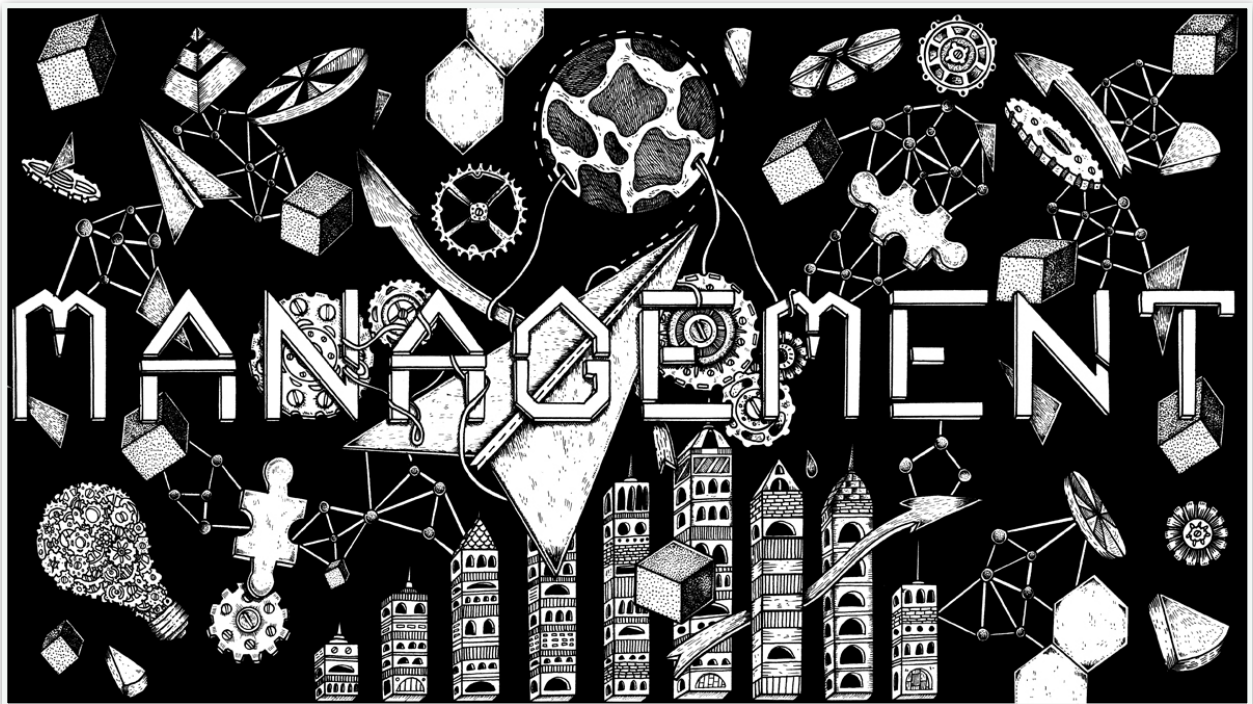


Business Management

The Management Thinker We Should Never Have Forgotten

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Gothenberg, Sweden, is a long way to travel from Boston for a breakthrough idea in management — especially one that is more than 40 years old. I made the journey to attend a health care confab where Don Berwick, the former head of the Institute for Healthcare Improvement, based in Cambridge, Massachusetts, was delivering the opening lecture.

Berwick's talk began by deftly comparing Frederick Winslow Taylor and W. Edwards Deming: the former an industrialist who equated machines and human beings (both to be managed for maximum output), the latter a humanist who saw the individual as internally motivated to do good, meaningful work. Berwick's talk spanned a pantheon

of management thinkers to show the audience just how far we have come from Taylor to Deming in the 20th century.

The contrast was driven home by a full-blown reenactment of Deming's famous red bead experiment. In this test, participants play the part of factory workers who are attempting to fit red beads into 50 indentations on a paddle. The catch is that they are plunging their paddles into a box filled with both red and blue beads. The "factory workers" soon realize their performance depends entirely on random factors, well outside of their control.

