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J. Kenneth Matejka
University of Richmond

D. Neil Ashworth
University of Richmond, nashwort@richmond.edu

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CORPORATE DISEASES OF EXCELLENCE

J. Kenneth Matejka
Associate Professor of Management Systems
D. Neil Ashworth
Assistant Professor of Management Systems

E. Claiborne Robins School of Business
University of Richmond, Virgina

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CORPORATE DISEASES OF EXCELLENCE

by

J. Kenneth Matejka
D. Neil Ashworth

As you look at your Seiko watch, get in your Honda and drive home to listen to your Hitachi speakers or watch your Sony TV, don't you wonder about it all? We're still king of the hill, but we've been slipping and someone's gaining on us. While our productivity is still the highest, the gap is narrowing and our quality is seriously questioned around the world. Numerous public, trade, and academic periodicals have been sprinkled with attacks, counterattacks, and questions. Unfortunately, only a few answers have been forthcoming. This malaise is intriguing! Are we failing? If so, why? A recent effort to closely examine successes in our corporate community has been provided by Peters and Waterman's "In Search of Excellence!" While this approach and the characteristics of excellence identified by Peters and Waterman are useful: 1) Peters and Waterman have only uncovered the tip of the iceberg; 2) arbitrarily choosing excellent American firms does not tell us if they really are the best, or how much better they <u>could</u> be or whether they will <u>remain</u> successful; and 3) identifying the characteristics will provide nothing more than an ill-fated "quick fix" unless we address some of the underlying corporate diseases responsible for our <u>overall</u> decline.

Diseases are typically described as conditions which impair the physical health of a person, but we have chosen to expand this concept to include the impairment of the financial health of an organization. Corporate diseases are a fitting description of the ailments currently constraining America's corporate profits. These maladies cost billions of dollars in corporate profits yearly! Moreover, these illnesses are readily apparent to almost everyone but generally not discussed or subject to action. If the sicknesses are questioned, protective managers will usually provide a knowing smile (inferring naivete on the part of the inquirer). If the questioning continues, a defense will be adopted along the lines of "That's the way it's always been" or "That's part of the American system!"

Corporations, like people, develop various afflictions during their evolution. Sometimes these ailments are from outdated habits; sometimes they are caused by frailties; sometimes they are just the product of youth or age; and occasionally they result from tremendous exertions of energy in the pursuit of being the best, which are followed by eventual breakdowns.

Our basic premise is that striving for excellence (or actually being excellent) does not eliminate the important problems; it just changes the <u>nature</u> of these problems. There are organizational examples which clearly illustrate the potentially high price of excellence. For example, bringing a particular department in the organization up to an outstanding level has unique costs. In one particular firm, a group bonus plan, coupled with worker responsibility and control in an unskilled task situation led to unit excellence. The workers began making more money than they ever thought possible, producing more than they ever admitted feasible, and actually enjoyed coming to work. Happy ending? No, not hardly. Skilled workers in other parts of the plant began to hear about this situation and demanded that something be done about the fact that these unskilled workers were now making more money than the skilled employees. The management, not knowing how to achieve the same results in the skilled worker setting and not wanting to spend precious time and energy working it out, took actions that led to the destruction of the work unit and its productivity. Corporate diseases win again!

The company loses again!

This article will examine what we consider to be the top 5 corporate diseases of excellence - those management maladies which prevent the majority of U.S. corporations from being great and stop the successful corporations from being even better. The common thread running through all 5 afflictions is a loss of commitment, leading to a loss of profits.

1. <u>Corporate Amnesia</u>

We have forgotten who we are! Fledgling businesses are small and energetic. Each person does a little bit of everything and understands what the other people do. Moreover, they are close to the customers - survival dictates that. The organizational purpose/mission is usually simple and clear to all and the employees share common values.

As companies grow, they experience a malady which results in a "loss" or "gap" in the corporate memory. We easily forget "who we are" and "what our business is." Values become clouded by diversified hiring and no clear plan for maintaining the selection of employees with similar values. Instead, we specialize and concentrate on skills. At some point, the leadership is no longer the owners but becomes the professional managers, who do not have the same vested interests or intensity as the owners.

Most middle managers of large companies, when asked to write down the purpose, values and goals of their corporation, cannot do it accurately. How can you make decisions to take the corporation in the right direction when you can't clearly state the direction? Communication of these essentials has decayed. Our corporations, as they have grown, have lost their identity! We have forgotten who we are.

2. Short-termitis

Mobile, professional managers have contributed to the single most widespread ailment in America - short-termitis. Our need to remain a pioneer in the long-run has been displaced by our concern for "striking while the iron is hot." That is, resources are not being set aside for such activities as R&D because they can be used to bring more quick profits now! We milk a situation for all its worth now without regard to long-range effects. Why? One reason is that managers are evaluated, given raises, and promoted on current accomplishments, not foresight.

