Management Matters

Building Enterprise Capability

by John Hunter

Curious Cat Media

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Contents

Introduction for the sample book

This is a sample copy included a portion of the complete book.

Please send me your feedback and suggestions[1].

Introduction

Do we really need another book on management? I doubt it. But I wrote one anyway. At least it helped me organize my thoughts. And if my collection of ideas is useful to others, great.

I believe most of what managers should know was written down decades ago. There are some decent new ideas. But most new management ideas seem to me to be diluted ideas someone else provided decades ago.

The reason for so much bad management today is not that we have a lack of great ideas, but that we just ignore most of the good ideas, and execute those we do pay attention to poorly.

To manage well you do have to care enough to learn what the leading management thinkers have explained. You have to know what people like W. Edwards Deming, Russell Ackoff, Taiichi Ohno, Peter Drucker, Peter Scholtes, Clayton Christensen, Brian Joiner and others have explained. And you have to be willing to put in an effort to make improvement in your organization.

I don't really think it is more complicated than that. Learning from the right experts is not difficult. Most don't want to bother with this. I can't really provide any advice in that case. If people are not willing to learn from the most useful management experts it is still possible to do some decent things but puts those choosing such a course are at a huge disadvantage compared to what is possible.

[1] http://curiouscat.net/feedback

In this book I will look at the ideas these experts have provided us and how to adopt them in your work. I will also look a bit at how to integrate new technology and new ideas on how to manage organizations effectively.

My thought grow from Dr. Deming's thoughts on management. As part of that philosophy, knowledge and understanding are key. Specific tactics are easy to update as new technology of new ideas come to light.

I am proud that Management Matters is one of eight books listed in the 3rd Edition of The New Economics (published in 2018) as resources for further learning. The other books: Out of the Crisis by W. Edwards Deming, The Essential Deming edited by Joyce Orsini, Fourth Generation Management by Brian Joiner, The Team Handbook by Peter Scholtes, The Leader's Handbook by Peter Scholtes, W. Edwards Deming's Symphony of Profound Knowledge by Ed Baker and The Improvement Guide. All of those books are excellent resources.

I don't have much patience for managers that are not willing to learn from management experts. I believe going deeply into the ideas of those I mentioned is the key to creating the most effective management systems. There are some good books published every year on management. But there are very few that more worthwhile than re-reading these experts for the 5th time.

This book will continue to be updated as I make additions and improvements.

I have been writing about management online since the 1995. I have shared my ideas on management via my blog, Curious Cat Management Improvement Blog[2], since 2005.

[2] http://management.curiouscatblog.net/

[3] http://johnhunter.com/

Chapter One - Management System

Mount Ranier Sunset

Management System

My view on management is profoundly shaped by Dr. W. Edwards Deming's thoughts. He understood that managing an organization requires a systems view. What a manager needs to do depends on the system. There is no cookbook that gives the secret recipe for how to manage.

Dr. Deming's management system consisted of 4 interrelated and interdependent areas:

- Systems Thinking
- Understanding Variation
- Theory of Knowledge
- Psychology

This book explores all of these topics in great detail.

The key to learning from this book is understanding that this book aims to provide a basis for understanding how to manage human systems. There are principles to learn. There are tools to learn. There are strategies and tactics to learn. How those apply to a particular organization depend upon the specific characteristics of that organization.

There are no magic bullets that you can just apply without regard of the system within which you are managing. By learning the principles needed to create effective management systems you will learn how to explore different systems and understand how they function.

Based on that understanding you will be able to make sound judgements and chose the most helpful actions based on the current situation. You will be able to use management improvement tools and concepts to test out the tactics and strategies in the system you are working with.

As you apply these ideas you will learn much more than you learn by reading. Reading helps you acquire new ideas, but your depth of understanding is dramatically increased as you apply the ideas and learn from your experiments.

The process of management improvement is a process of continual development and learning. Human systems are very interdependent and a tactic that works well in one situation

will fail in another. Learning about the hidden reasons things are working, and not working, is a key part of understanding management systems. There are also tactics to deal with the difficulty of predicting how management strategies and tactics will work: experiment.

Experimentation is one of the key principles to effective management improvement. Ideas are tested on a small scale - so that big mistakes are avoided. There needs to be an intense focus on learning from experiments. By continually learning from experiments the understanding about improving results in this system (and managing people and processes in general) results an increasing ability to adopt effective improvements.

Building enterprise capability

Building enterprise capability is similar to constructing a high rise building. A foundation is important, but not much value by itself. The frame of the building is important, but again, by itself not of much value. The electrical and plumbing are critical, but without the rest of the building would just collapse onto the ground. Stairs and elevators are needed, but without electricity the elevators won't work and without rooms there is not much need to go up and down (other than maybe as a nice view).

As with building a high rise, building enterprise capability requires making a concerted effort across a range of areas. As skills are developed, people can better take advantage of tools to improve. As trust is built, the organization can rely on people to give honest data and feedback. As processes are continually improved less fire fighting is needed and more resources are available for innovation and customer focus. As less time is wasted explaining normal system variation (common cause

variation), more energy can be devoted to developing skills and innovating. As systems are improved and variation reduced, systems become more robust; fewer customers are disappointed and less time is spent dealing with failures. As people apply management concepts, practices and tools, they learn how to do so more effectively. As more resources are available to focus on process improvement the process of improving increases.

Each of the building blocks makes it possible to build even higher. But failing to address critical areas (for example, respect for people, will limit what results can be achieved). Human systems are dynamic and interrelated. Just applying tools that aid with process improvement without building the capacity to understand system thinking or variation can help, but gains are limited.

The most profound gains will only be achieved with a comprehensive focus on developing all the critical elements of the management system. As each area is developed, new opportunities become available. *Improving processes is good. But improving the process by which you improve is better.*

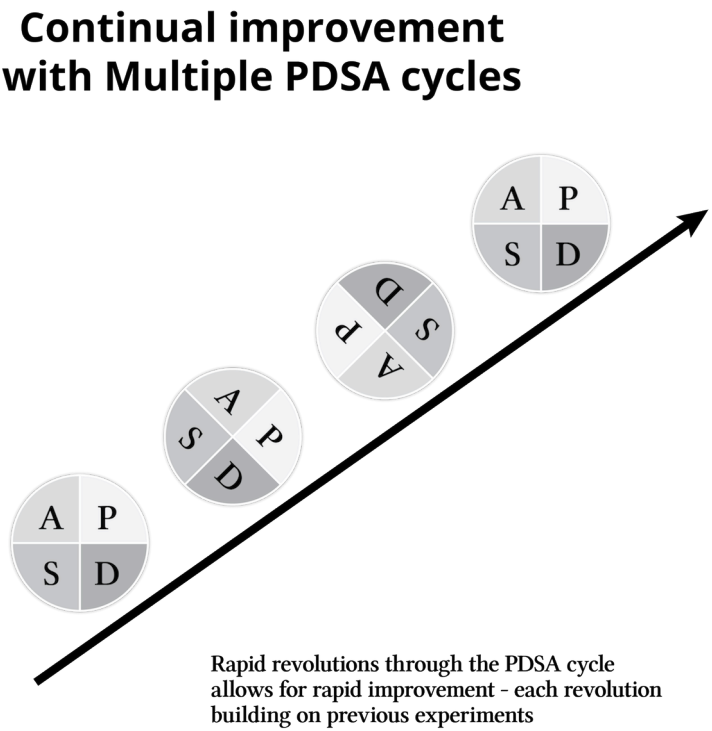
This book explores how to build enterprise capability. The steps of the journey will be different for each organization, but the territory each must traverse is similar.