The reenactment made me ask myself why we've lost touch with Deming. The point of his red bead experiment is that we often get a false read on workers because we judge them too narrowly. Deming believed that we can improve worker performance only when we improve the entire system they work within. And he believed that managers wrongly apply incentive pay plans, forced rankings, and all sorts of carrots and sticks to create the illusion of control without solving root performance problems.

Deming offered up 14 principles that stood in stark contrast to the sorts of practices he thought were eroding the performance of top corporations in the United States in the 1970s and 1980s. The list might seem almost quaint today, but it's worth recounting:

1. Create and communicate to all employees a statement of the aims and purposes of the company
2. Adapt to the new philosophy of the day; industries and economics are always changing
3. Build quality into a product throughout production
4. End the practice of awarding business on the basis of price tag alone; instead, try a long-term relationship based on established loyalty and trust
5. Work to constantly improve quality and productivity
6. Institute on-the-job training
7. Teach and institute leadership to improve all job functions
8. Drive out fear; create trust

9. Strive to reduce intradepartmental conflicts
10. Eliminate exhortations for the work force; instead, focus on the system and morale
 - Eliminate work standard quotas for production. Substitute leadership methods for improvement
 - Eliminate MBO. Avoid numerical goals. Alternatively, learn the capabilities of processes and how to improve them
11. Remove barriers that rob people of pride of workmanship
12. Educate with self-improvement programs
13. Include everyone in the company to accomplish the transformation

Many management thinkers have built upon Deming's philosophy, yet his core message seems lost to time. He cogently argues that businesses destroy more value than they create when they focus on short-term results, traditional incentives, and performance rankings. His main point is that leaders must build deep trust among workers and managers, which emanates from a strong purpose and shared values. It seems logical enough — and more important than ever. So how is it that more businesses don't heed his message today?

Deming Versus Our Demons

Deming died in 1993. That same year, IBM announced that 60,000 people would be fired. Since then, layoffs have become a common tool for public companies. The Great Recession decimated more than eight million jobs in the U.S., and wages are only now beginning to budge, even though unemployment has shrunk to below 5%. And then there's that persistent inequality gap, growing with every passing year. Is this really a backdrop against which we can rebuild trust between managers and workers within our largest public companies?

Toward the end of his life, Deming began to theorize as to why his ideas were never fully embraced. He was 90 when he wrote the following to Peter Senge (who recounted the correspondence in his influential *The Fifth Discipline*):

“OUR PREVAILING SYSTEM OF MANAGEMENT HAS DESTROYED OUR PEOPLE. PEOPLE ARE BORN WITH INTRINSIC MOTIVATION, SELF-RESPECT, DIGNITY, CURIOSITY TO LEARN, JOY IN LEARNING. THE FORCES OF DESTRUCTION BEGIN WITH TODDLERS — A PRIZE FOR THE BEST HALLOWEEN COSTUME, GRADES IN SCHOOL, GOLD STARS — AND ON UP THROUGH THE UNIVERSITY. ON THE JOB, PEOPLE, TEAMS, AND DIVISIONS ARE RANKED, REWARD FOR THE TOP, PUNISHMENT FOR THE BOTTOM. MANAGEMENT BY OBJECTIVES, QUOTAS, INCENTIVE PAY, BUSINESS PLANS, PUT TOGETHER SEPARATELY, DIVISION BY DIVISION, CAUSE FURTHER LOSS, UNKNOWN AND UNKNOWABLE.”

He wrote these words in 1990 but they're just as relevant today. To say that there are such gaping flaws in how we educate is really to say that society is fundamentally ill. Deming believed that the individual is naturally inclined to do good and meaningful work. Unfortunately, society bends this human nature into an unnatural competition that essentially ruins us.

Deming was far from the first to have these ideas. It was Rousseau who suggested, in opposition to Hobbes's bleak view of human nature, that humans are innocently good, but ruined by a society that pits individuals against one another — mostly in the quest to privatize property. Rousseau believed that we had been duped into a fraudulent social contract that allowed for the wealthy imperialists to subjugate and pauperize the workers.

