT WHERE YOU'RE AT

Career Paths—or Garden Paths

It was once expected that when one took a job, particularly with one of the larger corporations or professional firms, one's salary would increase year after year so that on retirement the person earned the most money per year of his or her working life. The person's career salary curve was a straight line upward from starting point to ending point. This was known as a career path, and it worked. Even if one switched jobs, it was usually for more money or a promotion. Life was so much easier then—the way we were.

Now, with all the downsizing, layoffs, early retirements, outsourcing, outplacement, and so on, the concept of career path has been altered if not outright eliminated. Now, one starts off at a salary level, has it increased for a number of years, sees it level off, gets downsized out, and takes a job for less money. The last job may even earn less money than one's original starting-out salary. Coincidentally, this new concept of career path closely matches the employee's level of producing results. In many cases, there is now a closer matching of compensation and productivity as to results. Whether by design or not, this new cut-back philosophy has accomplished what the organization couldn't do on its own: the matching of compensation with results rather than salary rewards primarily for seniority and loyalty.

BE THE NAVIGATOR OF YOUR CAREER PATH, AND THE CAPTAIN OF YOUR RETIREMENT

Take a good hard look at your personnel practices. Can you continue to offer starting employees a career path based on putting in the years as a sign of loyalty to the company—with increases in salary and benefits for each year that the employee puts up with the company and its idiosyncrasies? To stay economically competitive the company needs to match the cost of personnel to results achieved. In the past under the concept of career paths based on longevity, most employees' production and contribution to results decreased as their salaries and benefit costs increased. At the end of such a career, the employee was at his or her highest cost level while results might be lower than those when they began their employment many moons ago—most likely in retirement in place (RIP). In the brave new world, the company needs to more closely match the cost of personnel with actual results achieved on a continual basis. And there needs to be salary ceilings for doing the same job over a period of time. Match employee's compensation with the value of results, not to seniority or company loyalty.

Implement compensation systems that reward those who produce results (compensation related to value provided) and penalize those who don't produce results. Clearly communicate to each employee what is expected of him or her and what it is worth to the company. Each job, either generic or specific to the individual, needs to have a starting salary and a ceiling for doing the same job over a period of time. If an employee desires to exceed the salary ceiling and is willing to do the additional work necessary to increase results, then it is incumbent upon the organization to coach and mentor that employee to move to that level. It is usually better to upgrade your existing employees through effective caching than to continue to hire employees from the outside and start all over again. Develop individual contracts for expectations for each employee with clear definition as to results and their worth.

From Doing to Thinking Jobs—and Stinking Jobs

There's been an evolution in many industries and organizations away from *doing*-type jobs toward *thinking*-type jobs. For many employees, this has meant a shift from what they've been doing for years. Some employees have been able to adjust; many have not. For those not able to change, this has meant a movement toward accepting lower-level and lower-paying jobs, resulting in a large increase in underemployment (in my opinion a much larger problem than unemployment). People working in jobs beneath their skills and qualifications tend to be less satisfied. They also create a downward ripple, which then displaces other employees into lower-level jobs and so on.

Those who can make the adjustment into *thinking*-type jobs will survive and possibly get other jobs. However, with technology changing rapidly, the individual needs to change rapidly. As new individuals graduate from college, they bring with them new thinking-type skills, ready to replace the old guard (graduates from three years ago) at less cost. And three years later they too are ready to be replaced.

So, what is happening is that the individual has become his or her own entrepreneur, making sure that he or she keeps his or her skills in sellable condition. The responsibility is now on the individual to develop his or her program of continuous improvement and learning (and relearning). No longer can one depend on a paternalistic employer for a steady growth career path, because, it's now up to each one to keep his or her *thinking* job and avoid the *stinking* job. Each one whether one wants to be or not, is now in business for himself or herself.

POWER TO THE PEOPLE

An organization hires an employee for a specific job based on what the organization believes it has to pay to get the employee to come and work for its company. The organization does not expect to have to pay any more for the same job. The employee, however, expects to receive an increase in pay based on the time put in with the company—regardless of whether his or her contribution to results has increased or not. The company knows that it cannot continue to increase compensation for the same job or less. Accordingly, from an economic standpoint, the company must continually match value with compensation, which means that present employees may have to be replaced by less expensive employees, resulting in exchanging present employees with less expensive capable (possibly more capable) employees—in-house or outsourced—here or there. With these new rules taking effect, ultimately, each employee becomes responsible for his or her growth and learning, and for taking care of himself or herself. Please, no whiney babies need apply.

Readjust the company's thinking that once an employee is hired he or she is considered permanent staff. The only contract between the company and the employee is what is expected of him or her in the near term. If the employee can continue to produce results that are valued higher than present compensation then there is room for increasing the employee's compensation. Otherwise the employee is expendable and replaceable by someone else with whom value exceeds compensation. Granted that the company may lose a knowledge base that existing employees have acquired while at the company, but the contention is that such a knowledge base can be easily transferred to the next new employee. The company needs to be extremely cautious as to which employees they retain and which they let go. It is a whole new ballgame and the best teams are always the ones who know the rules. Create an atmosphere for employee growth and learning and you may be able to retain employees who can continue to achieve results that exceed their compensation.

Personnel Levels

Every situation, even within the same company, is different and must be handled based on the specific circumstances. There is no set formula as to the number of personnel required in any given situation. The rule is to maximize results with the least number of personnel necessary. As personnel costs decrease, net income (or less loss) increases. Many times, additional personnel are required to build up a division or department within the company or to support the turnaround of present conditions. Other times, too much fat in the numbers of personnel has built up in an area and personnel costs need to be trimmed. Top management needs to become a shrewd manipulator of personnel so that there is always the right number of staff to do the right job at the least cost to maximize desired results. Match the level and type of personnel to what needs to be done, not to the numbers—and continually review the ever-changing situation and needs.

Never hire an employee unless his or her compensation and contribution multiply the effectiveness of the organization and the value derived exceeds the cost of the employee. Every situation needs to be analyzed as to which personnel are needed and whether present employees can capably do what is needed (in place or in other areas of the company) or whether help needs to be gotten from the outside—additional employees or outsourcing. Each situation needs to be continually reviewed so that personnel adjustments can be made to changing conditions. No longer can the organization build up personnel levels without justification as to their necessity. The company needs to understand that as situations and circumstances change so does the need for specific types of employees with the skills and abilities necessary for the company to grow and prosper in the right direction. Analyze each situation individually, and match the needs to allocation of resources.

Metal Products Inc. is a multidivisional manufacturer and distributor of metal products. Each division is operated autonomously under the direction of a division vice president, who is in turn, under the direction of corporate headquarters via directives and policies. One of the corporate policies is that personnel levels relate to division sales and net income. As sales and net income increase, personnel levels can increase as well.

Headquarters believed that they exercised proper control over personnel costs as long as sales continued to increase. However, over the past two years, a number of divisions (6 of 14) have seen sales decreasing, and the personnel-level formula no longer works. These divisions are extremely reluctant to reduce personnel as they claim that they need these individuals to bring sales back. The other divisions want the formula changed so that they can hire additional personnel.

After analysis, top management concluded that the formula was the cause of the problem. They realized that each situation is different and continually changing. The real answer is to get by with the least number of personnel, and sales and net income may or may not be a factor, and the lesser the personnel, the greater the net income. The more things stay the same, the less chance of progress being made.

PERSONNEL PRACTICES ARE NOT AN EXERCISE IN ADDING (OR SUBTRACTING) NUMBERS, BUT IN HAVING THE RIGHT NUMBER AT THE RIGHT TIME

Case Situation 1: Male Bonding

Uptight Associates is an old, conservative, professional financial services firm with more than 80 employees. Principals of the firm are all older WASPs who all live in the same upscale suburban area, take the same train to and from work, belong to the same country club, and so on. It is a typical good old boy network, conservative WASP style.

The firm recruits new employees from their alma maters such as Princeton, Yale, and Harvard or from their professional and neighborhood friends. This had never been a problem. However, recently, potential recruits all seemed to be going to law school or into the stockbroker business. Thus, the firm was forced to recruit from less desirable sources such as small private colleges, urban areas, and MBAs, and it was becoming more difficult to find a conservative well-bred WASP from the right neighborhood.

Management went through a number of new employees, all white males but not all WASP and none conservative enough, over the past few years. None of them was deemed satisfactory. Management just couldn't get to know these people. The employees were more than technically acceptable. However, there was a conflict of values between old conservative management and the new more liberal employee. Where the old gang was martini and caviar, the new breed was beer and pizza. Management expected immediate *male bonding* to their values by the new employees as in the past. The new employees just wanted to do their jobs and then meet their friends for a beer. Management couldn't understand that the days of blindly expecting employees to accept your lifestyle as a condition of employment was over. It was time for management to change.