There are many ways to effectively lead an organization. Keep in mind that an organization can be run ineffectively but still seem to function just as software can be ineffective but still somewhat work. With software, total ineffectiveness results in an obvious program failure and often even a somewhat helpful error message (at least to someone). Unfortunately, management failure in an enterprise often does not have such obvious indicators. As complex systems, enterprises often can hobble forward with very poor management practices in place. What I to do with

this book is help people find ways to be more effective.

It isn't that you cannot be successful while wasting lots of time and energy worrying about normal system variation. You can. It isn't that you cannot be successful while using incentives to encourage sales. You can. It isn't that you can't be successful while focusing on the short term and ignoring the long term. You can. Lots of organizations do these things (and use many more ineffective management methods) right now. But if those organizations adopted better methods, they could achieve better results for all of their stakeholders.

Most organizations become more effective each year. To gain ground improving more quickly than others is needed. One way to visualize this is to see how quickly PDSA improvement cycles are being run that move capability forward (and upward). I first was introduced to this image by Brian Joiner.



Rapid revolutions through the PDSA cycle allows for rapid improvement - each revolution building on previous experiments

This book explores how to adopt those better methods successfully. Many of these ideas have been around and applied for decades but they have been ignored by far more organizations than have adopted them. As more organization adopt better methods everyone benefits: the owners, the employees, the customers, the suppliers and society.

From Quality Tools to Management Improvement

Management improvement tools are useful. Far more significant gains are available by improving senior management behavior than are available on the shop floor (or cubicle farm). This is true even when there is room for huge amounts of improvement in the cubicle farm.

The largest gains await those organization that change the way they manage. Developing a customer-focused, continuous-improvement culture is not easy. The focus on never-ending improvement is exhausting for some (for others, like me, it is invigorating).

Senior managers must change their focus to improving the management system, coaching others, focusing on the long term, and a deep understanding of short term and long term customer needs. If senior executives' and managers' jobs haven't changed more than others' have, then the improvement efforts have amounted more to adopting some quality improvement tools than to adopting a superior management system.

I don't know how to explain the amount of work left to do in the c-suite[4]. However, I will say this: there is much room for improvement, and what is left to do far exceeds what has been done so far.

[4] http://curiouscat.com/management/clevel.cfm

Focus on Customers and Employees

I believe it is the purpose of organization to serve many stakeholders (customers, employees, stockholders, the community…).

Some companies (Costco[5], Whole Foods[6], Trader Joe's, Starbucks[7], Google…) provide great pay and benefits to all employees. That idea is alien to many of the companies that don't respect their employees. Once you adopt the idea that employees (not just executives) matter, that change in mindset changes decisions that the organization makes. When executives are massively overpaid and employees are paid the lowest possible wages, poor results for the organization and its customers will almost certainly follow. Though often this can be masked (as mentioned earlier human system often don't provide obvious signals of failure - as software does).

Systems have interdependent components. Attempts to ignore certain aspects of Deming-based management systems (such as respect for people) affect everything else. As people see that senior leadership respects other people, trust builds. As people see that the company truly cares about customers, that affects how everyone does their jobs. As people see the company focus on improving processes to ensure success, they learn to appreciate the value of system improvements.

It is very easy to turn these positive reinforcements into resistance. Greedy executives taking what they don't deserve

[5] http://management.curiouscatblog.net/2007/07/05/focus-on-customers-and-employees/

[6] http://management.curiouscatblog.net/2007/02/06/compensation-at-whole-foods/

[7] http://management.curiouscatblog.net/2006/12/16/starbucks-respect-for-workers-and-health-care/

while reducing pay and benefits to the majority of the workforce makes it obvious that the organization doesn't respect people. It isn't a surprise that doing so makes it very difficult to advance beyond the use of some good quality tools and to an improved management system that requires respect for people.

By working to provide value to customers and respect to employees, the organization sets the foundation to expand beyond simply using some improvement tools to potentially unleashing great improve the management system. This type of change improves results for all stakeholders, with the possible exception of executives that are bleeding companies today. Given the power executives have to take more than they deserve while harming the organization, it is not hard to see why such practices continue. But without changing that mindset adopting a Deming or lean management system is nearly impossible.

Why Use New Management Ideas if So Many Fail To Do So Effectively

I would say that the vast majority of efforts I see "fail" do so because they do not actually apply lean thinking or Deming to their organizations. These companies have something they call TQM, six sigma, lean management or something else, but they only try out only 10% to 30% of the ideas (and even those often just with half-measures) and with big doses of Dilbert's pointy haired boss methods[8]. Then they don't get great results. That shouldn't be surprising.

The biggest complaint (with some merit) I see is that lean/Deming/six sigma and the like are hard to actually apply. If com-

[8] http://curiouscat.com/management/phb.cfm

panies constantly fail to apply the ideas correctly (even when they use the name) isn't that an issue? Isn't that a weakness of the "solution?" My answer is: **yes**. The caveat is, **until someone comes up with a management system that gets the results possible with Dr. Deming's management ideas and is also super easy to adopt I know of nothing better**.

Certainly, I believe you are much better off attempting to use Deming, lean or six sigma than listening to someone who says that they have management instant pudding[9] that will give you great results with no effort.

Many organizations never go beyond slapping a few good tools on a outdated management system. Luckily, those few tools actually have good results (even when the organization doesn't improve the management system itself). Maybe 50% of the implementations are so lame they have almost no positive results (not even getting improvement worth the time and effort invested). These could be seen as "failures." Other efforts range from mildly useful to extraordinarily successful.

There is also an advantage to these ideas being hard to do. You really don't have to invent anything new to be successful. If you just have persistence and continually improve while applying ideas proven over decades from Deming, Ohno[10], McGregor[11], Christensen, Drucker, Scholtes[12], Womack, Roger Hoerl (six sigma)[13]... you have a great advantage over all those organizations that ignored the ideas or made a bit of effort and then gave up.

[9] http://management.curiouscatblog.net/2005/10/10/the-quick-fix/
[10] http://curiouscat.net/authors/719-Taiichi-Ohno
[11] http://curiouscat.net/authors/576-Douglas-McGregor
[12] http://curiouscat.net/authors/14-Peter-R-Scholtes
[13] http://curiouscat.net/authors/144-Roger-Hoerl

The Purpose of the Organization

W. Edwards Deming described the purpose of an organization in New Economics, on page 51, as follows:

> The aim proposed here for any organization is for everybody to gain - stockholders, employees, suppliers, customers, community, the environment - over the long term.