The key to contracting this disease is treating each of a corporation's three important constituencies - stockholders, customers, and employees (in this inverse prioritized order) on a 'short-term' basis. There are many ways to perpetuate this disease: pay dividends instead of reinvesting; acquire a company instead of building one; market makeable products, rather than making marketable (quality) products; specialize your employees for the sake of efficiency even though they may lose meaning in their jobs; provide short-run measurement criteria for your manager which encourages game-playing. These strategies will almost certainly ensure short-run, risk-free suboptimization!

3. Reward Rheumatism

The reason we think short-run is that we measure and reward short-run. And vice versa. Rewards are the single most important determinant of performance. Unfortunately: 1) almost all rewards in the corporation are short-run; 2) rewards are given for quantifiable measures rather than behavior (example - cooperation); and 3) rewarding people seems to create pain in the very fibers of most managers (reward rheumatism). While most of us have insatiable needs for praise, recognition, achievement, and attention, many managers behave as though there were only a finite supply of compliments and, therefore, reward in a reluctant, miserly way. Employees may feel that only superhuman feats will generate praise from a manager. Some managers contend that praise builds self-images which will lead to more demands. The reverse is more likely to be the case. Therefore, the failure to give credit when it is deserved will create (or increase) resentment and possibly result in a reduction of effort, losing a key employee or even sabotage. Finally, some managers argue that too much praise will be perceived as insincere or lip service. Interestingly, when managers are asked, "How many of you get more praise than you deserve?", very few hands are raised.

4. Hyperextended Happiness

How happy should workers be? Should a manager try to make everyone happy? Not understanding the relationship between happiness and work performance can lead to misguided decisions. The worker defines and determines how much job satisfaction exists, while performance is a comparison between actual behavior and the manager's expectations. The perception of each of these factors is critical. But they are determined by separate entities.

The key question in studying this malady is, which comes first - happiness or performance. That is, are happy workers more productive or are productive workers happier? Most managers would argue that happy workers perform better. This would suggest that fulfilled needs will motivate workers. Unfortunately, this will generally not be the case. The converging evidence from the studies that have been conducted show no clear correlation between the happiness of the workers and future levels of performance. More typically, it is the unfulfilled needs that drive the workers. What is closer to reality is that high performance, accompanied by equitable rewards, results in satisfaction! The key is to relate to the workers in an objective and fair way, challenge them, and to reward their effort and performance with things that <u>they</u> value!

5. <u>Hierarchical Hernia</u>

You may not have noticed it, but many of America's best managers are getting a hernia trying to hold up the "great American pyramid." Specialization and empire-building have been encouraged to a point where there are so many levels and specialties in the corporation that even knowing (much less accomplishing) the corporate mission is next to impossible! For example, we have an overabundance of clerks, accountants, lawyers, and managers (mostly staff) whose only realistic function is to increase the price of our products. Each has formed "interest groups" to protect and proliferate their empire at the corporation's expense. To these people, goals mean <u>personal</u> goals. If you want more power, get permission to hire more people beneath you. Nothing kills vitality and responsiveness like bureaucracy. Our corporate structures have become bloated, rigid, separated from the market realities and incapable of responding to changing environmental conditions.

To the extent that specialization can lead to problems, consider the personnel department. At one time, personnel was the obvious place to check employee records, discuss insurance forms, etc. Now the larger companies are "revitalizing" the personnel function by creating individual groups responsible for such issues as affirmative action, community relations, recreation services, management resources, employee communications, compensation planning, etc., etc. Now how much do you think an affirmative action specialist knows about the production line? We see obvious benefits of increased expertise, but at the cost of our workers losing sight of the whole picture. Once entrenched, these anomalies are almost impossible to dislodge and the price of the product/service goes up.

Looking Ahead

Take heart! "Diseases of Excellence" originate and thrive from expending great amounts of energy, but in the wrong directions. We are not lazy; we are misguided on a few key issues and not adapting quickly enough to our changing environment. We are suffering "downtime" from our tremendous "specific" exertions. To use the fitness analogy, we need to strengthen our "heart" and circulatory system. Big biceps won't cut it alone!

Detroit's difficulties were not the result of apathy. Detroit did exactly what they intended. They produced greater quantities of automobiles than anyone else. Somewhere in the process, however, they lost touch with the market. Quality was not as important as mass production. Worker dignity was sacrificed for scientific management. Ironically, removing the "meaning" from worker tasks and the quality from the products has proved to be very expensive.

In short, let's get back to the basics. We produce goods and services for consumption. But let's not forget to feed the horses that pull the wagon! That is, we need to take care of those who have made the company a success. Consequently, let's remember who we are and how we got to this point. Moreover, we need to look down the road at what lies ahead and reward those who are helping the company to pave the road. Along these lines, we cannot forget that rewards are in the eyes of the beholder - not the company. Finally, let's recognize that specialization is a "tool." If used to excess, it will polarize workers, bring suboptimization and create a general loss of corporate foresight, profits and identity.

Of course, if you bring up any of these 5 maladies, you may be told that nothing can be done about them. That's what people who are afflicted with these diseases tend to say!