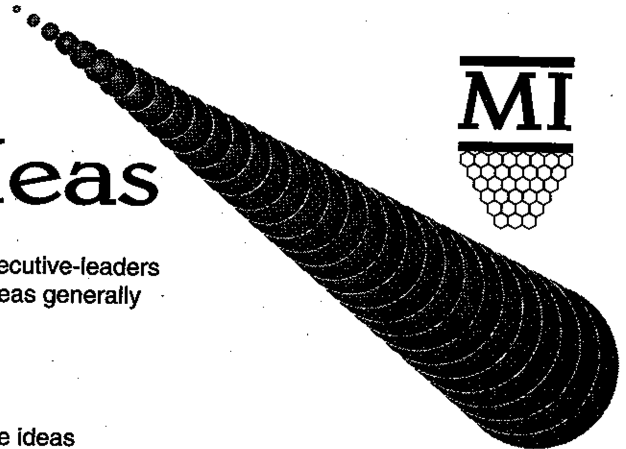
Management Ideas



FOR STILL BETTER
RESULTS .
RELATIONS .
REPUTATION .

a monthly newsletter to key executive-leaders
on practices, possilities and ideas generally
for steped up performance
edited by
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on problem-solving and creative ideas

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Dear Reader:

A few readers recommended a revised presentation. This explains the change in the format. We welcome your views.

Editor

3678 TRANSITION ASSIST

Many organizations provide for one key need of the new employee, namely, to know the organization she/he has come to work for. They have an induction programme. The new employee has, much more basic need, namely, to0 effect the transition from the academic world of study to the corporate world of work. This is a major transition, a transition that is unfortunately taken for granted both by the educational institutions and the commercial organizations. The good news is that when this transition is systematically assisted, companies have found that the new comer becomes an optimal performer both in terms of organizational results and organizational behaviour, much sooner, much smoother. That makes it easy for the employee and the employer. Siemens, Tata Unisys and Balsara Hygiene Products are some of the companies that have introduced this timely input. Your editor (N.H.Atthreya) has been professionally asasisting these companies in the transition efforts, for almost a decade now.

(His phone:200 7911/200 0446)

3679 WHAT IS THE LATEST?:

Peter Martin's Third Millennium Management Theory is deemed the most important innovation in business thinking - ofcourse, until the next one! The following pre-publication review of Peter Martin's book, Third Millennium Management Theory appeared in Financial Times (UK).

This modest essay introduces the most important innovation in management thinking since money supplanted barter. Third Millennium Management replaces at a stroke all previous strategies. It is concise, effective and cheap. In short, it is the managerial equivalent of penicillin.

Third Millennium Management starts from the basic truth that all other formal management theories are founded on the manipulation of costs. Frederick Winslow Taylor's detailed time-and-motion studies, W.Edwards Deming's total quality approach,the Boston Consulting Group's experience curve, and the re-engi-

neering craze - all these theories, influential in their day, have had cost at their heart.

Even the strategy consultants, though ostensibly peddling a doctrine grander than mere bean-counting, have given cost a central role. It is cost-effectiveness - sometimes dressed up as synergy, economies of scale or core competence - which determine where and how a company is best placed to expand its activities.

Yet cost-based theories are fundamentally flawed. The half of the business equation they neglect - revenues - contains almost all the information that really matters. Costs are essentially static, since they encapsulate the past history of the company. Revenues are dynamic, reflecting the ebb and flow of economic activity, customer preference and pricing signals. Focusing on costs belittles revenues, cutting managers off from their single most valuable source of information.

It is sometimes said, disparagingly,of a manager that he or she is not "bottom-line oriented" - cares too much, in other words, for revenues and not enough for profits. Yet in any honestly run business, revenues are an unambiguous yardstick of performance. Profits are much more subject to the vagaries of accounting.

In the real world, of course, successful managers do focus on revenues. But to do so, they must set aside much that management theory has been teaching them for a century or more.