In the 19th century, thinkers such as Nietzsche and Matthew Arnold believed our education system had lost its way due to a materialistic bent that placed useful knowledge above the search for truth, beauty, and perfection that was also defined by culture. Mathew Arnold argued, “Not a having and resting, but a growing and becoming, is the character of perfection as culture conceives it...The idea of perfection as a general expansion of the human family is at variance with our strong individualism, our hatred of all limits to the unrestrained swing of the individual's personality, our maxim of ‘every man for himself.’”

The Trust Factor

But it is Deming who placed these historical insights into a management framework. The glue that seems to hold Deming's framework together is the trust between manager and worker. For Deming, trust is a key ingredient in his quest for what he enigmatically referred to as "profound knowledge." The trust between manager and worker is the bedrock upon which a healthy managerial relationship will be built. Deming's thesis is worth recalling now, perhaps more than ever, because it's precisely this trust that has eroded so precipitously since his passing.

It may be cliché to say that technology is changing our businesses today at a rapid pace, but that doesn't mean it's not true. And with this change comes a world of uncertainty and anxiety where predictable performance for any business seems more and more like Deming's red bead experiment: random. The results can be devastating to a business. The worker no longer trusts that they won't be replaced by a machine. The investor no longer trusts that they will get a return on capital. The manager no longer trusts that they will have employment for life after more than a bad quarter or two.

With so much of our trust eroding, management is left with little else to hold on to, and so they grasp the false hope of blunt instruments like forced rankings and quarterly forecasting — no matter how illusory it all may be.

And this gets us back to Rousseau. We seem to have a false sense of joining something when we enter companies these days, just as Rousseau stipulated society had entered into a false social contract. This may be what's driving newer generations to look for "purposeful work" as they launch their careers: They are looking to take control by demanding meaning from work right from day one. This can be a tall order when prior generations just cut their hair and got in line, trusting that the gold watch would await them at the end of the rainbow.

But Rousseau also had the idea that humans can remake themselves via their institutions, and Deming appears to share this belief.

This is what's so interesting about companies like Facebook, Google, and Apple. These rare birds tend to operate outside of our norms and customs: They educate their employees differently; they collaborate differently across silos and divisions; they incentivize people in different ways. Because of their overwhelming ability to make cash (either initially through giddy investors and eventually via customers) these companies appear to start out more like communes. They are Gardens of Eden where there is little fighting for resources and oftentimes even the core customers freely partake.

Moreover, these companies almost appear to be for the common good, and the management appears to instinctively follow Deming's philosophy. But what's even more striking is that efficiency and performance naturally improves inside of these companies without the standard methods that more established firms pursue. Sadly, there's often also a fall from grace that typically happens as these corporations become "normalized" and a more traditional battle for resources sets in.

Senge, too, wondered why these rare examples of Deming in action aren't proliferating. He lamented the fact that it might take generations for Deming's way of thinking to ever take hold. But he argued that we are on the path toward what he considered more-enlightened management practices. The contrarian perspective says that our Hobbesian greed and fear will always outweigh the philosophy of intrinsic goodness. Or maybe it's messier than these polar approaches would suggest.

Perhaps the answer lies deeper in what Deming was trying to say about "profound knowledge." As Deming implied, we work in complex systems with forces of good and evil always in play, and it may just be that the single most important responsibility of our top leaders is to artfully mold and shape this dynamic in a way that best suits their organizations — and produces a self-selecting ecosystem of workers, partners, customers, and shareholders who naturally align.

All of this implies a more-progressive approach to leadership. And yet we all too easily succumb to our Taylor-like impulses that assume the worst about workers — using automation to track productivity down to the nanosecond, if possible. Unfortunately,

this tends to exacerbate the growing trust gap between workers that festers between our corporate silos and stymies the very productivity that we seek to enhance.

None of this is easy. And many of us will surely struggle with these issues throughout our entire lives. But in a world where the stakes appear to be getting higher by the minute, building lasting trust and cooperation across companies and communities — binding together people and long-calcified silos — may be the only way for the corporation to survive.