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Background paper on thoughts about
the excellence approach

(Preliminary, new version to be distributed at the seminar)

1. Three worries about the excellence approach

Rather than staking out and stating a "position", we have chosen to describe some of the thoughts, hunches, and feelings that precede a position. The rambling character of the exposition is a true reflection of the difficulties we found in pin-pointing critical aspects of an "excellence approach". Some problematical aspects of such approaches can be summarized as three "worries":

Worry no 1: Excellence as foppery? Excellence is defined and propagated in ways that lead to superficial and misdirected campaigns, of an almost missionary character, in companies.

Worry no 2: Too narrow criteria of excellence? The most critical issues, which should be the concern of leaders of corporations, are neglected by focussing on the criteria and attributes of excellence.

Worry no 3: Excellence at the right level? The benevolence of a social structure such as the economy, or the penicillin industry, is connected in complex ways to the survival, success, or excellence of the units working in that structure. Will excellent companies produce a lousy economy?

We should state strongly, before delving into the specific worries, that we sympathize with both the general effort to search for principles of good management and with the particular contribution in "In search of excellence" (ISE). Much of the debate below is not directed at all against the excellence tradition. On the contrary, the latter has enabled students of management to think of issues in ways that would not have been apparent without it. Furthermore, some of the suspicions voiced have more to do with the interpretation and use of the excellence approach than with the intentions of and statements by the innovators. The hermeneutics in the field suffers particularly from the fact that "In search of excellence" probably is much more quoted than carefully read. The complexity of the message is not done justice to in such a process of "social osmosis".

2. Excellence as foppery?

"Let not the sound of shallow foppery enter my sober house"
(W. Shakespeare)

"Fop - originally a fadish person, a vain, affected man who pays too much attention to his clothes, appearance, a dandy, a dude."

The OED gives "foppery" as one of the many meanings of excellence. This struck a cord in us. Listening to the talk of converts to the approach, one often gets a feeling of artificiality. The virtues of the seven S:es are expounded upon with almost religious zeal. People are asked to celebrate a particular corporate culture as a giver of meaning in life in addition to profit. The specific eight attributes of excellence are made into slogans expected to deeply affect the receivers. The shrill tone of the delivery has, in our view, often no more fundamental basis. It is like making a quasi- or micro religion out of the fruits - not roots - of competence in rather mundane affairs.

Having a bias for action and being close to the customer may be necessary ingredients in a recipe for commercial success. But, what is it that enables companies to exercise such virtues? Could it have to do with such "simple" matters as having good products to act around and customers really interested in them? Would it help you to have an articulated basic philosophy of the company if there were not basic technological and commercial knowledge underpinning it? Could the causality run from the latter to the former instead of the other way around? Good companies can afford "hoopla", but perhaps they can also be without it.

Such questions inspire doubts concerning the eight attributes really being at a causally fundamental level. They also cast their shade over the idea that a corporate credo will integrate the tension between individuation and need to belong to a larger framework. The diagnosis of the human condition as a radical denial of death (Becker) is used in ISE as theoretical support. If Becker's thesis is accepted, one asks oneself whether buying in to the company culture is medicine strong enough. The basic "cure" in "Denial of death" is to overcome fear and isolation by heroic immortality projects. An immortality project should probably be at

least as long as your life. Most firms, and their cultures, would leave their followers mourning the death of the project, rather than the project mourning the death of - and in a way giving eternal life to - the devotee.

Thus, the extraordinary ambition of making corporate life the meaning of existence may be misdirected. The beauty in the hamburger bun cannot replace the wonder of creation, and perhaps it is not even a part of it.

Human beings as the most important asset of an organization is one of the mottos the excellent companies seem to live by. The authors candidly admit that this, and many of the other characteristics of excellence, is a bit of a "motherhood". It is quite proper to stress also the obvious, if people forget it and do not act accordingly. However, there may be a more serious question involved here, concerning the view of humans as instruments. Treating people as the organization's resources, rather than the other way around, is a sort of corporate neo-feudalism. Our hypothesis is that this will work only in the short run, since the basis for vassalage and allegiance to the sovereign is usually too shallow in an industrial context. There is a genuine challenge in creating institutional firms which would be worth a more inclusive involvement by individuals. However, this takes "moral equivalents of war", which few firms today are prepared to launch. (Perhaps the ISE message is really a message for institutions which do not, yet, exist.)

Another objection against the heroic project theory of Becker, which is applied in ISE, is that it may be valid only in certain cultural milieus. The view of death as the ultimate fact determining action in life is not at all as pronounced in, for example, Buddhist and shamanistic cultures. The need to stick out and immortalize your deeds is very evident in western culture historically, but even here the situation seems to be changing. Marcuse's analysis of one-dimensional man (which is similar to Becker's and to the early Norman O. Brown) has been criticized for lack of relevance to the new human condition, for example by J. Ogilvy. (Many-dimensional man (!)) A less hierarchically integrated culture may be emerging. The identity problems in such a situation, and the institutional implications of these, differ from the historical pattern. There may not be such a need for immortality projects. A humbler attitude than the one

taken by many buyers of the excellence ambitions would fit such a heterarchical society, and firm, better.