Many good managers are aware of this tension. Guiltily, they ignore what they have been expensively taught by academics and consultants. Instead, they press ahead with the strategy which they know makes sense in practice.

Third Millennium management solves this problem at a stroke. By placing revenue-generation at the heart of strategy, it brings what managers **think** into line with what they do.

And it is a management theory for the new millennium not merely because it avoids the errors of the past. The strategy also reflects the profound changes in economic structure that lie beyond 2000.

The new era is one in which truly variable costs will tend to zero, completely swamped by fixed or semi-fixed costs. The manufacturing element of a product or service becomes relentlessly cheaper; the design, branding or support elements become irresistibly more expensive.

Accounting tools designed to cope with a world of variable costs cannot easily grapple with this new state of affairs; the proposed technical solutions, such as activity-based costing, are inadequate.

If costs are fixed, then revenues are all-important, Guesstimating revenues becomes the central task of the company. Controlling costs becomes a second order task, essential but unglamorous, on a par with supervising the office cleaning.

This is the central principle of the new theory. It is at once as old as the first flour-mill, and as new as the latest chip foundry. The essence of Third Millennium Economics is this:look after the pounds and the pennies will look after themselves.

No respectable management theory can be summed up so baldly, of course. So Third Millennium Management also has a full complement of laws, paradigms, success factors and mistakes to avoid at all costs.

The first law of Third Millennium Management is that business genius lies in imagining revenues that do not yet exist. When Sony's Akio Morita dreamed up the Walkman, he wasn't just imagining a product, he was imagining a stream of revenues for which there was no existing evidence. Imagining those revenues was at least as important as designing the product that would generate them.

In some respects, imagining a revenue stream requires greater mental originality - and certainly greater bravery - than inventing a product. A prototype has a physical existence that offers immediate reassurance; but until the product has been on the market for a while, there can be no such confidence about sales. And colleagues who would not dream of denigrating the technical aspects of a new product will not hesitate to criticize its business prospects.

The second law of the new theory is that every company will soon find itself in a 'hits' business. Such businesses - films, TV shows, records, books - were once a class apart. Cushioned by predictable sales, other managers found the wild swings of hits businesses frightening and alien.

Now, in industry after industry, you are only as good as your latest product. Each new launch, from software to industrial ceramics, could be a wild success or a complete failure. Winner takes all.

The leader benefits from self-reinforcing brand advantages in a world in which "mental shelf space" among consumers and distributors is the most valuable real estate. With products increasingly sold as part of complex systems, a leader is able to set de facto standards, greatly reinforcing the advantages of a successful product – until the next hit or flop comes along.

Managing a hits business requires different skills from managing the profits of an established stable of products. Most of all, as Third Millennium Management would suggest, it requires a nose for revenues.

The third law is that your core business is what you make it. Yes, focused companies generally (though not invariably) do better than unfocused ones. Yes, understanding a sector deeply can help you imagine the next big stream of revenues (though it can also make you a prisoner of the present). But in the Third Millennium world, two well-managed rivals can have quite different degrees of vertical and horizontal integration, insourcing and outsourcing,diversification and focus - and neither of them need be right or wrong.

The key is not some schematic, ultimately cost-driven, analysis of where your company's past or present strengths lie. Those will be irrelevant tomorrow. What counts is where you can derive substantial new revenues in the future, with the emphasis on the words "substantial", "new" and "future". Whatever allows you to do that effectively is your core business, regardless of the diagrams in last year's strategy document.

So much for general principles. Third Millennium Management also offers some practical rules of thumb. For example: spend twice as much time thinking about revenues as you do about costs. Managers devote weeks or months to poring over every aspect of the familiar, soothing cost structure, while plucking a revenue estimate out of their, or out of the first market research study that comes to hand.