WE DON'T NEED TO LIKE THOSE WHO WORK FOR US—BUT IT SURE HELPS

Basic Business Principle

With the demise of the old boy patriarchal system it can no longer be expected that employees adapt the prominent lifestyle of management. As times change so do the value systems of employees. New personnel, with some exceptions, no longer wish to marry their job. There is a life outside of work. Even with the pressures to put in more hours for relatively the same pay in stressful economic times there are still social pressures to have a life exclusive of the job. Old-line management must come to grips with these facts—it is a brave new world. Expecting employees to adapt the behaviors of their *superiors* as a criterion for salary increases and promotions no longer works for the current generation. Finding the individual employee willing to accept these conditions of employment is increasingly more difficult. In looking for such employees the company will watch too many other employees go through the revolving door onto the better job without the behavioral and lifestyle constraints. It's not the employees who need to change, it's the old guard management gang that needs to grant permission to its employees to be themselves—as long as they do the right job.

Best Practice Suggestion

Those in top management positions who control the organization's operations (under Reider's Right to Be Obnoxious rule) need to look at their own behaviors and its effect on employee performance. While management, staying within employee practice laws, can dictate almost any behavioral expectations of their employees, they need to understand the effect that such rules bear on their personnel. In times when jobs are scarce and job applicants are plentiful, they may find individuals willing to put up with whatever they are asked to get and keep the job—but are they really satisfied and happy employees. On the other hand, when jobs are plentiful and good job applicants scarcer, management may not find acceptable personnel willing to live under the conditions imposed on them by management. This may result in hiring under the unofficial employment behavioral criteria bar resulting in short-term employees and increased turnover or disgruntled employees. Management needs a different attitude adjustment than what martini time can offer. It's not that the employee pool has worsened; it's that management has not changed the pool. Make the job fit the employee, not the employee fit the job and the organizational atmosphere.

Case Situation 2: Life Isn't Fair

The Apex Company has a policy of promoting from within, which is seen as an equitable practice by top management. It allows loyal employees the opportunity to move up within the organization. However, actual promotions are dependent on individual managers selecting those to be promoted, and they can be quite subjective based on their needs rather than company requirements for the position.

Mike Nicholson has worked in the purchasing department for a number of years. He has been passed over for a manager's job a number of times, watching less competent individuals become his boss three times. Mike is an extremely competent individual, who knows his job well. He is hardworking, efficient, and has saved the company millions of dollars over the years. However, he is extremely outspoken, telling it like it is regardless of whose toes he steps on including his bosses.

Unfortunately, bosses, like elephants, never forget, and when time comes for promotion, Mike is not forgotten and not promoted. Each time Mike says, "Life isn't fair," Mike isn't going to change, and neither is the organization. So the ball is in Mike's court.

PEOPLE RESIST CHANGE—DO IT MY WAY
ORGANIZATIONS DON'T CHANGE—IT'S THE ONLY WAY

Basic Business Principle

A typical organizational norm is to have those in management positions recommend others for promotion when a management position opens up. This, of course, is a subjective recommendation based on the existing manager's biases, likes, and dislikes. The recommendation may have little to do with the employee's management skills but more on the impression that the employee has made on the manager—such as compliance to the manager's requests and the degree of bonding. Such an atmosphere sets up a system where the employee's fate is dependent on the impression they make on management rather than on their performance, achieving of results, or technical abilities and management potential. The obedient child is rewarded, the rebellious child is passed over—resulting in a vicious cycle of incompetence promoting incompetence—as well as losing possible significant input for change and innovation from those nasty rebellious children. Rather than promoting blind followers, you need to create an atmosphere for personnel that allows for each employee to reach his or her potential.

Best Practice Suggestion

Establish an effective system whereby each employee knows exactly what is expected of him or her and the results to be accomplished. Through an effective and objective evaluation system based on these objective criteria, those employees who are performing best will be recognized for additional compensation as well as possibilities for promotion. Keep in mind that not every employee recognizes a promotion to manager as a positive step forward. To make such a promotion, the basic reward for excellent job performance may be foolhardy—that is, it promotes great workers to incompetent managers. If a manager is really needed, then clear criteria need to de defined and then the best candidate for the manager's job can be objectively identified. Remember that the managerial role is really a set of functions that need to be accomplished. Select the employee (or employees) who can best accomplish these functions. And allow employees to increase their compensation based on results achieved not on an arbitrary decision to make them a manager. Rewards are objectively given based on results.

Case Situation 3: Need to Know

Carpenter Laboratories is a federal government defense contractor. As such, they hire a number of ex-military and federal employees whom they believe can help them gain additional government business. These individuals have been trained to do things the government way, that is, not asking unnecessary questions unless you have a need to know. This need-to-know principle has become prevalent throughout the company. Many managers and others hide behind this principle when they don't want to tell others something that may give them an advantage against them.

The company has hired a new engineering manager from outside the government sector. In the process of learning his new job, he would ask an employee why he or she was doing something that didn't seem to make sense. Each time he was told that they didn't know why they were doing it either, but they couldn't question it as they had no need to know. Fortunately, most of the company's government contracts were on a cost-plus basis so they were being reimbursed for their inefficiencies. It was the taxpayers who paid the bill and they had no need to know.

I NEED TO KNOW WHAT IS EXPECTED OF ME, AND THEN HOW TO GET THERE

Basic Business Principle

To do the right job right, the employee needs to know why he or she is doing it. And each employee needs to know what others are doing so that they can work together as a team for the company to operate most efficiently and maximize results. The fact that the company primarily works on cost-plus government contracts has only resulted in the justification of bad operating practices. When a third party, in this case taxpayer money disbursed by federal agencies, pays the bills there is much less internal concern then when the money comes directly from company operations.

Best Practice Suggestion

Institute best practices as to economies, efficiencies, and effectiveness regardless of the type of customer and where the money comes from. Operating efficiently is a proper component of any organization if it desires to grow and prosper and create an enviable reputation. While the company is surviving presently with federal cost-plus contracts, times change, and the company will be able to adjust without these contracts when they are on their own. Without employees with proper work habits and systems for growth, the company is stuck with employees who can follow orders but have lost the ability to think and decide for themselves. Relying on one major customer who dictates or allows your internal systems is usually a prescription for future disaster. Implement effective systems and methods before it's too late. Allow each employee to design his or her job, working with others, so that the right job gets done.

Case Situation 4: The Pessimist and the Optimist

This is a tale of two managers—a pessimist and an optimist. Brian, the pessimist, was scared to make a decision lest it be wrong and he be blamed for it. Fred, the optimist, was a risk taker who loved to make decisions to see how they would turn out—and sometimes learn from them. Brian had become a manager through hard work for long hours. Fred had become a manager through taking risks, making decisions, and luck that most of his decisions had worked out.

Ultimately, the time came to make one of them a vice president. The president favored taking a risk with Fred, but the board of directors wanted to play it safe with dependable Brian. This time the president prevailed and Fred got the promotion. Brian continued to work hard putting in even longer hours, as he believed that the next time the sky would really fall. Fred took to the vice presidency like a bus boy to the tip jar. He now had carte blanche to make decisions all over the place and he did—he was having fun. Fred's decisions worked out well for some time. Fred was basking in the glow of success, while Brian was shrinking in the darkening of impending gloom of remaining where he was.

Fred pulled a coup by negotiating an exceptional deal on price and delivery terms for the entire output of the company's major supplier of its crucial raw material. However, a short time later, the supplier experienced internal financial problems and couldn't deliver. The company was out of production and Fred was out of a job. One mistake wipes out all of your successes. Brian was promoted as vice president and was able to save the crisis through his past relationship and prodding loyalty to the company's other suppliers, at an increased price.

**DAZZLE ONLY TAKES YOU SO FAR.
COMPETENCE TAKES YOU THE REST OF THE WAY**

Basic Business Principles

An effective learning organization needs all types of employees—the hard-working, result-oriented workers and the creative and innovative thinkers and dreamers. Each type can be a valuable asset to the organization that knows how to use the various types of employees effectively. It is not a question of who to promote but how to use these contrasting skills most effectively. A healthy organization knows how best to use the skills of each employee most effectively; other organizations choose one individual over the other losing the one not chosen. To be most effective, the organization needs to learn how to use its scarce human resources to maximize its effectiveness and results. Rewarding successes in spite of the employee's contribution cannot be done blindly, as one mistake wipes out all of the employee's successes.