Like so much of what Deming said, this makes sense to me. An organization exists to provide good jobs to employees, to provide products and services to customers and to make money for the owners.

Even with a strictly legal argument it is not true that a company exists only to make money. Every company enters into legal obligations to employees, suppliers, customers and communities.

Conventional wisdom agrees that a company must comply with the law. Many of these laws are requirements society has put in place to ensure that companies focus on obligations to their customers, community, suppliers and the environment (over the long term).

Some might chose to view these legal requirements as only a means to make money. Some believe that a company exists to make money and that so long as a law doesn't require something else, every decision should be based only on long term financial benefit. I do not agree. Laws are a manifestation of society's belief that other important considerations exists.

In the early stages of capitalism, the business world was largely seen as amoral. That is no longer the case (as I see

"conventional wisdom"). Most, though not all, believe that companies have moral obligations to the environment, community, customers and employees. Many of these obligations have been turned into laws (just as there are laws that require the company to care for shareholder interests).

These laws set the minimum legal obligations that must be met. They seem to clearly express society's decision that companies have a larger purpose than simply making money for the owners. One benefit of companies is to reward those who invested in them. Another benefit is that they provide jobs to employees and products and services to customers.

How these many interests are balanced is not such an easy issue to address. I think Deming's quote is a good starting point for discussion. Right now, the balance is pretty heavily in favor of the owners (and making profit). I personally think it makes sense to have that as a very important factor, though I also favor increasing the focus on some other factors. Most importantly, I believe we need to increase the importance of providing good jobs for employees. In a interdependent system this adds value to the enterprise. These are not zero-sum challenges.

A huge problem today is that executives (and boards) use their position in the decision making process to extract unjust payments for themselves at the expense of all other stakeholders - including owners. While the discussion usually focus on how legal obligations to owners stand in the way of ethical considerations (for all the employees, customers and suppliers) you rarely hear about executives having any trouble taking huge payments for themselves and their friends.

The marketplace does a pretty good job of asserting the importance of customers and suppliers. Even so, regulation and law enforcement are necessary actors in those instances where

the free market is insufficient.

Recent changes in the world are making it very difficult for the community interests to be respected. I think that this trend will likely increase.

There is an important difference between those who believe that the only true purpose of a company is making money and those who see a variety of purposes that must be balanced. I hope we can move the conventional wisdom to a more balanced view of the importance of the various stakeholders (even my spell-checker wanted to change this to stockholders) from the current unhealthy focus on "shareholder value."

Overpaid Executives

Sadly many executives act like nobility in Medieval Europe - as though anything generated by "their serfs" is theirs to take.

Executives deserve to paid well. However, the current payments executives take are innately disrespectful to employees and owners (stockholders). I won't go into detail here; I have written plenty on this topic[14] that you can read if you want more details.

There are no simple calculations for what is just and what is unjust. Personally, I believe executive pay (including all bonuses) that is more than 20 times the median pay is dangerous and should be justified. If executive pay is more than 50 times the median pay, it is very likely unjust. If executive pay is more than 100 times the median pay, it is almost certainly abusive to the point of being inherently disrespectful to people (employees

[14] http://management.curiouscatblog.net/tag/overpaid-executives/

and owners).

If you are paying yourself, and those you interact with millions (or hundreds of thousands) while cutting health care or enacting policies that deny workers the right to health care (limiting hours and providing health care only to full time workers, etc.), you are acting contrary to the fundamental principles of Deming and lean manufacturing.

Peter Drucker defended high executive pay. However as executive pay became abusive, he spoke against those abuses. As the abuses increased so did his condemnation of those pursuing and furthering such bad practices[15]. The abuses have grown much worse since he made these condemnations in the 1990s.

In 2007 I added 2 new deadly management diseases[16] in the spirit of Dr. Deming's list of 7 deadly diseases. One of these new diseases is overpaid executives. The other is the our broken system of patents and copyright that restricts innovation instead of supporting it.

Related: Graph of Excessive CEO Pay[17] - CEOs Plundering Corporate Coffers[18] - Overpaid CEO's[19] - Excessive Executive Pay[20] - Warren Buffett's Shareholder Letter[21]

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[15] http://management.curiouscatblog.net/2005/11/20/the-economist-on-drucker/

[16] http://management.curiouscatblog.net/2012/08/29/new-deadly-diseases/

[17] http://management.curiouscatblog.net/2006/06/22/more-on-obscene-ceo-pay/

[18] http://management.curiouscatblog.net/2008/10/22/ceos-plundering-corporate-coffers/

[19] http://management.curiouscatblog.net/2006/10/04/more-on-overpaid-ceos/

[20] http://management.curiouscatblog.net/2005/12/04/excessive-executive-pay/

[21] http://management.curiouscatblog.net/2006/03/06/warren-buffetts-shareholder-letter/

It Won't Work Here

George Box's, three phases of innovation, as told to the person trying to lead innovation:

1. It won't work
2. It won't work **here**
3. I thought of it first

This pattern is well known to anyone attempting to lead improvement efforts. Honestly though, the frequency of attempts that make it all the way to number 3 is not very high.

The true power of management improvement ideas has only been taken to heart by a small percentage of all organizations. Thankfully, small initial steps are being made, but there is much more to be done before we can think of these ideas as accepted. Even where they are accepted, organizations often have only a surface understanding of a couple of tools and concepts.

Which of Dr. Deming's seven deadly diseases of western management[22] have been effectively addressed in the past several decades? My opinion? Zero. Granted, 2 of these diseases are more economic failures (political issues that are not really in the control of a single company): excessive medical costs and excessive legal damage awards.

Excessive legal damage awards was the one disease most business school graduates would have agreed was a disease decades ago, and they still do. They have spent some effort to reform the legal system, but they have not been effective.

Today, many agree that the health care system is broken. But I would say that less than 50% of people truly understand

[22] http://curiouscat.com/management/sevendeadlydiseases.cfm

this and even as the situation has deteriorated much further[23] in the last few decades. Certainly, the effective effort at improving the health care system has not been nearly enough to this point. At least in the last 5 years some senior executives at some companies are making real efforts to address this systemic problem. The number of enterprises putting their weight behind the need to fix the broken health care system in the USA is increasing.

I strongly believe that Dr. Deming would see the current unjustified taking of companies resources[24] by CEOs for their own use through ludicrous pay packages[25], as a new disease.

The "It won't work" stage is often very difficult to break through. There are many good arguments including why do you think there is any hope. The health care system is so broken and has been for so long and the intrenched interests against any changes are so strong that you will fail. That is not a bad argument. It is often correct. In those cases it is often necessary to wait until the pain is so huge that people finally stop worrying about how difficult success will be and are incredibly worried about how difficult continuing on the current path will be.

Obviously, enterprises that work on making improvements less difficult to adopt will be able to more easily and quickly get past the first roadblock. Creating an organizational system that makes improvement easy is preferable to one that just pushes off improvement until the pain of trying to improve is worth taking because the pain of suffering with the current poor process is too great.