The temptation is an obvious one; the cost appear real, firm, something you can get your teeth into. If you try hard enough, you can probably estimate them properly. Future revenues, by contrast are evanescent, elusive, prone to error, above all outside your control. No amount of analysis can make revenue forecasts pinpoint accurate; but time and energy devoted to thinking about them can at least cast a stronger light on the risks.

Here is a second rule of thumb:tailor your costs to the imagined revenues, not the other way round. Too many business people simply want to achieve sales that will justify their existing cost structures and way of life. Reality may require greater ambitions - or greater parsimony.

A third rule of thumb is more challenging still: set a notional price for your product or service that reflects its worth - then halve it before you launch. After six months, halve it again. Avoid the common European temptation of going for margin, rather than market share. Remember, revenues are what count.

Well, there you have it an outline of a new management theory that is at least as plausible as most others peddled from the bookshelves. What is there about management that makes intelligent, active participants so willing to place their faith in nostrums of - to put it politely - uncertain validity?

The state of management theory seems, to this consumer anyway, to bear a striking resemblance to the pre-scientific era. Classical and medieval natural philosophers devoted huge efforts to classification and taxonomy, in an attempt to make sense of the puzzling world around them. They could not, in an era before precision measurement, use the experimental method.

Management theorists are similarly deprived of experimental possibilities, and they lack the data required for the techniques of the social sciences. Not surprisingly, like their pre-scientific predecessors, they fall back on endlessly elaborated description.

Similarly, the period that immediately preceded the Newtonian revolution brought plausible - but as it happens entirely bogus - theories such as humours or astrology to a pitch of great sophistication, in an attempt to analyse personality and health. Some of the greatest scientific minds of the period placed credence in theories now utterly rejected.

Study of such theories was not valueless, however: it provided a systematic structure for the discussion of issues that hitherto had seemed too inchoate to grasp. Possibly such frameworks of analysis provided insights which would not otherwise have occurred. That may be the role that management theory plays today. After all, didn't some aspects of Third Millennium Management strike a sympathetic chord?

3680 A BOOK FOR DIRECTORS:

Books for Board of Directors are few and far between. We came across one recently. It is from Canada. The legal point of it may not be very useful to the Indian reader therefore. The other part, the role of Top Management part, will be. Here are the details:

MAKING BOARDS WORKS : What Directors Must Do To Make Canadian Boards Effective.
By: David Leighton and Donald Thain
McGraw-Hill Ryerson, 288 pages, $39.99

While primarily aimed at directors of public companies, this book is valuable for anyone interested in corporate governance issues: shareholders, managers, lawyers, academics and regulators.

A TIMELY BOOK:

Failure Mode and Effect Analysis - FMEA from Theory to Execution by D.H.Stamatis Pages 494. Price:Rs.895

A practical book by a practising professional. In this book Dr.Stamatis explains the process of understanding and applying a methodical and powerful approach to problems, errors and failures. (Organizations cannot afford errors and failures any day and more so in these times). A unique feature of this book is the more than ten real-world examples and how-to specifics which show how FMEA can work for any organization.

This recently brought book in the Indian edition costs Rs.895 and can be had from SELECT BOOKS 3E1 Court Chambers, New Marine Lines, Mumbai (Bombay) 400 020.

3681 SOME HINTS FOR BUSINESS TRAVEL:

Business travel locally and abroad is an integral part of business life today. Any hint that will make it hassle free is worth examining. In this item in Democrat & Chronicle, Anita Bruzzese shares a number of tips.

If you received a fancy new briefcase or a great set of designer luggage as a holiday gift and you plan to take them on your next business trip, you might as well realize you're a dream come true - for thieves.

Kevin Coffey, who launched Corporate Travel Safety as a way to educate companies about how to protect employees, says a thief once told him why business travelers were so attractive to criminals.

"He told me that if he robbed me on the street corner he might get $50. But if he ripped off my carry on luggage, he could get my airline tickets - that he can redeem - my $8,000 laptop, my electronic planner, my wallet and my traveler's checks," said Coffey, who has been a Los Angeles police detective for 15 years.