Best Practice Suggestion

Develop systems so that calculated risk taking is valued but that the company learns from its mistakes tempered by proper rationality. There is a place for pessimism and a place for optimism within an organization. The organization needs to learn how to use both perspectives effectively and in which situations. Caution and potential risk need to be balanced within the company. Know when to hold pat and when to up the ante. Employees need to be themselves and be rewarded objectively for their results. However, taking unnecessary risks that can jeopardize the company need to be appraised objectively before setting out on that course. Conversely, employees with a pessimistic attitude need to be coached as to analyzing conditions and to make better decisions for the company—and feel comfortable in the decision-making role. Don't get caught up in the thrill; keep your eye on the right target.

Case Situation 5: Tickets to Ride

Jerkup Steel Company is a very prestigious old-line company. It prides itself on the caliber of its employees, particularly engineers with PhD degrees, and the company is willing to pay well for these degrees. For years, the company prospered while steel products were in demand and it could name its own prices. However, as demand for steel decreased and overseas competition increased, the company saw its sales and net income erode. At the same time, its costs, particularly payroll, were increasing. If present conditions continued, costs would exceed sales, and all the PhDs in the company couldn't help to put it back together again. One of its competitors made an offer to buy the company, but the management felt the offer was too low.

The top management considered whether the company could be saved or to take the offer and run. Two major areas surfaced, the fact that the company couldn't continue to operate with its high payroll costs, and the need to identify niche and specialty markets where it could be more competitive and less susceptible to overseas competition. Analysis of the situation showed that lower-paid personnel were doing the bulk of the work. Based on this, it was recommended that the company readjust its personnel philosophy, turning it around and cutting back at the top. This required a change in personnel policies from an engineering philosophy to one of customer service–related sales and manufacturing. It became a decision of change or selling out. Top management told the high-degreed engineers to take their tickets and ride, and the company survived.

A COLLEGE DEGREE BY ITSELF
HAS NEVER ACCOMPLISHED ANYTHING

Basic Business Principle

When the economy is prosperous and your company is getting more than its fair share of profitable sales, it doesn't matter what your organization does, it will probably prosper. The organization can hire on the high side, including those with higher degrees, resulting in more high-priced employees than necessary and allow costs to escalate way behind necessities. However, when the economy settles back down and beyond a respect-able low point, the company is caught short with excessive employees and other costs that are difficult to cut back on. In addition, the laxity of systems and procedures that go with sudden prosperity is stuck in place and can't be turned around with the turn in the economy. And the realization hits hard that it's the low-ticket employees who achieve the actual results while the high-ticket employees ride high on the company gravy train.

Best Practice Suggestion

Regardless of external economic conditions, always operate your company in the most economical, efficient, and effective manner possible. Excellent operating practices always need to be in place whether the company is experiencing unexpected sunny weather or is in the midst of an economic tsunami. And never hire an employee unless he or she is absolutely necessary and actually increases the organization's effectiveness. While it may look prestigious to have employees with advanced degrees listed on the company's personnel roster, if the degree doesn't enhance the employee's performance or contribution, then you are paying for an unnecessary credential. Typically, those with higher degrees resist doing lower-level work, leaving the real heavy-lifting work to lower-paid employees. So, don't overhire. It's always better to hire employees who can be coached to fit well into the organization, than to hire employees based on degrees or résumé content. When the economy drifts south, be prepared to reorient the company to the necessity to change; that is, to a customer-related niche sales and manufacturing orientation, with a system of continual review.

ALWAYS OPERATE ECONOMICALLY, EFFICIENTLY, AND EFFECTIVELY
REGARDLESS OF OUTSIDE ECONOMIC CONDITIONS

BEST PRACTICE PASSIONS: STAFF REDUCTIONS

When staff is reduced, are the right questions asked?

- Are we getting rid of the right people?
- Why were they hired in the first place?

- Are there areas in the company where we actually need additional personnel?
- Do we need the function at all?
- Can we achieve the same or better results in another manner (outsource, contractors, part timers, as needed, etc.)?
- What do we do from here on? (Are we any smarter after downsizing?)
- Do the same systems exist (incremental planning and budget increases, compensation based on the level of employees supervised, etc.) that reward the buildup of staff and the creation of multitiered, unwieldy hierarchical organizations?
- As we reduce staff—both at the management and employee levels—are we also hiring new employees?
- Do we consider mainly the present cost savings rather than the long-term effects that such personnel reductions may create on future operations?
- Have we instituted new systems that provide greater assurance that we operate with the right-size organization by function in the future?

BETTER TO HIRE THE RIGHT PERSON AND BUILD THE JOB AROUND THEM, THAN TO HIRE THE WRONG PERSON FOR THE WRONG JOB

Teamwork

A successful learning organization understands that the organization is held together by shared values, beliefs, and goals. The top management provides the vision and direction for all aspects of the organization. These vision and direction are then communicated downward to middle management, staff personnel, and line employees. To be most successful there needs to be a buy-in by all levels of employees within the organization—what is called *singing from the same songbook* that makes for a cohesive organization. Such working-together teamwork is what enables the organization to survive and grow in spite of competitive and cyclical threats. The initial step in developing such a team is to hire and train the right people to be committed to the organization's core values, direction, and business model. In selecting new team members, a good selection criterion is to hire for shared values, behavioral attributes, and proper attitude—and then train for skills if necessary.

SINGING FROM THE SAME SONGBOOK ALL VOICES JOINING IN

Once the organization's employees (at least most of them) understand the company's vision and core values, it is best to provide unification by committing to a clear and agreed-upon goal or goals that are aligned with what the organization represents. Such goals should be clear and easily understood by all employees in the team as to what they must do to move toward attainment. Team leaders must be able to communicate each goal so that team members are inspired to move the organization to new heights at a quicker pace than ordinary—most economically, efficiently, and effectively.

Rather than creating individuals to move the organization forward, success is created through team results and not through individual exploits. The successful organization masters the art of creating effective teams and not individuals. Teams learn to share resources and overlook personal ambitions for the sake of the team and the organization. Greater results emanate from team collaborations as opposed to a model of management-directed behavior. And the team leader is assigned not by organizational position but by his or her skills as a team leader and is always in flux. Teams should not be stagnant like most job descriptions of responsibilities and job duties. The need for a team to swarm to the work that needs to be done. Any employee may be a member of a number of teams working on various differential projects. Success becomes a factor of creating the right teams for the right goal.

WORKING TOGETHER IS BETTER THAN WORKING FOR

One of the management fads in recent years is to have your managers go off-site for a retreat under the guise of building better teamwork.

After such an experience, they come back and all their interpersonal problems are gone. One of the teamwork approaches that enjoyed a degree of popularity was the *rope course*. These were outdoor courses consisting of a series of challenges supposed to support the concept of teamwork and provide feedback that we can all do more than we think we can—if we only take the leap and risk it. The CEO of Armwrestle Inc. realized that her organization was into heavy interdepartmental competition and backbiting. She decided that what the eight-member management group needed was intensive training in teamwork. If they could learn to work together, all their problems would go away. A week away from the office at a rope course seemed to be the perfect solution. They would learn the importance of teamwork and how to translate it back to the office.

It was apparent that this group didn't work together; in fact, the organization had taught and rewarded them to be competitive. A number of the managers overtly disliked each other. At the rope course, two people were assigned to room with each other. The course providers believed that it was important that these two individuals be as opposite as possible—they would create harmony out of discord. So, the worst pairings became a reality, and they stayed that way. Each pair's dislike of the other only increased, as familiarity bred contempt.

The course providers did little more than set up the rooming arrangements. The rope course itself became an even worse experience. Rather than use the experience to reinforce the significance of teamwork and working together, the group used it to reinforce its dislike of each other, and the course leaders merely moved the group from one activity to another. Some of the physical activities were difficult for some members of the group due to poor conditioning, lack of athletic ability, overweight conditions, and so on. Rather than helping these individuals as part of the group to build teamwork, the rest of the group ostracized these individuals and made fun of them. The course leader merely moved on to the next activity. A traumatic experience occurred when each one was asked to use a zip line to slide across a 400-feet-high wire over a raging river. Steve, one of the physically strongest managers, was deathly afraid of heights. Although the course leaders told the group that no one had to do any of the exercises if he or she didn't want to, two of the course leaders pleaded with Steve while the rest of the group watched him visibly shake and be reduced to dry tears.

When the group got back to work, teamwork deteriorated even further. What could have been a positive experience turned out to be just the opposite. And when Steve tried to exercise his corporate muscles, the others would give him the hang man's sign and he would find a piece of paper on his desk with just two words, "the rope."

YOU CAN'T TIE A LARGE BUNDLE WITH A SHORT ROPE

Teamwork: Good Old Golden Teamwork

There is a lot of talk about how companies must work as teams, as the various functions are dependent on one another to achieve desired results. Many organizations spend considerable time and effort on teamwork training. Ironically, this goes on while these companies continue ineffective practices that reward individual performance over teamwork—such as evaluation and promotion criteria, interdepartmental competition, hierarchical organization structure, and so on.