The goal is to move past the statement that "it won't work,"

[23] http://management.curiouscatblog.net/2008/02/20/usa-spent-21-trillion-on-health-care-in-2006/

[24] http://management.curiouscatblog.net/2006/06/22/more-on-obscene-ceo-pay/

[25] http://management.curiouscatblog.net/2007/06/11/tilting-at-ludicrous-ceo-pay/

then past the statement that "it won't work here." Eventually, the new ideas will be seen as so obvious that no one would argue. It isn't nearly as easy to get there as you may think (or hope, when you are on the journey). Many companies have stayed in stages 1 and 2 for decades after management improvement tools and strategies have offered much better alternatives.

This means that there are great opportunities just in applying well known improvement tools and strategies. But it also shows how difficult it is to get organizations to adopt better management methods.

Chapter Two - Deming Management System

Ruby Beach, Olympic National Park

Deming Management System

Dr. W. Edwards Deming created a unified management system. That system provides a framework for understanding the man-

agement of human enterprises.

The system is not prescriptive. Instead, Deming explored principles of how human systems function. He examined and experimented with strategies to optimize these systems. He documented common mistakes managers make and why their attempts failed.

Dr. Deming's management system consisted of 4 interrelated and interdependent areas:

- Systems Thinking
- Understanding Variation
- Theory of Knowledge
- Psychology

Many think of data when they think of Dr. Deming. That makes sense in that he greatly increased the adoption of data-based-decision-making. But data-based-decision-making is only a part of the Deming management system.

Psychology is a critical factor in managing people. Psychology affects any efforts to manage human systems. Building an organization's capability requires growing people's ability and performance. Actions managers take every day build and destroy this progress. Respect for people matters because it is the right thing to do. It also matters because without that foundation everything else about managing the organization is much more difficult, if not impossible.

Systems thinking reveals the inter-connectedness of the organization and management system.

The theory of knowledge, within the Deming context, is about how we know what we know. This thinking examines the easy traps for managers to fall into, and why we must think critically to avoid falling into such traps. It is easy for us

to believe without evidence, nd it is easy for us to gain false confidence in our beliefs when we fail to critically examine our assumptions (see: confirmation bias).

There are many important keys to Deming's ideas on management but arguably the most important is understanding that everything is interconnected. To build the capability of the enterprise to deliver great results you can't just look at the data and make decisions. You can't make decisions without the data. You can't treat people as though they are just fancy machines. You can't only worry about how people feel. You can't rely on unverified beliefs.

One of the reasons applying Deming's ideas can be challenging is that there isn't a simple cookbook to follow. The best steps to take depend on what the current state of the organization. It depends on the financial heath of the company, the knowledge of the employees, the state of the market, the trust of the employees, the condition of the processes and on and on.

There are many options for where to start or what to do at any time. Some will be more effective than others. Good decisions on what to do are based on an understanding of management (knowledge about management and about Deming's system of management) and knowledge of the organization (the strengths, weaknesses, opportunities and challenges).

Principles on how to move forward boil down to building capability. We have to do what is needed to survive today. We need to plan for the future. In order to build capability effectively we have to keep in mind several good ideas, such as:

- Experiment, test ideas on a small scale before expanding adoption of those ideas. Base decisions on data (theory of knowledge, understanding variation, systems thinking). At

the same time, understand that judgement is also important and data cannot always provide the answer.
- Respect people (systems thinking, psychology, theory of knowledge)
- Customer focus (systems thinking, understanding variation, theory of knowledge)
- Work at the gemba (systems thinking, psychology)
- Make problems visible (psychology, theory of knowledge, systems thinking)
- Reflect, take time to think and learn and innovate (psychology, systems thinking)
- Seek continual improvement (psychology, systems thinking). Develop a culture that constantly looks for ways to improve, that is never satisfied. Know that what is acceptable today is not acceptable tomorrow.

Exactly how these ideas are best integrated into an existing organization depends on many factors, all of which are interrelated.

Being Destroyed by Best Efforts

> Best efforts are essential. Unfortunately, best efforts, people charging this way and that way without guidance of principles, can do a lot of damage. Think of the chaos that would come if everyone did his best, not knowing what to do.

Out of the Crisis[26] by W. Edwards Deming, page 19

[26] http://management.curiouscat.net/books/175-Out-of-the-Crisis

I am reminded of a quote I heard from Dr. Deming (though it may well precede him): "Don't just do something, stand there." First think, then act. His quote also relates to the tendency we have to tamper[27] - institute "solutions" without understanding what is going on (a lack of understanding variation contributes to this tendency).

Many managers have learned their job is to act, even when they don't have the knowledge needed to make a rational decision. They don't just stand there - they do something. Learning to say, "I don't know," and then spend time learning instead of acting is a valuable skill to develop.

Often a manager's best efforts to apply bad ideas (such as an annual performance review process) destroys the working conditions and result in a much less capable system. Hard work is important. But knowing what to do is more important. And to make things complicated for managers, knowing what do to depends on the state of many interconnected systems.

Sales quotas are a bad idea. However, depending on the state of the rest of the enterprise, they can be effective in the short term. Often, if you want people to fight through all the broken processes and just get results today creating extrinsic motivation will be effective. However, the damage over the long term will overwhelm that short term boost.

When making a transition to a more capable organization (and getting rid out bad practices like sales quotas), it is not easy to make decisions about which systemic changes to make. Making the right choices requires knowledge much more than it requires effort. Best efforts are good, but without proper systems,

[27] http://curiouscat.com/management/variation.cfm

you can end up digging yourself deeper into a hole.

Related: Manage Better by Managing Less[28]

Create a System That Lets People Take Pride in Their Work

I believe I learned this from Peter Scholtes, though may be I am remembering it wrong or explaining it wrong (so give him the credit and if I mess it up, it is my fault). I believe there is a problem with using the term "empowered." Using the term implies that it one person empowers another person. This is not the correct view. Instead, we each play a role within a system.

There are constraints on your actions based on the role you are playing but that doesn't mean one person empowers the other. The roles assigned within the system define the constraints. **Does a security guard empower the CEO to enter the building?**

Some systems are setup with a great deal of micro-managing. Then consultants look around and say you need to empower your employees to think, which often results in mangers saying "you all are empowered - go forth and do good work."

Saying that is meaningless. What matters is changing the system. The system needs to respect people. That is not increased by people using the word empowered. In fact, it is decreased I believe, due to the implied notion that one person "empowers" the other (what can be granted can be withdrawn).

I believe organizations should be designed so that decisions are made at the appropriate level. Systems should be designed

[28] http://management.curiouscatblog.net/2012/09/05/manage-better-by-managing-less/

to produce good results by allowing people to contribute. People should be trusted to do their job[29]. They should not be micro-managed.

People deserve to have a system that is managed to allow them to most effectively do their job. They should have standard work instructions[30]. Decisions should be based on an understanding of variation. Non-value added work should be eliminated (freeing people to do valuable work). Ideas should be judged based on the merit of the idea not the position of the person expressing the idea.

The topics often come up when discussing empowerment, but the wrong term reinforces the wrong view of the situation. It is similar to the problem with "motivation." What managers need to do is eliminate de-motivation – not to motivate. Manager's don't need to "empower" employees; managers need to fix the system to treat employees with respect and allow them to do their jobs well.