However, there are steps companies and employees can take to reduce the risk. He advised:

1. Preparing a traveler's packet, before you leave the office that contains vital information such as a copy, of your driver's license, passport, prescriptions and credit card numbers. Put the information in a sealed envelope and leave it with a trusted employee to put in a safe place.
2. Only using the kind of identification tags that you must pull back a flap to read. If you're traveling internationally, do not use your company name on your tags, but write down a company phone number and hours of operation.
3. Avoiding checking your luggage at curbside because many airline employees may become busy and may not keep a close eye on it. If you handle your own luggage, always push luggage carts so your property is always in view.
4. Keeping especially alert in restrooms. While in a stall, place your purse, briefcase, etc. between your feet. Thieves can reach under or over a door to snatch items.
5. Watching your possessions on shuttle buses where you can get shoved to the back while thieves walk out the front with your luggage.

6. Being especially suspicious when someone or something is distracting you. As your laptop and briefcase move down the conveyer belt at a metal detector, you may be stalled by someone who is deliberately setting off the alarm while a partner makes off with your property.
7. Never staying anywhere that does not seem secure. Good rules of thumb: Never open a hotel-room, door unless you check the identity through a peephole. Also, when leaving a room, open all closet doors and leave the lights on so you can take a quick look around when you return.

3682 OD-PD: A VIABLE WAY:

Organisations benefit more when every one in the organization gets his performance level raised by ONE percent than when one per cent of the personnel gets their performance level raised by ONE HUNDRED per cent. We have heard that the strength of a chain is determined by the weakest link.

Organizations therefore now go in for companywide education. For example, where ISO 9000 or similar systems are introduced, everyone is given training. This, however, is mostly information training. What organisations need more is transformation training. That is why we find practices like the following.

One electronic company employing 40,000 people worldwide gives every employee, from the Chairman of the company to the janitor, every year, one-day training in Effective Listening. (One of the few books on this subject is by your Editor. It is in it second edition.) A large bank gives EVERY employee training in Transactional Analysis. An airline company gives EVERY one of its near 35000 employee training in Customer First.

Organizations have found that giving EVERY member education in one aspect of management is like giving them a common language to work with. They have found that it adds to the results, relations, reputation and renewal capabilities.

It has also been noted that only very large organizations are able to take up this approach. What about the medium-sized ones? What about companies that do not have men or money or time to spare in a big way?

ONE METHOD is to build the education around well made video cassettes. For example, if we want to train EVERYBODY in the company in listening skills, all that we need to do is to buy a video film on the subject. In our conference room, in small groups, for one hour say, we can view the film and discuss the relevant learning. In one day, we can cover as many as six groups and without prejudice to our day to day work. We can also have refresher sessions or booster sessions if we like. The hassle of organising external faculty, hotel conference halls and the like is minimised. EVERY member of the organization can get the benefit of a single message, in record time, at notional cost.

But where are the films which are well-made and not so expensive? We know of one agency that distributes well-made, moderately-priced, American video cassettes on topics like Getting and keeping customers, Team work and cooperation, Creativity and productivity, Motivating and influencing people, Managing change, Time management, Stress management, Communication, People management and Handling difficult situations. The address? SELECT BOOKS, 3E1 Court Chambers, New Marines (Behind Incometax office) Mumbai 400020.

3683 WHAT'S NEW IN MANAGEMENT?

Knowledge today is an industry today. Perhaps for this reason, professional executives keep asking: What's new in management? 'Balanced Scorecard' method of Business Management is one of the latest. What follows appeared in a recent issue of Financial Times (London):

Imagine you are on a flight across Europe and just after take-off the captain's voice comes over the public address system.

In a reassuring voice he tells you that the focus of his efforts will be to fly at 300mph. He will not be paying much attention to others measures, such as fuel consumption, angle of flight or altitude, because he feels these are either irrelevant or distracting.