These same companies could be even more effective and successful if they could implement teamwork concepts without destroying individual incentives and rewards. Many of these companies, however, don't know what kind of team they should be building—is it a baseball, soccer, hockey, tennis doubles, or SWAT team? They go about team building as they go about most other things, that is, by applying the same principles throughout the company without applying any flexibility of design.

The Apex Company desired to build an effective customer service team. It started by developing a team of individuals with different technical and interpersonal skills. They wanted to set up a reporting and evaluation system based on such things as number of customer contacts (phone calls and visits), number of open complaints, number of closed complaints, and so on. Such a system only perpetuated the individual competition of who is doing more and not necessarily the quality aspects of customer service. In effect, they were building a baseball team of individual stars, instead of a hockey team that works together to make the goal. So, as they say, there are teams, and then there are teams.

TEAMWORK IS THE ART OF WORKING TOGETHER FOR THE COMMON GOOD— AS LONG AS I'M BEING RECOGNIZED

Normally, an organization hires an individual for his or her perceived skills and abilities to fit an existing job position. While we all believe we have excellent interviewing and interpersonal skills to be able to detect the promise of a job applicant, basically, the employee is chosen based on the résumé content (which he or she provides to sell himself or herself—no one tells the whole bloody story) and the interviewer's subjective evaluation. Mainly, the easy guys get hired, those who appear controllable and will perform the repetitive job without questioning. The tough guys, those who might cause trouble, or if you can believe it, question the legitimacy of what they are asked to do, are referred elsewhere—stick them on the competition. There is hardly a mention of working as part of a team and questioning as to the applicant's teamwork skills. Traditionally, employees are evaluated individually for their personal contributions, again based on some evaluator's subjectivity. While ability to work with others or part of a team may be one item on the evaluation checklist, it is rarely a major component. So, how does one learn to work as part of a team and how does an organization encourage such teamwork and evaluate performance and reward individuals for their teamwork contribution? Teamwork means working together to achieve desired results.

It is not a mystery that most organizations work together as a team and not as a collection of individuals. However, employee evaluations and rewards are usually based on individual contributions. Therefore, an individual employee looking out for himself or herself will value his or her individual performance greater than his or her contribution as a team member. And those doing the evaluations perpetuate this system of individual contributions. Knowing that the organization really works best through its intersecting collection of teams in a working-together atmosphere, management must develop effective systems for encouraging teamwork and for evaluating team results and individual team member contributions. Increased emphasis needs to be built into the company's hiring, orientation, coaching, evaluation, and reward systems to include the requirement for teamwork and working together. Such working-together abilities then need to be included from the start in the company's hiring practices that may mean reeducating those responsible for hiring, and so forth. Develop the concept of the overall team and then interconnected teams (and isolate where necessary) to accomplish desired results.

Everyone wants to increase his or her results,
but nobody wants to change

Dreams motivate innovation and change,
memories maintain the status quo

Hearing a good idea produces resentment,
hearing and seeing the idea produces response

Learning to listen,
learning to forget, and
learning to learn

Great achievements involve great risk—
take the leap or stay in place

Never jump to conclusions—
look for the truth and the cause

ORGANIZATIONAL BARRIERS TO EFFECTIVE TEAMWORK

- The status relationship
- Lack of understanding of the organization and its core values
- Multiple links in the reporting process
- Physical distance between members
- Functional separation of specialization of tasks
- Information ownership
- Competitive versus cooperative climate
- Faulty transmission of values, beliefs, and goals

IT'S DIFFICULT ENOUGH TO WORK BY YOURSELF, LET ALONE AS PART OF A TEAM

The innovator does not always get the spoils,
sometimes it is the follower

Half of all employees
are below average

Moving fast is not necessarily
the same as making progress

The sooner you are behind,
the greater the time to catch up

I am still looking for the
functional team

The optimistic team is the one
that doubles the same efforts after failing—
expecting different results

CHAPTER 10

Operating Systems

The concepts of operating systems for controlling the activities of an organization to ensure that it operates most economically, efficiently, and effectively have been in existence for many years—almost from the start of the Industrial Revolution. From the beginning, management has been struggling with the need for better and more sophisticated methods for directing, controlling, and evaluating the results of their operations in terms of economy, efficiency, and effectiveness as related to the use of resources and providing best practices in all areas of operations. Initially, these operating and control systems were operated manually with some form of central control and reporting systems—as good as the manual record keeping and reporting processes. With the advent and development of the computer for businesses of all sizes, such systems have become more sophisticated and beneficial to management.

In many businesses today, the owners and management are gasping for ways to become more competitive and maintain market position—or merely to survive. The owners and management have sensed that many of their systems are detrimental to growth and have held them back. These are the very systems that are supposed to be helpful; for example:

1. planning systems, long and short term, which result in formal or informal plans but not in actual results.
2. budget systems that became costly in terms of allocating resources effectively and controlling costs in relation to results.
3. organizational structures that created unwieldy hierarchies or gaps in responsibilities, which produced systems of unnecessary policing and control.
4. cost accounting structures (usually lack thereof) that obscured true product costs and resulted in pricing that constrained competitiveness or ignored profitability.

5. computerized accounting systems that produced elaborate reporting without enhancing the effectiveness of operations.
6. sales functions and forecasts that resulted in selling those products that maximized sales commissions but may not have been the products to sell and produce for effective growth.
7. operating practices that perpetuated outmoded systems ("we've always done it that way") rather than promoting best practices.

Effective operating practices that ensure that these systems are operating most effectively, together with other techniques, are tools to make these systems helpful as intended and direct the organization toward its goals. With the passage of time, good intentions and initially helpful systems tend to deteriorate. Ongoing system reviews and due diligence as to how existing systems are operating and their effectiveness are then necessary to help get the business back on track by pinpointing operational deficiencies, developing practical recommendations, and implementing positive changes.

SYSTEMS PERPETUATE,
BUT PEOPLE COME AND GO

Getting the Facts—Just the Facts

One of the major functions of management is to provide the correct guidance and direction for the organization and then to make the ultimate decisions that move the organization toward agreed-upon desired results. However, to make the proper decisions management needs to have accurate information in a format that they can understand and act upon. In too many companies there is a wealth of data but not sufficient information that enables management to fully comprehend the situation and what needs to be done at any point in time. Basically, operating personnel need to have all of the detail information for real-time operating decisions while management needs more summary information as to making those decisions that affect overall operations and positive movement toward management's goals. The best sample is the simple system—and the one that works.

All organization operations can be categorized into key operating indicators (KOI) such as on-time deliveries from vendors and to customers, quality statistics, customer satisfaction (and lack of complaints), right sales to the right customers, profit expectations per sales order, customer statistics, vendor statistics, employee productivity and results, and so forth. At the management level, it is the review and analysis of these KOIs that assist management in making the proper decisions on an ongoing basis. If members of management are not quite sure of the direction to take based on only these KOIs, then they can delve deeper into the detailed data. However, if the management control and reporting system is designed correctly, management should be able to rely solely on the individually developed KOIs and rarely need to burrow into ponderous detailed data. Make the system the user's system.

IT'S NOT AN EXERCISE IN DEVELOPING IMPRESSIVE SYSTEMS,
BUT TO DEVELOP SIMPLE SYSTEMS THAT WORK

Case Situation 1: The Solution Is the Cause

The AAA Sales Company is in the consumer product distribution business, selling to wholesalers and brokers. Operations had developed effective inventory control and sales statistics systems to determine what was selling, inventory items and levels to maintain (with zero inventory as a goal), and which products produced the best profits. AAA prided itself on the ability to deliver products to customers on time when needed. Inventory stock outs were not to be tolerated. Thus, the corporate belief system was contrary to allowing the inventory system to automatically adjust to the ups and downs of customer demands, which resulted in over-inventory of many items.

As a result, inventory levels had greatly swollen for many fast-moving items. At the same time, customers were experiencing a downtrend in overall demand, resulting in a downtrend of AAA orders. The result was large stockpiles of inventory. The cause of this condition was the management's inability to change their thinking and not be in the inventory business—that is, to stock inventory based on present customer demands and not on past inventory issues. They didn't realize that the symptom, not the cause, was too much inventory. Management's solution was to offer sales incentives for those items to reduce inventory levels.

A few customers initially responded to AAA's incentives; so AAA decided to increase the incentives. Eventually, the company reached a number where customers became interested. AAA got rid of its excess inventory. However, conditions changed and these items were again in demand. However, AAA's customers had sufficient quantities on hand, and AAA couldn't sell its inventory at any price. Its solution had created the cause of its next problem.