Some of the recent calls for and salutations of "leadership" is probably a consequence of the disappearance or weakening of traditional sources of moral and aesthetical inspiration. We fear that one may be asking too much of companies when expecting them, and in particular their top management, to substitute for the decline of the church, or of the idea of progress, or the faith in the missionary duty of western culture.

It is curious that some of the products of the excellence project (notably the book by Pascale and Athos) refer explicitly to eastern philosophies. The view of leadership in, for example, Japanese and Chinese cultures is, however, much different from the picture of the organizer of immortality projects for individuals. Just as one example, take a few lines from the Tao Te Ching:

"The people are hungry: It is because those in authority eat up too much in taxes that the people are hungry. The people are difficult to govern: It is because those in authority are too fond of action that the people are difficult to govern. The people treat death lightly: It is because the people set too much store by life that they treat death lightly. It is just because one has no use for life that one is wiser than the man who values life."

"One who excels as a warrior does not appear formidable; One who excels in fighting is never roused in anger; One who excels in defeating his enemy does not join issue; One who excels in employing others humbles himself before them. This is known as the virtue of non-contention; This is known as making use of the efforts of others; This is known as matching the sublimity of heaven."

"The best of all rules is but a shadowy presence to his subjects. Next comes the ruler they love and praise; Next comes one they fear; Next comes one with whom they take liberties. When there is not enough faith, there is lack of good faith. Hesitant, he does not utter words lightly. When his task is accomplished and his work done the people all say, 'It happened to us naturally'."

It seems to us that the humility and non-interference advocated by Lao Tzu is contrary to many of the calls for strong leadership, rallying visions, etc. The advise also seems to convey a deeper respect for the individual. Imposing a culture on people is always a peril, imposing a culture that is and can only be applicable to a part of people's lives is even more perilous.

Of course, we may be over-reacting to some of the fringes of the excellence movement, and perhaps there are questions of differences of taste and style (U.S.-Europe) involved. However, we cannot escape the suspicion that trying to implement the eight attributes of excellence without considering all kinds of contextual factors and paying attention to basic matters (such as technology, competitive strategies, product design, etc) is like mistaking the flower for the fruit, or even the roots. Is the hoopla only embellishment, nice as that may be?

(All the above of course needs to be researched and tested. In no way do we think there is solid evidence for any of the views we refer to.)

3. The narrowness of criteria of excellence

The criteria of excellence in ISE are a set of financial measures over a 20-year period, and a rating by industry experts of the company's record of innovation. Companies are compared with the average in their "industry" (high-technology, consumer goods, general industrial goods, service, project management, resource-based).

In one way the criteria are too broad. Caterpillar and 3M should not necessarily be expected to grow at the same speed, yet they are both regarded as belonging to the same industry. Much industrial organization research could be mobilized to show that there are inter-industry differences in profit potential, and that "industry" may have to be defined quite narrowly. One example of this trend is the literature on "strategic groups", where even within a rather specific industry, such as the beer industry, clustering is felt to be required.

In many other ways, however, the criteria could be said to be too constraining:

- (a) An important question is exactly what industry to be in. Entering and leaving fields of business at the right time is the preoccupation of many company presidents. It isn't particularly pleasant to be just above average in a lousy industry. Relating financial measures to average overall performance in the economy may be a better method, at least in the long run.
- (b) The ISE criteria are totally devoid of considerations of externalities. It is (implicitly) assumed that the market works, in the sense that social and private rates of return are equal. Can we be so sure of that for the substantial number of companies in the sample with important business in the military sector? Is it excellent enough to get large contracts from the defense department? To be very close to the customer in such situations makes a lot of sense commercially, but should one accept intelligent strategies of milking the taxpayers as signs of excellence?

Excellence thus assumes a point of view, a stand on what "stakeholder's" interests you excel for. "Externalities" is a catch-phrase for those situations where the difference between shareholders' interests and wider expectations become really visible. Apart from the problems posed by public procurement for defense and offence purposes, the construction sector and the big environmental polluters are of special interest in this context. Many prestige construction projects are subsidized with public money. Is subsidized excellence good enough? One of the ISE companies in an annual report in the late 1970s prided itself for having improved the quality of the environment in north-eastern USA by moving a refinery to Venezuela. This did not improve their excellence rating in ISE, nor did the basic fact of pollution enter the picture before or after moving it away from the U.S. The Bhopal catastrophe will affect the excellence rating for the firm involved, but the safety policy before it did not.