This approach to measurement is not designed to inspire trust in the passengers. Yet it is the approach most companies have taken to setting targets and measuring their performance, according to David Norton, the creator

of a new style of business measurement called the Balanced Scorecard.

Norton, the affable president of Renaissance Solutions, the international strategy consultancy, and his partner Robert Kaplan, the Arthur Lowes Dickinson Professor of Accounting at the Harvard Business School, developed the Balanced Scorecard working with a dozen companies in the early 1990s, sponsored by the accountants KPMG.

Its adherents believe the scorecard could become one of the most popular and useful management tools of the decade. It is disarmingly simple, yet comprehensive enough to allow companies to monitor and adjust not only their day-to-day performance but also their strategy.

Norton and Kaplan's research identified two significant deficiencies in most corporate strategies. The first was measurement gap. Most companies measure their performance using financial ratios, combined with process measures such as quality, productivity and unit costs.

These measures often provide no more than a narrowly focused historic snapshot of how a company performed in the past. They do little to show what it might be capable of in future.

When Norton and Kaplan probed to find which factors determined the companies' success, they found they were often things which went unmeasured, such as customer satisfaction and loyalty, employee commitment and the speed at which organisations learn and adapt.

The second shortcoming was a strategy gap. Many companies embarked on wave after wave of ambitious-sounding improvement programmes, often accompanied by brave, if banal, words from senior executives, only to find that few bore fruit.

Norton and Kaplan came to the conclusion that strategy was rarely translated into action because it was rarely translated into measures that employees could make sense of in their everyday work.

The Balanced Scorecard is an attempt to overcome these two shortcomings. "The scorecard is not a way of formulating strategy," says Norton, "It's a way of understanding and checking what you have to do throughout the organisation to make your strategy work."

The Balanced Scorecard, which is explained in their book of that title, combines several vantage points from which an organisation's strengths and weaknesses can be assessed: the customer perspective; an internal perspective to assess the quality of people and processes; a financial perspective, which accounts for the way shareholders view performance; and a future perspective, which measures how effectively a company learns, adapts and grows.

According to Norton and Kaplan company's perspective on itself and the world should be built by combining these four perspectives into a single, balanced, integrated view.

For example, imagine a company sets itself an objective of sales growth or market share. The scorecard demands that it translates what that means into measures of customer acquisition and retention, marketing and advertising. To achieve that, however, the company would need to examine what needed to change internally, for instance in working practices or production processes.

Once the need for internal change is understood, it should be possible to assess what new skills and competencies the company needs to acquire to improve its performance. For each of these steps Norton and Kaplan outline a set of measures and yardsticks that companies can use.

The Balanced Scorecard has a growing band of corporate advocates. Norton says 60 per cent of large US corporations use some version of scorecard that integrates financial with nonfinancial measures.

In Europe companies as diverse as Skandia, the innovative Swedlish insurance company; BP Chemicals; Xerox and Renfe, the Spanish railway company, are among its adherents. Norton is being asked to speak around the world and recently addressed a London conference organised by Business Intelligence.

The scorecard is attracting this following for several reasons. It is simple to understand and use. It is not abstract. It can help to make sense of a strategy both to senior managers and frontline employees, as long as the right measures are used. The scorecard can be con-

veyed using numbers, but most companies use an easy-to-understand array of graphics, not unlike the instrument panel in an aircraft cockpit, which can be understood almost at a glance.

It is highly flexible, utilitarian and unpretentious. You do not have to commit yourself to a new management theology to adopt it. It allows a company to have a rounded, comprehensive view of its activities, taking into account soft assets such as knowledge and creativity, without being vague or woolly. Norton and Kaplan are measurement wonks, they love numbers.