FIX THE CAUSE, NOT THE BLAME

Basic Business Principle

Those businesses that are truly in the inventory business, such as retailers, wholesalers, and distributors, need to develop operating systems that assist them in maintaining inventory levels at a minimum, as close to zero as possible. To effectively accomplish this, the company needs to move away from stocking formulas based on past demand and usage that create excess inventory levels when present customer demand decreases. When faced with such excess inventory levels, it is not good practice to offer such inventory excesses to existing customers at relatively large discounts with additional incentives. Such a practice results in sacrificing future sales to these customers and establishing an expected price structure that the company may not be able to meet profitably in the future. This practice also results in inventory demand and statistics being skewed by including these sales in the data mix. Treating the symptom of inventory overstocks in this manner rather than treating the cause of inability to foresee present and future customer demands, and stocking inventory accordingly, is a sure formula for disaster. Get out of the inventory business to the extent possible.

Best Practice Suggestion

Get closer to your quality major customers and work with them to help determine their present and future needs for your company's products or services. Rather than estimating these customers' requirements entirely internally based on their past usage become proactive and forecast their needs based on their present and future forecasted needs. By working directly with the customer you should be able to negotiate long-term contracts, with stated delivery dates, as to quality, timeliness, and price. This, of course, may mean that your sales staff may have to spend more time servicing the customer and less time waiting for the customer to order—possibly indicating an overhaul of your sales systems. Remember top management decides what products to sell, in what quantities, and to which customers, at what prices. The sales function is then responsible to follow through on management's sales plan. No longer can sales staff sell what they desire (to maximize their commissions) but to focus on what's best for the overall company. Service your customers by selling them want they want, not producing and then selling them what they may not want—but maximize sales staff's compensation.

IF YOU CAN'T FIGURE OUT THE CAUSE OF THE PROBLEM,
GET RID OF THE PROBLEM

Case Situation 2: The Dance of Management

Jim Rogers is the vice president of manufacturing, with an office on executive row and a company car with a driver. The cost of these perquisites exceeds the cost of his three children's total cost of college. Jim does almost all of his work from his office. He sees no reason to leave his office—he has become attached to his plush surroundings. And he couldn't afford such luxury using his own money.

He insists that those employees reporting to him meet in his office when he needs an answer—regardless of what they might be doing. He expects immediate response to their master's voice; when he calls, they come running. When he says fetch, they fetch. At other times when he gets bored sitting in his office or watching his staff grovel in front of him, Jim visits plant sites to see others grovel or attends seminars in exotic places at company expense—learning nothing but how to live better.

The manufacturing function gets along fine whether Jim is present or not—even better when he is not present. Jim has established detailed manufacturing systems and procedures, mostly for control purposes, not to help employees do a better job, and the employees are expected to blindly follow them. Production employees work by the numbers—initiative to do a better job is discouraged. Production management's time is spent either preparing reports or developing questionable information for Jim. Production continues by the numbers as if management doesn't exist. As management dances its fancy waltz, production goes on for better or for worse.

SYSTEMS PREVAIL, PEOPLE COME AND GO

Basic Business Principle

The best operating systems are those developed directly by those employees who do the job. While management review and assistance may be helpful, it is those who do the work who are closest to what needs to be done to achieve optimum productivity and results. Management, of course, has the right to control operations any way in which they see fit. However, developing systems and procedures primarily to control and police those doing the work typically only creates employee resentment, blind following, and increased incidences of sabotage to prove the idiocy of those supposedly in charge. As operating systems are meant to enable employees to perform better, these employees should be involved in developing their own operating systems. If the employees know what they are doing and do it well, get out of the way and let them do their jobs.

Best Practice Suggestion

Develop operating systems working with those employees who actually do the work. Make sure that input is provided from all levels of the organization. When developing effective operating systems there are no rules as to where good ideas might come from. Normally, management is too far removed from operations to provide detailed assistance as to how to best perform specific operations. In addition, with the participation of actual workers there is a greater possibility of getting it right and having a more committed buy-in to the operating systems. Make sure that operating systems relate to doing the right job, the right way, and then exercise self-motivated disciplined behavior and reduce management and supervision to a limited number of coaches and facilitators. Leaving operations to those who are evaluated as to their results usually ensures increased results—and the correct ones.

Case situation 3: What's Your Mantra?

Steve Stephens, director of product control, is from the old school of management. That is, managing from a position of power and control, never letting the employees know how they stand. An uncertain work force is a good work force. He is the boss, and the employees know it. Steve believes that it is important to maintain discipline through intimidation and that most employees (the child) are motivated through a desire to please the authority figure (the parent). The company has sent him to many management training programs, but he has found no credence to any of the sissy methods they propose.

Steve practices the philosophy of reviewing, policing, and controlling everything that is done in his department. After he reviews a report prepared by one of his employees, he goes over it with the employee. These sessions are always of a critical nature, with Steve making the employee feel like a complete idiot. Only in this manner will the employee learn and not make the same mistakes again. Steve is particularly rough on one of his supervisors, an individual who doesn't agree with Steve's approach of learning through intimidation. It is particularly embarrassing for those employees reporting to this supervisor to listen to him being berated in Steve's office. An employee asked this supervisor how he worked under such conditions. The supervisor explained that he knew meditation and that when Steve went after him he just kept repeating his mantra and went off somewhere else—fishing or laying on the beach. When asked what his mantra was, he wouldn't tell his personal one but did share the one he used with Steve—it was "fuck off."

YOU DON'T MISS A WHOLE LOT WHEN YOU'RE NOT THERE

Basic Business Principle

Organizational operating systems typically spell out how things work and get done within the organization, including reporting relationships and the power chain of command within the organizational structure. It is not a question of whether managers know more or are innately more intelligent than those who organizational report to them, but that they are granted the power and control over others. It is the power of evaluation, promoting, and salary increases that one in power holds over the other. Those who see a future (or no way out) within the organization tend to put up with ineffective and critical bosses to keep their jobs and hope for promotional rewards. Each manager in most organizations can decide for himself or herself how to wield such power over others. It is then up to the individual reporting to that manager to decide how to live within such an abhorrent operating system—or to leave the building altogether. Remember that the obedient child may be rewarded but the rebellious child may be helped out. Employees learn best through effective coaching and mentoring, not through fear or intimidation.

Best Practice Suggestion

Operating systems are implemented so that all employees can flourish and multiply their effectiveness in assisting the company to maximize results and maintain its competitive advantage. While most organizations have stringent operating systems as to employee hiring, orientation, training, inflexible job responsibilities or constraining job descriptions, evaluation and promotion criteria, and firing: Once one becomes a manager these very employee operating systems seem to loosen up or disappear. In effect, in many situations, once one becomes a manager his or her expectations become more amorphous and he or she ceases to become objectively evaluated. Approval by other managers and those managers in higher positions becomes more subjective as to how well he or she plays along with the others. As long as the area of responsibility appears to be doing its job and there are no real complaints a manager may, in spite of his or her self, continue to be promoted—sometimes to the very top. When one understands such an operating system one will understand the rewards of being an obedient child and ultimately being able to control others through the power of position. Implement a program of coaching and mentoring directed toward making each employee optimally productive and continually learning.

**THE STRUCTURE WAS ALL RIGHT,
BUT THE PLUMBING NEEDED TO BE REPLACED**

Case Situation 4: The Thinker

Jane is extremely intelligent, an excellent problem solver, and once she got something she expected everyone else to get it as well. With such abilities she has always been able to achieve results for the company mainly by working on her own. She has never been a team player or able to work effectively with others—and others have never desired to work with her. She treats others as inferiors and they shrink away when confronted by her.

Her employer recognized her individual skills in getting things done by recently promoting her to manager of corporate relations. There was no recognition or appraisal of her ability to get things done by working with others. Jane sees this promotion as the chance to redo all that she sees wrong with the way the department is run and ultimately to fix what's wrong with the entire organization.

Jane spent the first month as manager working alone on a project of correcting things within the department. When she was ready, she met with her 12-member staff to tell them of the changes that were to be implemented immediately. Not one of the employees said anything, but did as they were told, blindly implementing Jane's changes.

It was quickly apparent that many of Jane's changes weren't working, as assignments weren't getting done correctly or on time. Some of this was due to staff sabotage, as the employees did not like being told what to do, but most of the problems were caused by Jane's system changes simply not working. Jane was perplexed as to what went wrong. She didn't understand why everyone didn't think like her and how someone else's solution might work better than hers.