You don't need to think about empowering people if you have a system that lets respects people and lets them take pride in what they do. If you think you need to empower staff, instead fix the system that requires you to think they are in need of empowerment.

Related: People: Team Members or Costs[31]

[29] http://management.curiouscatblog.net/2010/06/22/trust-your-staff-to-make-decisions/

[30] http://curiouscat.com/management/standardizedworkinstructions.cfm

[31] http://management.curiouscatblog.net/2006/04/01/people-team-members-or-costs/

Chapter Three - Management Concepts

Antelope Island State Park, Utah, USA

Management Concepts

In this book, I separate management concepts, management practices and management tools. I find that these are often referred to as the same thing. For example, you will hear mistake-proofing (or poka-yoke) referred to as a management tool. Is it

really? How do you apply this tool? I don't think it is a tool. It is a concept, a way of thinking.

For me, it is helpful to think of management concepts as distinct from practices and tools. Management concepts are ways of thinking that can be used to improve performance.

The idea of mistake proofing is one concept to apply when building enterprise capability. As mistake-proofing practices are applied the capability of the organization increases. Fewer mistakes are made. People are happier. People can focus on improvement and innovation instead of fire fighting and dealing with unhappy customers. Customers are happier. Profits increase.

The management concepts explored here require more judgement to determine how they can best be applied. Management practices are more prescriptive; they describe what should be done instead of just what concepts to consider. Tools are even more prescriptive, in their use, but people still need to decide when to use them. The distinction between these is somewhat arbitrary (and where the line is drawn is sometimes questionable - some items seem to clearly fall in one category or the other, but others do not have such an obvious best fit).

Ultimately, they could all be thought of as tools and still be effectively applied. But I find value in thinking of the separate categories: concepts, practices and tools. This chapter provides a look at important management concepts to apply in order to build enterprise capability.

Ignoring Unpleasant Truths is Often Encouraged

Sadly, I have learned that truth is often not valued. I'm interested in creating improvement. I thought people would be driven by data and possible strategies to improve, but I have found that other priorities often override a desire to improve: defensiveness, protecting oneself from blame, resisting any change, being "too busy," etc.

In my experience, getting improvement strategies adopted means not distracting people with everything up front. Try to fix the system and convince others to fix the system as you can. If some efforts are resisted, try to adjust. If necessary, try using a a different strategy to get improvement. Sometimes, I just drop trying to improve a particular area when resistance is strong. There are usually so many options for improvement that it isn't tough to find plenty of other areas to tackle more successfully.

I find it frustrating that many people don't seem interested in really understanding what the system is producing and where weaknesses exist. At least for me, trying to force things to work the way I want (where an open exploration of the truth is the focus) isn't the priority. I have figured out that it is better to give up on such desires and work within the reality that exists.

Still, I can't stop myself from pointing out things far more often than people want. I have no doubt that it has annoyed people and gotten me in trouble. But, it has never been unmanageable - I just tend to make things a bit more difficult for myself, at times.

One very visible sign of people avoiding the truth is when people say very different things in meetings and out of them. It is amazing to me how much less likely people are to voice anything

that could be seen as a complaint or a criticism in a meeting than in the hallway. It isn't so surprising if you understand human psychology (the tendency to blame those who voice a problem). People figure this out and keep their mouths shut in meetings. But with colleagues they understand they can point out the problems and not be blamed. This is why hallway conversations often contain a much more honest expression of what people think. This is a bad sign.

If your organization trains people to ignore unpleasant truths it makes managing more difficult and results in poorer performance. Build capability by encouraging critical thinking and then improving the management system to address the deficiencies - instead of blaming those who voice concerns.

Circle of Influence

In, The Seven Habits of Highly Effective People[32], Steven Covey discusses the circle of control, the circle of influence and the circle of concern. These concepts provide a good framework from which to view issues as you look for improvement strategies.

Within your circle of control, you have much more autonomy and less need to win others over to your plan. However, in practice, even here, you benefit from winning over those who are involved (for example, when you are their boss).

Our circle of concern covers those things that we worry about. We often believe that, because we worry, we should find solutions. However, problems that fall into this category but outside our circle of influence often prove difficult to tackle.

[32]http://management.curiouscat.net/books/86-The-7-Habits-of-Highly-Effective-People

People often don't understand why they get frustrated in this case. You can save your energy for more productive activities by recognizing that some things are outside your influence and avoiding wasting your energy on them.

A problem with this idea however, is that with some creative thought, many things that seem beyond your influence actually are not. With some imagination, you can find ways to have influence. Good ideas are powerful. Often a good idea is all that is needed to influence what actions are taken.

Understanding the extent to which an issue is within your control or influence can help a great deal in determining good strategies. When you have a good opportunity to influence the process, you can focus on strategies that may require much more of your participation to be successfully adopted. When you have less influence, such a strategy is likely a poor one.

Remember that there is a temporal component to your circle of influence. On some current issue, you may have a very low chance of success for getting the organization to adopt an improvement you think is best. However, certain actions can build an appreciation of your value that will result in greater influence later. These actions can even be completely separate from how people normally think of the circle of influence. By building an organization that moves toward data based decision making and therefore reduces HiPPO (Highest Paid Person's Opinion) decision making you may increase your ability to influence decision making in the future (unless you are the highest paid person, of course).

Long-term thinking is a very powerful, and much under-practiced strategy. Your influence within an organization is limited today, but has great potential to expand if you act wisely.

Thinking about the extent to which a current issue falls

within your sphere of influence is important it determining the best strategies to use. However, the most valuable insight is to understand how import your sphere of influence is. Your sphere of influence determines what strategies you can pursue. Growing your sphere of influence should be part of your decision-making process.

By considering the long-term view. you can put yourself in a good position to have influence on decisions. There are many ways to do this. My preferred method is fairly boring: prove yourself to be valuable and you will gain influence. Help people solve their problems and they will be inclined to listen to your ideas. Provide people with useful management tools and help them apply the tools successfully. Help get people with good potential opportunities to succeed. Often, this gains you two allies: the person you helped gain the opportunity for and the person who was looking for someone to step in. Work hard and deliver what is important. It isn't some secret sauce for quick success but if you make those around you successful you will grow your circle of influence.

Having no Problems is a Problem

"Having no problems is the biggest problem of all." - Taiichi Ohno

Most managers feel that their employees should not bring them problems. Instead, expressed in the most positive way - employees should fix things themselves or bring possible improvements forward. However, this is poor management thinking.

Many bosses expect their people not to bring them "bad

news" and not to bring them "problems." That attitude is exactly wrong.

What these bosses are saying is: if you know of a problem but don't know of a solution, I would rather have our company continue to have that problem than admit that some of my staff don't know how to fix it. Some managers want to reduce the issues they need to track. If they are told they may have to deal with an issue and then accept responsibility for the results. They can no longer plead ignorance if there is a problem later. I think that is exactly the wrong tone to set.