The scorecard is not without its problems, as Norton acknowledges. What gets measured, gets managed. But what gets measured is often what is easy to measure. Often companies will need to start measuring things that have gone unrecorded. Even if they have much of the basic information, such as customer complaints, collating it will be difficult.

Once companies embark on a more integrated approach to measurement a different problem arises. They start measuring too much, too often. It can become bureaucratic nightmare.

According to Norton, the biggest failing is that companies do not use the measurements to motivate people because they do not link measures to a programme of actions. Getting the right kind of measurement does not solve a problem. A perfect set of scales just tells you how heavy you are,, it doesn't do the dieting and exercise for you.

The Balanced Scorecard could be another passing management fad, traveling a familiar journey from the bookshelves, through the conference circuit to the scrapheap. Yet there is some reason to think it might escape that fate.

There is a growing consensus that business needs to augment traditional financial measures, but as yet no-one has managed to come up with a practicable set of tools. There is a recognition, among blue-chip companies at least, that they need to take a broader view of the sources of competitiveness; to take account of soft assets such as brands and people.

There is a growing consensus that business needs to augment traditional financial measures, but as yet no-one has managed to come up with a practicable set of tools. There is a recognition, among blue- chip companies at least, that they need to take a broader view of the sources of competitiveness; to take account of soft assets such as brands and people.

Environmental pressure groups are calling on companies to adopt social audits and alternative measures of their impact on society.

The idea of stakeholding, advocated by the likes of Will Hutton and John Kay, calls on companies to adopt a more inclusive approach involving employees, suppliers and the community as well as shareholders.

Even City analysts respond to accusations of short- termism by complaining that they would take a longer-term view of a company's prospects if only they had ways of measuring them.

The Balanced Scorecard is the best answer so far to these diverse concerns. Yet the strongest guarantee that the nonfinancial measures advocated by Norton and Kaplan will play a large role in corporate life is the outlook facing the accountancy profession. In the UK, for example, on present trends, there soon will be a glut of accountants.

One of the ways the profession could deal with this oversupply is by persuading clients that they should start measuring a lot more aspects of their business.

Selecting and designing scorecard measures

The objective is to identify the measures that best communicate the meaning of a strategy. Every strategy is unique, so every scorecard will contain several unique measures. However, in Kaplan and Norton's experience, certain core measures do appear repeatedly on scorecards. These are:

Core financial measures

- Return on investment/economic value-added
- Profitability
- Revenue growth/mix
- Cost reduction

Core customer measures

- Market share
- Customer acquisition
- Customer retention
- Customer profitability
- Customer satisfaction

Core learning and growth measures

- Employee satisfaction
- Employee retention
- Employee Profitability

3684 FACULTY DEVELOPMENT:

Quality people make for quality performance. Potentially quality people, the members of an organisation have to be helped to realise their potential. This means continuing and companywide educational efforts.

To make these efforts flexible, cost effective and relevant, we need an in-house faculty, most of them part-time. We can have a few full time professional faculty members but they need to be supplemented by part-time faculty members, drawn from the organization.

So that they may do a satisfying and satisfactory job, they need to be given a systematic headstart and, if possible, continuous resource assistance.

Vijay Centre for Faculty Development of Vijay Foundation is building a national resource centre for this purpose. It is also periodically organizing a Certified Professional Trainers Programme of one week duration. Your Editor (Dr. N.H. Atthreya) has been requested to direct this one week programme and guide the resource centre.

You may write, stating your requirements, to the Managing Trustee, Vijay Foundation, 16 Temple Road, Jayalakshmipuram, Mysore 570 001

3685 LAUGHING MATTER?

"My wife thinks I still act like a teenager and my children think I never was one."

Drawing by Thomas. Reprinted from *The Saturday Evening Post*. Copyright © 1996.

Edited Printed & Published by N.H. ATTHREYA of MMC SCHOOL OF MANAGEMENT 3E1, Court Chambers, 35 New Marine Lines, Mumbai 400 020

Annual Subscription Rs.190.