**IT'S DISTURBING TO THINK
THAT SOMEONE ELSE'S SOLUTION
CAN SOLVE THE SAME PROBLEM
AND IT WORKS BETTER THAN MINE**

Basic Business Principle

Operating systems are not the domain of the manager alone. While everyone who looks at a situation may observe what he or she believes is wrong and needs correction, each individual may see it quite differently. And when one is promoted into a management position many times he or she assumes that he or she has total control to make such corrections. Sometimes his or her dictated solution works out if not ideally, but what is lost is others' perspectives that may not only be better solutions but may help the manager's system to work even better. If you don't work with the workers, then the workers may work out on you. The best and most effective operating systems are usually those developed inclusively with the best ideas of all of those employees involved in the situation. Problem solving is everyone's job and it is a joint effort to develop the best possible solution and then make it most effective.

Best Practice Suggestion

To be most effective an organization needs to learn how to best utilize each employee's skills and abilities on an individual, as well as a team basis. When developing and implementing operating systems it is best to have all employees involved in the brainstorming and decision-making process. While there is a manager involved it might be his or her ultimate responsibility to approve of the ultimately developed operating system; it must be realized that it is the employees who will implement such systems and make them work successfully. The manager might receive the recognition and rewards for the success of the operating system but it is the employees who make it work. A smart manager shares such responsibility and ultimate rewards with those employees who made it work successfully. It is not my system and success but our success—give credit where it belongs. Identify and implement best practices as a departmental equalitarian effort.

Case Situation 5: Results

Theoretically, an employee shouldn't be hired unless he or she is absolutely necessary—that is, from a cost versus results standpoint. In other words, will this additional employee provide the company with results intrinsically worth more—in terms of increased sales, reduced costs, improved customer service, increased net income, and so on—than the cost of the employee? If there is a justified need, by all means hire the employee. However, in most instances, employees are not hired on a results basis, but more on some manager's ability to convince others that additional help is needed. Rather than use existing employees more effectively and productively (and having them do what they were hired to do), it is always easier to hire another person to fill in the gaps. And, amazingly, after another period of time, the gap needs to be filled again.

Farber and Son is looking to improve its procedures in all areas to make the company more effective, efficient, and economical. The purchasing department is trying to determine what results to be held accountable for, and how to relate such results to personnel and organizational needs. Purchasing department management analyzed its present reporting system and method of individual evaluation of results. For instance, the department has eight buyers who are evaluated based on the number of purchase requisitions filled per day, and 12 computer processors evaluated on the number of purchase orders processed. The company processes more than 100,000 purchase orders per year, about 80,000 too many.

They have the concept backward as the result to be measured should be the number of purchases not made and the economy and efficiencies to be provided by purchasing such as using alternative or less costly materials, combining of purchases, large quantity or blanket purchase ordering, questioning whether the purchase is necessary, and so on. Purchasing employees are so busy handling volume and chasing themselves that they have forgotten why they are there in the first place. If they keep their eye on the reason for their existence and the results to be achieved instead of filling out the workload, they can avoid having personnel mainly to create statistics and fill out their approved budget.

**PEOPLE MAY BE OUR BEST RESOURCES,
BUT THESE RESOURCES NEED TO BE CONSERVED**

Basic Business Principle

Each function or activity within the organization needs to be analyzed as to its purpose and the value that it is expected to contribute to the organization. Many times, the individual function gets so tied up in its own activities that it forgets why it is there in the first place. Producing volumes of transactions and maintaining statistics as to how much the function produces becomes its reason for existence and the method for judging productivity. It becomes more important as to how many and how quickly a transaction can be processed than whether the transaction and the personnel are needed in the first place. As we analyze functions we need to question whether the function and the people involved are really needed. As we eliminate, change, or reduce activities we ultimately compress the overall function. Hopefully, we wind up mostly value-added activities and turn cost centers into profit centers. Remember the business you're in—it's not the statistics business.

Best Practice Suggestion

Review and analyze each function and activity within the organization to determine whether it is performing most economically, efficiently, and effectively, and is necessary to maintain within the organization. Understand the real purpose for the function and ensure that it is effectively contributing to the desired results of the organization. Don't get hung up on the way we always did things but look at what is necessary at this time. The company that changes with the times stays with the times. The organization must develop an effective program of continuous improvements constantly searching for best practices. Become a learning organization that learns from within and from others. Develop focus and direction for each function and develop effective plans as to how to achieve such direction.

**TO THINE OWN SELF BE TRUE,
UNTIL YOU NEED THE MONEY**

Case Situation 6: Work Less—Make More

The systems approach to operating a business looks at all of its functions and activities to make each one operate most efficiently with minimal resources and maximum results. The clutter is eliminated, paying attention to the essentials of the business and the reasons why it exists. However, invariably, top management fights to the death to hold onto their clutter as if it was their very existence—and for many of them it is.

Rose DeBuy is the founder and chief executive officer (CEO) of a large chain of department stores. She is convinced that the chain has grown from its original store to more than 50 stores due to her hands-on attention and her personality. She micromanages to an art; if she didn't do it or watch it being done, it didn't get done. She has built the company for more than 40 years and is tired of putting out the fire sales. When asked what she wants out of the company, she says just that—she wants out of the company.

Her heir apparent, the vice president of operations, made a deal with her. If he could develop an effective reporting system that showed a quick snapshot of all aspects of the company's operations, would she be willing to review it first thing in the morning and then if everything looked all right to have her assistant George take her to the club for the day? If anyone needed her, they would call her at the club. Once she was satisfied that the system and the company was doing well without her, she could go anywhere (eventually retire to the CEO heaven of her choice) and the vice president could finally take over.

For the first six weeks with the new system, everything worked like a year-end clearance sale; that is, she went to her club and the employees did their jobs. During this period, sales and net income rose for each store, without her assistance. The vice president got an emergency call from Rose. As soon as he got on the phone, Rose was shouting, "it's just not working, it's just not working." The vice president quieted her down enough to ask her, "what's not working?" She screamed, "your damn reporting system"! He asked her calmly what she meant by that. She explained that it had been six weeks, she had gone to the club each day, and no one had called her. The club, however, had called the company to see if there was anything for her to do, as she was telling the bridge players which cards to throw. She asked, "How can you run a business like this?" He answered, "much more efficiently." He realized that not everyone (particularly Rose) wants to work less and make more. He had tried to remove the corporate cancer (the problem was Rose), had it in remission, but it rose once more.

**THEY WANT TO FIND THE PROBLEM
AND CORRECT IT,
NEVER THINKING THAT
THE PROBLEM MIGHT BE THEM**

Basic Business Principle

Excellent operating systems prevail and help guide the company through its ups and downs while people come and go. An individual who founds a successful company invariably attributes such success to his or her own efforts. But often there are other reasons for such success, such as a lucky niche, excellent management and support personnel, winning location, customer acceptance, and falling on a successful business model—or success in spite of the founder. And it is also possible that the company could have been even more successful without the handicap of the founder and his or her ideas of how the company should operate. Often top management becomes a controller to meet their needs rather than those of the employees. Should they be able to release it's possible that the company could be even more successful. The trick is to eliminate the control and free up others so that they are able to do the right job. And sometimes the founder or owner perpetuates crises to justify his or her own existence for who else could put out that fire. Identify the cause of the problem, not the symptom or the blame—and then fix it even if it starts at the top—but walk softly if it is the top.

Best Practice Suggestion

Develop effective operating systems that move the company in the right direction even if those at the top are retarding progress. Establish operating systems that allow individuals to do the right jobs in the right way. Provide operating reports that allow top management to determine quickly that operations are performing correctly and providing acceptable results in each major function and activity—KOI developed by those involved. If operations are performing well, then get out of the way; if not, take effective corrective action within the function and not by directive. Remember you are not the only one with the right answers; let the people you are paying to make the right decisions do their job. It is not an exercise in keeping yourself busy with the clutter of paper and the handling of crisis, it is to create simple systems that help each function to function.

SYSTEMS PREVAIL—PEOPLE COME AND GO

An Organizational Checklist of Operating System Best Practices

- Organizational mission, goals, and objectives are established and documented. Processes to measure and report achievement of goal and objectives are in place.
- Duties in place for financial activities such as payroll, purchasing, accounts receivable, and cash handling are segregated.
- Expenditures are tracked and compared to budgets on a timely basis. Budget status reports are prepared and provided regularly to managers.
- The cost to process a transaction (purchases, payables, receivables) does not exceed the amount of the transaction or a factor thereof (i.e., 400 percent).
- Department records or *shadow* systems are reconciled to general ledger.
- Cash receipts are promptly endorsed, recorded, safeguarded, deposited, and reconciled. Individual accountability for cash is maintained at all times.
- Accounts-payable payments are supported by purchase orders, vendor blanket agreement, or personal services agreements.
- Payments for personal services, which constitute an employer–employee relationship, are properly approved and paid through the payroll system.
- Vendor invoices, including rapid-pay invoices, are approved prior to payment.
- Purchases and sales of materials or services with employees or a near relative are properly controlled.
- Equipment is properly maintained and controlled through necessary maintenance.