Employees should implement improvements and fix processes. They should bring solutions to managers for improving things that might be out of their ability, or authority, to fix. But if employees know of a problem and not a solution that needs to be brought the attention of someone that can build the capability of the enterprise by dealing with the issue. A manager that tells the employee they don't want to be brought problems is a manager I don't want.

If an employee never learns how to find possible solutions themselves that is not a good sign. However, it is still much, much better to bring problems to management's attention than to fail to do so because they know the manager thinks that doing so is weak. The attitude that problems should not be shared is what is truly weak, in my opinion.

> The day soldiers stop bringing you their problems is the day you have stopped leading them. They have either lost confidence that you can help them or concluded that you do not care. Either case is a failure of leadership.

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    - Colin Powell
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Chapter Four - Management Practices

Forest Glen Preserve, Illinois, USA

Management Practices

This chapter looks at management practices that can be applied in order to build enterprise capability. Practices are more pre-

scriptive than management concepts. They describe what should be done but are not as particular as management tools. These are practices that managers can adopt in their work.

One example of a management practice is written down what you predict the results of changes to the system will be. Then test the prediction while gathering evidence and compare the results to your prediction (often this will be done with using the PDSA cycle). Learn from what you see in order to improve your predictions in the future.

Another management practice that is important is coaching. Essentially, coaching builds the capability of the people in the organization.

I don't believe that coaching should be limited to coaching downward in the organizational hierarchy. If your supervisor is not as comfortable with analyzing data as you are, it is perfectly reasonable for you to coach them on how to analyze data. And the next day they may be coaching you on how to deliver a presentation to a client.

As people learn to view the organization as a system, they will stop seeing the hierarchy as a defining characteristic. Different people have different responsibilities. The hierarchy often defines some of those differences, but an organization that pays attention to rank instead of responsibility is in danger.

As with most management ideas, there are special situations. A military environment is one in which rank carries a great deal more weight. Due to specific the characteristics of military organizations, it is sensible to have a different appreciation of rank. Even so, any sensible ranking officer (if the matter is outside their area of expertise) is not going to dictate to a system administrator, for example, how to manage network security. People must be selected for particular roles and given

the expertise, processes and tools to do their jobs and then be trusted to do so.

As I mentioned earlier, the distinction between concepts, practices and tools is somewhat arbitrary. I find it useful, but they could all be thought of as tools and still be effectively applied.

How to Get a New Management Strategy, Tool or Concept Adopted

People often become excited when they learn about effective management improvement practices (Deming's ideas on management, lean manufacturing, design of experiments, PDSA, etc.). They have discovered ideas that show great promise: to alleviate the troubles they have in their workplace, and lead them to better results. However, people are often confounded by how to actually get their organization to adopt the ideas. In fact, I believe most potential improvement efforts may well fail even before they start, simply because people can't get past this problem.

I believe that the way to encourage adoption of management improvement tools, methods and ideas is to solve people's problems (or give them new opportunities). Instead of trying to convince people by talking about why they need to adopt some new ideas, it is much better to deliver results. To encourage the adoption of whatever it is (a philosophy like Deming or a new tool) try to find projects that would be good candidates for **visible success** and then build on those successes.

For adopting whole new ways of working (such as those detailed in this book) this process many will need to be iterated

multiple times, with each time moving closer to the new ideas becoming the accepted way of doing things. Adopting new ideas is a bit easier if you are the CEO, but I think the strategy remains similar whoever you are.

For smaller efforts a boss can often just mandate the changes. But for a change like a large improvement in the way work is done (adopting a lean management system, for example), the challenge is the same. People need to be convinced that the new methods and ideas are valuable and that **they** can use the ideas to help improve results.

Start small! It is very helpful to keep initial efforts fairly small and straight forward. At first, resources (including limited time people are willing to invest) will likely be limited. So start by picking projects that can be accomplished easily. Once people have seen success, more resources (including what is normally the most important one - people's time) should become available. Honestly though, getting people to commit will likely be a challenge for a long time.

It is a rare organization that adopts a continual improvement[33], long-term focus, systems thinking mindset right from the start. Instead, at first organizations tend to have a strong focus on fire fighting and fear of change (am I taking a risk by doing x, or, if I spend time improving y – what about the monthly target my boss is measuring me on…). It is baffling to many who are hoping for improvement, when initial efforts bring big successes and yet the old way of doing things retains a strong hold. The inertia of organizations is huge.

Another key is to, **target what people actually care about**. Solving some problem no one cares about (even if the results are good) won't help gain much support.

[33] http://management.curiouscatblog.net/2008/06/10/continual-improvement/

Target who you are trying to convince. If you want to convince executives to do more, then target them. If you want to convince front line workers to adopt the new ideas, target things that they care about. Large changes will normally require targeting multiple groups. Take care to progress sensibly. What "sensibly" means, depends on the situation. Often it is possible to target more than one group. Targeting improvement efforts that multiple groups care about, and will notice, should get priority.

If you decide getting the executives on board first is necessary, then target them first. If you decide you need to target 3 different groups, be sure that as you proceed, that you are not ignoring one group. Adjust as the initial results shed light on what works best in the organization (it may be necessary to change the strategy).

Normally, I think that a broad-based strategy is better[34]. Even if you are highly targeted at first, it is best to broaden the adoption quickly, especially for a systemic change. One of the nice things about adopting tools is that it is fairly easy to do in a piecemeal way.

It is baffling to me how slowly changes are adopted, but I have come to accept that the normal process is to hold to the old ways far longer than seems rational. It is a mistake to assume that what seem like obvious connections between improved results and the new methods and tools will be obvious to everyone.

People often don't connect the improved results to the improved practices. This failure to make the connection is a problem. That is why making the connection between improved results and the new tools or practices is important. Achieving

[34] http://management.curiouscatblog.net/2007/01/31/encourage-improvement-action-by-everyone/

better results is part of the process, but in order to build the capability of the enterprise the organization also needs to appreciate that the improved methods are responsible for the improved results.

Good Process Improvement Practices

Good process improvement practices include:

- Standardized improvement process (pdsa, A3 reports, etc.)
- Going to the gemba - improvement is done where the work is done. To be successful, actually go to the where the important action is. Sitting in meeting rooms or offices, reading reports and making decisions is not the way to improve effectively.
- Evidence based decision making[35], data guides decision making rather than making decisions based on the rank of the person holding the opinion.
- Broad participation (those working on the process should be the ones working to improve it, and everyone in the organization should be improving their processes).
- Data should be used to gauge effectiveness.
- Pilot improvements on a small scale. After results show changes are improvements deploy standardized solutions more broadly.
- Visual management.
- Standardized work instructions are used for processes.

[35] http://management.curiouscatblog.net/2010/06/28/the-illusion-of-knowledge/

- One of the aims of the improvement process should be improving peoples ability to improve over the long term. One outcome of the process should be a better process, another should be that people learned new concepts and practices and can apply what they learned in future improvements.
- Using quality tools and training people on those tools. Tools are essentially standardized methods that have been shown to be effective. Unfortunately, most organization just ignore them. Those organizations then struggle to reinvent methods to achieve results, rather than apply methods already shown to be very effective.
- Ensuring that improvements are sustained. Be sure that changes are made to the system and they are actually adopted. This may seem obvious, but far too often process improvements are really just band-aids that fall off after a few weeks.
- Understanding that goals, bonuses and extrinsic motivation are not part of the process[36]
- Continually improving the improvement process itself.