(c) In general, the nature of the output is not seen as crucial. As long as somebody is willing to pay, there is room for excellence. We do believe that this is a sound principle, but also here there may be exceptions. The U.S. automobile industry is represented among the ISE companies. In terms of product design, safety, fuel economy and quality this may be debated. (In this case, the absence of analysis of industry structure characteristics in ISE is a further problem. The closed market for automobiles in many countries makes it possible for bad products to be sold at a profit.)

One might say that it is not interesting that we happen not to like cosmetics firms, or hamburgers, or defence contractors. However, if such subjective biases are not to be let in, we think that many people's (for example, prospective employee's) intuitive understanding of what excellence entails and requires is ignored. Again, the problem of point of view is raised.

Furthermore, the explicit bias in ISE is to regard innovation and technology as good in themselves. Twenty-four of the 62 companies are in the high technology "industry". All of the 62 were subjected to a test of innovativeness, judged by "industry experts" (businessmen within the industry). So, here one vantage point and one stylish criterion is applied without further ado. Why should this be accepted rather than other biases? (Particularly as technology - as good-in-itself - is criticized in other parts of ISE, in our view rightly so.)

Apart from the technology bias, ISE is a good exponent of instrumental rationality (in Weber's sense) in its choice of criteria of excellence. It does not matter what you do, as long as you do it better than others and you make money doing it. If we do not choose to put more meaning than that into the word, why not just talk about profits and growth?

(d) Also the nature of input should be important in a definition of excellence. This point also has to do with externalities. No company can escape the laws of thermo-dynamics. If the first one is a consolation, the second - the entropy law - is a source of great

trouble. Man and his institutions can do nothing but affect the rate of entropic degradation. Using low entropy raw materials and "refining" them means speeding up the entropic process. This may endanger the supply of critical "raw materials" in the future. Even if the price mechanism intervenes to halt undue exploitation, it may do so very late and with low precision. It takes great faith in the perfection of markets to rely on them to solve inter-generational income distribution questions.

Commonly used discount rates in cash-flow analysis indicate that what happens in 50 years or so is irrelevant to the decision maker, even if the consequences would hurt the actor himself. So much greater is the temptation to ignore the fall-out in distant lands.

Absolute availability may not be a problem in most cases, but the quality of input becomes so more and more. In the steel industry, according to Gould's calculations, a 50% productivity increase in 1920-70 is reduced to 30% after the effects of lower grade iron ore is accounted for. Going from slow-growing to rapidly-growing trees in the forestry-based industries obviously means greater productivity. However, the qualitative properties of, for example, board changes. The wood needs to be dried, which takes energy. More processing steps are needed, and the quality of the final product is inferior to the unprocessed earlier versions. One more exotic example of the problems of degradation is the difficulties Japanese koto players have in finding good silk for the strings of their instruments. Pollution affects the silk worms negatively.

The impression many people have of lower quality of basic things like food, housing, clothes, etc are mirrored in the not much talked about problems in many industries of purchasing good raw materials. The counter-move is increased processing. This further contributes to entropy and heat emissions and makes the situation worse for the future. Moving to "higher value-added products" is thus, from the point of view of the entire biosphere, a bad thing. In most firms, it is an outright objective and an indication of excellence.

One can and should ask whether worrying about the quality of the environment is the business of business. Here we will only state as a hypothesis that assumption of such responsibility at such a decentralized level is the only way to deal with negative externalities in situations of great uncertainty and change. Establishing correct prices through central edict, or designing effective legislation, should of course also be tried. But, without active cooperation from the actors, the regulators will always be one step behind.

If firms would accept such challenges as improving general environmental conditions, or designing new frameworks for international trade and investment, or really attacking problems of poverty, then the question of intrinsic motivation and heroic projects may be discussed seriously. Many parts of western civilization today is characterized by a sort of ideological vacuum. Religious as well as political and aesthetical programmes have been discredited and do not mobilize enthusiasm. The vacuum-fillers sofar are at a too trivial level to really satisfy. Nobody has a vision of the late industrial society which inspires broad groups in society. One urgently needed type of excellence today is the one that produces such visions. What institution can do it? Governments, churches, trade unions, the arts; they all seem tired. Is there enough dynamism and flexibility in companies? Or would it be better for firms to take a more humble position, confining themselves to doing rather narrow - but important - things well?

4. Excellence at the right level?

Many studies document the importance of small companies in generating new technology and products. We also know that many of the innovators go bankrupt, or are acquired by larger firms. By focussing only on the exploiters and developers of knowledge, we may miss the important roles played by those in the early stages of creation of new knowledge and products. You cannot be a fast number 2, picking up the spoils behind the reckless pioneers, without a number 1. Thus, the characteristics of the

system of companies, particularly the interaction between large and small firms, may be of great importance for a well functioning economy. The Japanese example is of interest in this context.