- Overhead and shift differential charges by employees are properly reviewed.
- Complete documentation and approval supporting travel and entertainment expenditures is on file.
- Employee time-worked records are properly reviewed and approved.
- Employees are properly hired, oriented, trained, evaluated, and fired.
- Employee performance evaluations are prepared and reviewed with the employee on a timely basis. Corrective action is properly followed up.
- Employees are cross-trained to provide flexibility in workloads and to keep the number of employees to a minimum.
- Processes for measuring and assessing quality of customer service are in place.

BEST PRACTICES ARE BEST PRACTICES—
AND ALWAYS SUBJECT TO CHANGE

Best Practice Passions: Operating Systems—Targets to Shoot For

Directions to Move Toward

- Create customer service overkill—at least 125 percent of what you promise and what the customer expects—bowl the customer over so that he or she can't wait to come back.
- Build your business through more sales of the right products or services to the right customers—it's easier to sell to existing satisfied customers than to continue to look for new customers.
- Allow the customers to buy the products or services they desire and can use effectively than sell them what you want to sell.
- Make your stakeholders part of your food chain—that is, vendors, customers, employees, owners, managers, or share-

holders—and run your business according to their diverse interests.

- Reduce your cash conversion period to the shortest time possible—keep your costs of products or services to a minimum and collect the customer's money as quickly as possible without sacrificing your level of service.
- Reduce or eliminate all nonvalue-added functions and activities—if it's not needed, get rid of it or don't bring it on board in the first place. Remember a dollar not spent or a dollar saved is a dollar to the bottom line.
- Look for alternative ways to provide necessary internal services—identify the most economical, efficient, and effective methods whether they are internal or external.
- Maximize results with the least resources—it's usually easier to manage and control less, stop empire building.
- Keep your focus on the bottom line and not on the sales line—it's not the level of sales but the real dollars generated that is most important.
- Manage cash effectively—cash is king—keep your focus on minimizing cash-out and maximizing cash-in.
- Continually plan and budget, monitor, replan or rebudget, improve operations, and learn. The quest for best practices is a continual process—it is not just to match your competitors, but to continually surpass them. Standing still is losing ground and may be a freefall to oblivion.

STRIVE FOR PERFECTION—SETTLE FOR EXCELLENCE
THERE ARE NO PANACEAS FOR SUCCESS,
ONLY REWARDS FOR SUCCESS

Appendices

Hundred Shades of Grey Matter: Best Practice Thoughts

1. Power is the right to make others suffer.
2. Now he (or she) knows everything—he or she has just been promoted to manager.
3. Management—like sex—is greatly overrated.
4. Working together is hard to do, working by myself is only difficult to do.
5. Shelves and shelves of shelves and shelves.
6. The thieves of time—white collar, not blue collar.
7. Take good care of the top and bottom (those who do the work), screw the middle.
8. Born again, then gone again.
9. The boss is always right, the customer comes next.
10. Breaking up is good to do.
11. Its not over until the fat lady signs the stock options.
12. Looking for the inner corporate parent.
13. We're just teaming with quality reengineering.
14. The meeting is over, but the malady lingers on.
15. Its the least you can do, now what is the most you can do.
16. No game plan, just lots of games.
17. Just do it—because I told you to.
18. Yesterday's solutions to today's problems.
19. Outcome obsession—something has to be done.
20. Frankly mein herr, I don't give a damn.
21. *Leader* is in the mind of the followers—for without the followers there is no leader.
22. Ultimate power has the last laugh.
23. The sum of the staff is greater than the boss.

24. The art of management is really easy—if you can just get rid of these damn people.
25. Neither an employee nor an employer be.
26. Let the customers get their own stock options.
27. Job dissatisfaction is psychosomatic.
28. Job satisfaction has a direct correlation with the boss's acceptance of you.
29. Management is the art of deception.
30. Meetings are the cancer of executive row.
31. Your reward is keeping your job.
32. The good news is we're still in business, the bad news is you're not in the business.
33. To thine own self be shrewd.
34. I'm not in the customer service or cash conversion business, I'm in the maximum compensation business.
35. Damn the customers, full speed behind.
36. Ignorance is never having to say you knew—and never having to take the blame.
37. Which comes first—the process or the result?
38. Restructuring—just another word for "let my people go."
39. A corporation with an attitude—and it ain't good.
40. Don't confuse good with inactivity, and bad with action.
41. They're so worried about their ideas being stolen that they never have any.
42. Take two meetings and see me in the morning.
43. The son also rises.
44. He or she is always 100 percent to 90 percent bullshit, 10 percent aroma.
45. I work, therefore I am.
46. Fly low and avoid the radar.
47. If you live on the edge, you might fall off.
48. Always the funerals, never the births.
49. Accountability—focusing on the things you do right, not on the things you do wrong.
50. Blame others for your successes, not just your failures.
51. Victim—a good person to whom bad things happen.

52. We appreciate your business because we believe our business begins with you.
53. Your call is very important to us, so please stay on the line.
54. Just because you do it well, doesn't mean you like it.
55. When I first started working I was full of ideas, creativity, and plans; now I can't make a decision as to what to have for lunch.
56. You can giveth (over and over again), but you can't taketh away (not even once).
57. There's an allusion that we're going somewhere.
58. I think you mistake me for someone who gives a crap.
59. While you stop to see if the competition is gaining, they streak past you.
60. The lower the position, the greater the warmth.
61. Those who play with numbers for a living, don't usually play with living.
62. Incompetence dressed in executive clothes—it is not the clothes but the person in the clothes.
63. Why do they always destroy their own workforce?
64. Loyal employees—all retired in place.
65. Business by nonresponse—if we do nothing better than anyone else, maybe it will go away.
66. Greed is rampant and I'm tired going to the bank.
67. Channel surfing for solutions.
68. Fix the problem (and the cause), not the blame (and the symptom).
69. The boss made me do it.
70. Do the hokey pokey and turn yourself about—its better than doing nothing and removing all doubt.
71. I'm thinking, I'm thinking.
72. Success breeds contempt, absence makes the hard grow easy.
73. Peers will turn on you, if it's their turn.
74. There are no friends for promotion, you only have friends on the way up, when you are all in the same leaking boat.
75. Birth of a manager, death of the soul.
76. Beware of decisions by indecision.
77. Here today, gone today.
78. If I'm right, then you must be wrong.

79. Doesn't everyone think like me?
80. We need a leader, we already have the followers.
81. Cost cutting starts with you—fat rises to the top.
82. The company revolves around the CEO, who revolves around his compensation plan.
83. The employees shall inherit the business.
84. Managing is the art of filling time.
85. He may do nothing, but he does it better than anyone else in the company.
86. We live in a negative feedback world.
87. The sign that something needs attention is always a negative one.
88. If at first you don't succeed, you're about normal.
89. I may not be able to recognize excellence, but I sure know what shit is.
90. He signs your performance review with your pen, and then steals your pen.
91. The only thrill better than acquiring at a good price, is selling at a better price.
92. Snitching to the boss is bad karma.
93. The enemy of my enemy is my friend.
94. We praise his disasters and ignore his results.
95. Zero worship—the boss leaves me alone and I do the same.
96. He's easily distracted, so don't distract him with work.
97. The fear of failure and the guilt of success.
98. Beautiful people do beautiful things.
99. What business are you in?
100. On the road to mediocrity, I fell onto the trail to obscurity.

Twenty-Five Best Practice Maxims

1. A fool and his inventory are never parted—and soon bankrupt.
2. The company that dies with the most inventories loses the game, and the company with the least toys wins the game.
3. Productivity improvements come best from those who produce.
4. No mistake is fatal unless you make it so.
5. May this house be safe from specialists (consultants) bearing answers.

6. Quality is not a spectator sport.
7. A dollar saved is a dollar earned.
8. It's not an exercise in doing the job right, but doing the right job right.
9. You get what you measure and reward.
10. Hope springs eternal, as we identify more best practices.
11. Best practices are not a panacea for success, but a tool to learn success.
12. Minimize mistakes—maximize opportunities.
13. You cannot mandate, only suggest, results are up to others.
14. As belief systems change, so do results.
15. There is no single panacea, but a combination.
16. Doing the right things, the right ways.
17. Identifying key results helps to focus people's work.
18. Compare what is with what should be.
19. Pick the best performance and make it the standard.
20. Reasonableness can be a legitimate standard.
21. Overhead costs are real costs, and they need to be controlled or eliminated.
22. Each function's reason for existence must be understood.
23. Searching for best practices is a continual process.
24. Success and positive growth are planned, not found.
25. Best practices are temporary—always subject to change.