Various tools, practices and strategies share these characteristics. I happen to like the PDSA cycle. The A3 process (associated with lean)[37] is also excellent. DMAIC, which is associated with six sigma, is also good, but is more often used in ways that fail to cover all the points above.

The Improvement Guide is an exceptional book on this topic. I highly recommend it.

Related: Change is not Improvement[38]

[36] http://curiouscat.com/deming/management_by_target.cfm
[37] http://curiouscat.com/management/a3.cfm
[38] http://management.curiouscatblog.net/2006/01/25/change-is-not-improvement/

Write it Down

In meetings, writing down decisions (what the issue is, who is going to do what, etc.) is **very helpful**. It is very easy for people to think that others have agreed to some somewhat clear statements made in the meeting. Only later does it become obvious that several people have different views of the topic. Sometimes, people may even known there is confusion during the meeting, but they find it easier to let things slide than to confront the disagreement. It is not helpful to avoid dealing with issues; avoidance just means the issues are not properly addressed. Letting things slide might make the meeting easier, but that should not be the goal. Writing down decisions greatly reduces the chance of miscommunication.

Russell Ackoff also has some great thoughts on the importance of documenting decisions[39] - both to serve as guide posts for future action and to serve as documentation that can be examined over time to find historic weaknesses and strengths with decision making in the organization.

Ackoff on decision making[40]:

> Preparing a record of every decision of any significance, ones that involve doing something or (of particular importance) ones that involve not doing something. This record should include the following information:
>
> - The justification for the decision including its expected effects and

[39] http://management.curiouscatblog.net/2007/01/21/knowledge-management-management-is-prediction/

[40] http://www.acasa.upenn.edu/A_MAJOR_MISTAKE.pdf

- time by which they are expected…
- The assumptions on which the expectations are based…
- The information, knowledge, and understanding that went into the decision.
- Who made the decision, how it was made, and when…

The decision should be monitored to determine whether the expectations are being met and the assumptions on which they are based remain valid.

When a deviation is found in either the assumptions or expectations, it should be diagnosed, the cause determined and corrective action prescribed and taken.

By documenting decision making, and evaluating decisions over time, to find systemic weaknesses (too cautious, too optimistic, overestimating IT "magic," underestimating timeframes…) you can improve future decisions.

Firing Workers Isn't Fixing Problems

It is true that management failures can result in a failed enterprise that cannot survive. Layoffs may be necessary to cope with such failures. However, just using layoffs as band-aids to cover management mistakes is a poor strategy.

Instead, the failed management system that allowed the enterprise to reach this failed state needs to be addressed. Laying off workers doesn't fix the problem - it only addresses a symptom. Management must fix the cause of the failure.

The same is true for firing one worker. First work on fixing the system, then work on helping workers in their current roles. If that doesn't work, help workers find another role that they can do successfully. In rare cases (unless your hiring or management practices are atrocious) it might be necessary to fire an employee because they just cannot provide value to the enterprise. This is a bad failure, and management should provide good explanations for how the organization allowed the failure to transpire and what system fixes have been adopted to avoid such failures repeating in the future.

In most cases, if new workers can't do their jobs, the hiring process or the process of brining new employees into the organization may need to be improved. Often both of these processes are very poorly done. As the enterprise adopts good management practices (building the enterprises capabilities, in general) the weaknesses will be addressed in the normal course of operations. For example, many organizations don't have clear flowcharts showing what role a person plays in the processes that make up the organization, but they will once they adopt good management practices. Many organizations do not have clear, complete and current job instructions, but they will once they adopt good management practices. Many organizations do poorly at coaching of employees, but they will adopt good coaching practices as they improve the management system.

These, and many other, improvements naturally flow from a sincere effete to adopt Deming and lean management principles. The individual improvements often seem somewhat minor in isolation but together then form a foundation that continually builds the enterprise capability. The individual improvements to the system support and amplify each other and problems that used to be blamed on people are removed as the management

system deals with the problems effectively.

Fixing the hiring processes is often an area that is not addressed early in the efforts to build the enterprise capability. If your organization can take this project on early, wonderful. However, this is often a difficult process to do well (which is why the hiring process is so often poorly done). It is very helpful, to have a fairly advanced understanding of systems thinking, respect for people, long-term thinking and an understanding of how critical interactions among the components of a system and the people in that system can be. Dee Hock has some good principles to follow.

Chapter Five - Managing People

Mesa Verde National Park, Colorado, USA

Managing People

Obviously, the success of an enterprise is highly dependent on its people and on the system within which those people work. But dealing with people is complicated. They are happy one day and indifferent the next. One day they strive to make a

new initiative work, and the next they believe that nothing they do matters. It seems like many managers respond by trying ignoring the implications this has for their responsibilities. This approach doesn't work. It does make the manager's job easier but, unfortunately, it makes the manager much less effective so it isn't a good strategy.

Wishing that managing people was the same as stacking boxes doesn't make it so. To manage effectively, we need to appreciate the complexities of managing human systems. We need to build systems that support and encourage desirable behaviors and that make errors difficult to commit.

When properly designed, a system with human actors is wonderful. People can react to problems and opportunities. They can apply their minds to find innovative ideas for improvement. They can bring joy to others. However, creating successful systems requires taking the time and effort to create a nurturing environment that lets people flourish.

Long Term Thinking with Respect for People

Toyota nearly went bankrupt around 1950 and had to lay off a third of its employees. One main focus of the Toyota Production System, as envisioned by Taiichi Ohno, was to secure the company's long-term success. t is easier to see the importance of this priority when you respect people and are in danger of witnessing the destruction of their careers.

I recall a quote along the lines of "the first priority of management is providing for the long-term viability of the company" (my sense is that this is due first to respect for workers and

also respect for all other stakeholders). The "respect for people" principle requires executives to prioritize the long term success of employees when making decisions for the company. I don't believe it is a ranked list. I believe there are several things right at the top that can't be compromised: respect for people, the safety of society and support for customers to name a few.

The "respect for people" principle requires innovating (Toyota Management System, Toyota Prius, Toyota Robots, Lexus brand, etc.) and seeking growth and profit that strengthens the long-term success of the company. It also means planning for worst case scenarios and making sure survivability (without layoffs etc.) is nearly assured. Only when these requirements are met does taking risks become acceptable. You do not leverage your company to put it at risk of failure in dire economic conditions, even if that strategy would allow you to be more profitable today. And you certainly don't add leverage just to provide extra pay for a few short-term thinkers[41].