Consideration of relations between corporations - in Japanese keiretsus, German bank-centered groups, or Swedish family-run "spheres"- seem to be crucial for an understanding of the functioning of those economies. Such matters are not easily dealt with by attributing excellence to individual companies.

An implicit bias in the study of excellent companies is that survival of the firm is regarded as good. This may be giving the values of incumbent managers too high priority. Why should companies "stay around"? Would it not in many cases be better to give the money back to the shareholders? And, is not the technological innovator being gobbled up by a larger competitor more excellent than the predator?

Many of the attributes of excellence in ISE remind one of normal characteristics of small organizations. Could it be that the excellent large companies are only the least bad examples in an unfortunate structure of the economy, with dominance by large corporations? The winners among the giants preserve some modest degree of vitality, but not at all as much as in smaller firms. We do not pretend to know the answer to these questions, but they raise the wider question about at what level analysis of excellence should be conducted.

A final thought has to do with the possible reduction of diversity by the action of large firms. ISE makes a good case for experimentation and creating variety within the corporation. However, much of what is going on in world business today is about standardization. Global restructuring of industries means cost efficiency, but it often also means reduction of number of products and models, global brands, globally integrated production networks, etc. The total variety-inducing potential of the economic system is probably impaired. Cost effectiveness is the positive side of the coin. Reduced experimentation ability - which ISE strongly focusses on - is the negative one.

5. Summary in terms of the three position paper questions:

(a) What is an excellent company?

- Criteria of excellence have to be clearly differentiated from those attributes of excellence that research may unveil.
- What criteria are adopted depends on one's point of view. (As shareholder, manager, customer, etc). It takes (too) great faith in the market mechanism to argue that the point of view does not matter.
- It may be better to speak about the properties of profitable, or fast growing, or still existing, or patent-intensive, or environmentally benevolent companies, rather than trying to lump all together in a notion of excellence.
- The context in which a firm works needs to be taken into account. Profit levels vary between industries, countries, and over time. It would be surprising to find the same ingredients of success in all cases. (But not inconceivable, only research and experience will tell.)
- Technology or perceived "innovativeness" as such is a subjective criterion and needs to be argued.
- Only looking at profitability and survival implies reliance on instrumental rationality, the output of the firm does not matter, as long as there is demand for it.
- "Non-subjective" concepts of excellence need to be argued in terms similar to welfare economics. There needs to be a theory of how the "minor" criteria at the company level transform into "macro" criteria accepted by most people. Counter-intuitive propositions may result. For example, the survival of a firm is not necessarily a good thing. (The theory of the market economy is based on private vice leading to public virtue, so there is nothing new or surprising in the logic.)

- Our "welfare theory" - implying considerations of externalities also within the firm - contains the hypothesis that the turbulence of the industrial milieu makes regulation through the price system or legislation necessary but not sufficient. Therefore, a definition of excellence has to encompass performance in relation to the wider physical and social environment.
- Thus, if broader definitions in terms of excellence are used, externalities need to be considered, both those in space and those in time. An excellent company from this point of view is one using a very low discount rate and internalizing costs incurred by "third parties".
- It is not obvious at what level excellence should be studied - managers, firms, industries, groups of related organizations, in national economy, etc.
- There is a need for institutions which can credibly involve their members in the intensive and intrinsic fashion portrayed in ISE. This may be a criterion in itself. However, we suspect that many companies should rather have humbler ambitions.
- What the attributes of excellent companies are is a matter of empirical research. Our hunch is that many of the attributes in ISE will turn out to be: the consequences of excellence rather than the causes of it; only weakly discriminating between high and low performers as compared to other variables; and, culturally relative.

(b) The economic and social environment during the 80s and 90s

This can only be conjecture, but here are a few guesses:

- The quality of the physical environment will become an increasingly pressing problem. Most institutions are going to be affected by this. Any with claims to excellency should deal with these issues.

- The problems of giving meaning and direction to life will continue to be important in western countries. This will affect the motivation of employees and creates room for inspiring "micro-visions". These may, however, backfire if they are too trivial.
- Increased international and intercultural competition will add to the demands on corporations. Globally integrated strategies need to be reconciled with the potential of multi-faceted global scanning and decentralized initiative. New forms of international business will emerge in this process.

(c) Implications for research and practice

- Sort out and assess the contextual influences on what makes for corporate success. This requires careful analyses of causal textures.
- Causal analysis will be helped by studies of companies and industries over long-time periods.
- Use control groups of normal and bad performers to get at distinctive attributes of excellence.
- Study the management of highly internationalized firms.
- Study the properties of successful industrial systems in addition to those of successful individual firms.
- Do not let programs of instilling excellence attributes kill more cold-blooded strategic analyses and attention to capital allocation across product areas and geography.