Best Practice Annoyers: Things That Don't Make It

- Inability to reach a human being—voice mail, e-mail, unreturned calls
- Warranties that don't seem to warranty what goes wrong
- Breakdowns that always exceed the length of the warranty period
- New products that are not substantial improvements (if any) over the old
- Late deliveries that are counter to claims and what you paid for
- Customer expectations exceeding product/service performance
- No availability when you need the product/service

- Quality for the expected period of use without paying extra for extended warranties and out-of-sight repair costs
- Customer service and support (easy and helpful human contact when necessary) that are in name only
- Cost far exceeding the benefits provided as compared to other similar products

Leftover Quotes

1. The thing I hate most is someone who is successful, but who didn't do it my way.
2. Progress requires change; if you never change, you will never progress.
3. Moving fast is not the same as going somewhere.
4. Fanatic: a person who redoubles his effort after having lost his or her direction.
5. There's never time to do a job right, but there's always time to do it over.
6. You can fool some of the customers all the time, and all of the customers some of the time, but you can't fool all of the customers all the time.
7. Work is performance art.
8. Do the right thing—forget the policies and procedures.
9. Making money is necessary, but how we make money is more important.
10. Keep your eye on the cash, not on recorded profits.
11. Recording profits is not the same as collecting cash.
12. Maximize cash-in—minimize cash-out.
13. Planning provides focus for the future, not a guarantee of results.
14. The more specific the desired result, the more likely it will be attained.
15. It is sometimes easier to shuffle people than to do the right thing.
16. Ask how the organization organizes to achieve results.
17. Set compensation not on the time put in, but what is put into the time.
18. A dollar of cost savings (or a dollar not spent) is a dollar direct to the bottom line.

19. Hold personnel accountable for only what they can control.
20. Leverage is using other people's money (OPM) to make money.
21. Plan the short run in detail, and the long run in general.
22. Don't just plan, budget, or project—evaluate as well.
23. Love of money is the root of all evil; and absence of money is the route to ruin.
24. Feeling good is doing what makes sense—that is, the right thing.
25. Best practices are the best aphrodisiac and the best revenge.
26. Be the best you can—strive for perfection, settle for excellence.

Some Final Thoughts

1. The quest for best practices is a continual and never-ending process.
2. The goal of best practices is not only to match your competitors (internal and external), but also to exceed them.
3. Standing still (i.e., doing nothing or resting on your laurels) is losing ground, and ultimately a freefall to oblivion.
4. The goal or target for the best practice is constantly changing—it is a moving target and may move quite quickly.
5. A moving target is much harder to hit than a stationary one.
6. The larger the gap between your present practice and the desired best practice, the more critical that action needs to be taken.
7. The fact that you possess the best practice does not mean you do nothing, but make it even better.
8. If the activity is not needed, then eliminate it.
9. It is not a contest to meet your competition, but to surpass your competition.
10. Survival is not the final goal—growth, prosperity, and serving your communities are far better goals.

Questionnaire in the Quest for Best Practices

1. *Sales of Products or Services*
    - Are sales made to quality customers with the right products at the right time?
    - Does each sale make a contribution to profits?

- Are all costs compared to the sale such as product costs (direct material and labor); assignment of product-related activity costs (e.g., manufacturing processes, quality control, shipping, and receiving); functional costs (e.g., purchasing, accounts payable, billing, and accounts receivable); and customer costs (e.g., marketing, selling, support services, and customer service)?
- Do sales relate to an agreed-upon sales forecast? Is the company selling the right products to the right customers?
- Do sales integrate with an effective production scheduling and control system?

2. *Manufacturing or Production of Services*
   - Are sales orders entered into an effective production control system, which ensures that all sales orders are entered into production in a timely manner to ensure on-time, quality deliveries?
   - Is work-in-process kept to a minimum so that only real customer orders are being worked on rather than building up finished goods inventory?
   - Are the most efficient and economical production methods used to ensure that the cost of the product is kept to its realizable minimum?
   - Are direct materials and labor used most efficiently so that waste, reworks, and rejects are kept to a minimum?
   - Are nondirect labor (and material) costs such as quality control, supervision and management, repairs and maintenance, material handling, and so on kept to a minimum?

3. *Billing, Accounts Receivable, and Collections*
   - Are bills sent out in a timely manner—at the time of shipment or before?
   - Are accounts receivable processing procedures the most efficient and economical?

- Is the cost of billing, accounts receivable processing, and collection efforts more costly than the amount of the receivable or the net profit on the sale?
- Is the number and amount of accounts receivable continually analyzed for minimization?
- Are any customers paying directly or through electronic funds transfer at the time of shipping or delivery?
- Are bills and accounts receivable in amounts exceeding the cost of processing excluded from the system?
- Has consideration been given to reducing or eliminating these functions?

4. *Inventory—Raw Materials and Finished Goods*
   - Are raw materials and finished goods inventories kept to a minimum?
   - Are raw materials delivered into production on a just-in-time basis?
   - Are finished goods completed in production just in time for customer delivery?
   - Is the company working toward getting out of these inventory businesses?

5. *Purchasing, Accounts Payable, and Payments*
   - Are all items that are less than the cost of purchasing excluded from the purchasing system—with an efficient system used for these items?
   - Are all repetitive high-volume and high-cost items (e.g., raw materials and manufacturing supplies) negotiated by purchasing with vendors as to price, quality, and timeliness?
   - Does the production system automatically order repetitive items as an integrated part of the production control system?
   - Has consideration been given to reduce these functions for low- and high-ticket items leading toward the possible elimination of these functions?

- Does the company consider paying any vendors on a shipment or delivery basis as part of its vendor negotiation procedures?

6. *Other Costs and Expenses—General, Administrative, and Selling*
   - Are all other costs and expenses kept to a minimum? Remember, an unnecessary dollar not spent is a dollar directly to the bottom line.
   - Are selling costs directed toward customer service and strategic plans rather than maximizing sales people's compensation?
   - Is there a system in effect which recognizes and rewards the reduction of expenses rather than the rewarding of budget increases?
   - Are all non-value-added functions (e.g., management and supervision, office processing, paperwork, and so on) evaluated as to reduction and elimination?

THE SOLUTIONS ARE EASY,
IT'S THE PROBLEMS THAT ARE DIFFICULT

Best Practice Practices: Some Pearls to Savor

1. We will not be undersold by the large chains—but remember we are selling more than price. It's not just shopping, it is an entire experience—make it a wow!
2. Sell the entire experience—good service, timeliness, quality, price, and make it easy on the customer. Let the customer be your guide—don't sell them, let them purchase.
3. It is better to build your business through existing customers, than to continue to look for and sell to new customers. Each customer, and each sale, is a profit center.
4. Better to hire the right person and build the job around them then to hire the wrong person for the wrong job. Fit the job to the person, not the person to the job.

5. Always provide more than you promise or is expected by a stakeholder (customer, vendor, employee, owner/investor)—satisfy the stakeholder—excite not just provide the expected—it's the extras that make the difference.
6. Reward employees based on results, not on time in. Get by with the least number of employees, but with the greatest results.
7. Plan for the optimum, settle for the realistic. Planning is a continual process—don't get too close to operations.
8. Create an organizational culture and organizational structure that makes it easy to achieve results and do business—the organization includes everybody not just top management.
9. The best system is the simple system and the one that works. Remember that systems prevail but people come and go—always look for best practices and continuous improvements.
10. The search for best practices is a continual search. The company that stands still will lose ground—become a learning organization.

About the Author

Rob Reider, CPA, MBA, PhD, is the president of Reider Associates, a management and organizational consulting firm located in Santa Fe, New Mexico, that he founded in January 1976. Rob is a nationally recognized author, speaker, seminar leader and management consultant. He has provided consulting services to numerous private and public industries in a multiple of disciplines. Rob has published numerous articles in professional journals and has been a presenter at various professional meetings and conferences. He is the author of nine professional management books and five works of fiction. Rob resides in Santa Fe, NM with his wife Barbara. He can be contacted via email at: robreider1@gmail.com

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Rob Reider, CPA, MBA, PhD, is the president of Reider Associates, a management and organizational consulting firm located in Santa Fe, New Mexico, which he founded in 1976. He received his bachelor's and master's degrees from Drexel University and his PhD from Southwest University. Rob has published numerous articles in professional journals and has been a presenter at various professional meetings and conferences. He is the author of seven professional management books and is also the author of five other works of fiction.

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