The economic situation today is extremely uncertain. The state of the whole financial system is very questionable as it is overly complex, highly leveraged with far too many systemic risks [this section was originally written in 2012 and in 2020, when I edited this section it is still an accurate view of this economic conditions we face]. The success of the European Union's attempts to deal with inherent problems in the Euro structure is far from certain. The government debt burden in Japan, Europe and the USA is far too high[42]. China remains far from being a strong economy. It is huge, fast growing and powerful in some ways, but still fairly fragile and risky in other

[41] https://investing.curiouscatblog.net/2009/01/22/too-much-leverage-killed-mervyns/

[42] https://investing.curiouscatblog.net/2011/05/30/government-debt-as-percent-of-gdp-1998-2010-for-oecd/

ways [China's economy has strengthened from 2012 to 2020].

The failures in the current financial system have not been addressed[43]. Handouts were given to the largest 30 financial institutions in the form of hundreds of billions or trillions in aid. The system was left largely untouched. It is hard to imagine a more apt textbook example of failing to address the causes and just treating the symptoms. This leaves a huge financial risk poised to cause havoc.

However, there are also plenty of positive signs. Company performance continues to be quite strong. Economies have been weak and at risk, but the financial performance of many companies (when ignoring the macro-economic context) hides much of the risk. Long-term investors like Warren Buffett, John Templeton, and Jim Rodgers often speak about the great returns achieved historically in the face of many, many worrying signs.

However, leaders seeking to manage based on sound modern management principles need to consider how the organization will fare if things go as badly as they could. This is more important than it was 10 or 20 years ago, as the risks seem much greater today. Leaders should take actions today to ensure that the company will survive without layoffs if things do get much worse. If the executives and the board are mainly focused on how to optimize gains in reasonably good times, they are not practicing appropriate management, in my opinion.

Related: Honda has Never had Layoffs and has been Profitable Every Year[44]

[43] https://management.curiouscatblog.net/2008/10/10/financial-market-meltdown/

[44] https://management.curiouscatblog.net/2008/11/25/honda-has-never-had-layoffs-and-has-been-profitable-every-year/

Eliminate Demotivation

More than 50 years after Douglas McGregor's classic The Human Side of Enterprise[45], too many managers are still focused on motivation. McGregor's findings support the notion that people want to do a good job. People are intrinsically motivated. Our organizations often demotivate them.

Instead of eliminating the root causes of demotivation, managers seek to treat the symptom and re-motivate with extrinsic rewards. This is an ineffective strategy. Allowing a management system to continually demotivate employees, rather than addressing the issues and removing demotivation factors is a bad strategy. As many people have shown (popularly by Alfie Kohn and Dan Pink), motivation efforts are counter-productive.

There are ways to show appreciation that are not focused on extrinsic motivation. People value contributing to a higher purpose. People want to feel that they are appreciated.

We are naturally social, so we do take into account social factors, both consciously (less frequently) and subconsciously (more frequently) when undertaking actions. Considering psychology is important in managing human systems.

The danger is that many managers think in a theory x way; for example, "I have to motivate these employees because they will not give a good effort if they can get away with it." This attitude needs to change. Don't use "motivation" as a replacement for fixing management performance. Fix the broken system rather than trying to motivate people to put up with it. You don't build enterprise capability by relying on extrinsic motivation.

[45] https://management.curiouscat.net/books/20-Human-Side-of-Enterpriserprise

Related: Stop Demotivating Me![46] - Why Extrinsic Motivation Fails[47]

Practical Ways to Respect People

What matters is not your stated respect for people but your revealed respect for people (what is actually done, not what is said).

- Don't waste people's time: have meetings only when necessary and provide agendas in advance[48]. Use email effectively instead of presenting material in meetings that can better be presented in email. Don't have complex benefit manuals, aimed at making lawyers happy, that you expect employees to use.
- Do what you say you will.
- Provide bad news early (don't hope it will get fixed somehow so you don't have to address it - let people know what is going on and let them help).
- Pay people fairly - I would venture to say most senior executive pay today is inherently disrespectful. If I am wrong about the "most" part, certainly a huge amount executive pay is inherently disrespectful.
- Put the long-term success of all stakeholders as the focus (don't risk people's jobs for bonuses, don't risk the future of the company by using excessive leverage…). Respect all stakeholders and provide them confidence that their long-term success is important. Companies that find themselves

[46] https://management.curiouscatblog.net/2007/08/14/stop-demotivating-me/
[47] https://management.curiouscatblog.net/2006/12/20/why-extrinsic-motivation-fails/
[48] http://management.curiouscatblog.net/2008/07/07/better-meetings/

laying off workers due to management's failure to succeed in long-term are not being respectful to those workers. That failure is most obvious today, but the important improvement is not in handling the current layoffs - it is in changing the behavior that for years before did not build a system that was successful in the long-term.

- Tell people what they can do to improve. It is respectful to help people improve. Treating people like children that needs to be shielded from any hint of criticism is not treating them with respect.
- Don't expect a few people to do far more than their fair share of work because management allows poor performance to continue unaddressed.
- Assist people when they need help.
- Provide encouragement when people try new things. Support risk-taking. Support and build upon people's natural intrinsic motivation.
- Provide the right tools to do the job (don't expect people to work with and overcome outdated machines, poor software applications, or bad management systems).
- Don't treat people how you want to be treated. One specific example: provide work that requires complex thinking protection from interruption (even if your work requires dealing with many interruptions - as much managerial work does).

Chapter Six - Understanding and Using Data

Lake McDonald, Glacier National Park, Montana, USA

Using Data to Improve

Evidence-based management puts the focus on data. People can make great improvements when they take the time to collect and evaluate data. Doing so is a critical aspect of most effectively improving the performance of an organization.

There are problems to be aware of as an enterprise adopts this strategy. An understanding of variation is critical. Without this understanding great harm is done, while pointing at data as the driving factor for change. Data are not a panacea. Used properly, data are a powerful advantage, used improperly they can do great damage.

I don't think there is a shortcut in this area. It takes time to study and learn to appreciate what data are telling you and what they are not. It takes time to build your own knowledge and the capability of the organization. Oversimplification is often a problem early on. People get focused on using data but often less focused on learning how to properly use data.

At the same time, the difficulty is not large. It is mainly a matter of putting in a bit of effort. Without this effort the effectiveness of many of the tools, practices and strategies are greatly limited and often can even backfire.

Appreciation of variation is not complex, but it does challenge the way our minds are wired. We seek to find special causes. We are exceptional at seeing patterns and noting variation from that pattern. An understanding of data often requires accepting less certainty and realizing that what seem to be "exceptional" results are not exceptional but rather are just the expected results given the variation the system contains. It takes time for most people to incorporate this understanding into their world view.

It isn't a matter of learning complex math. There are a few tools that require a bit of math, but that need for math can be nearly completely avoided much of the time (without any significant loss). The challenge is really just in learning to suppress the initial gut reaction to need specific explanations (applying special cause thinking) for data that shows no special

results.

This isn't the same thing as saying we need to accept the results. What it means is that our initial bias toward seeking special explanations for individual data points is not the most effective improvement strategy. Instead, we need to examine the full set of data, learn what that tells us about the system, and then make systemic improvements. Those improvements are adopted after experiments, using the PDSA improvement cycle, provide evidence on what changes are actually improvements.

Outcome and In-Process Measures

An **outcome measure** is used to measure the success of a system. For example, the outcome measure could be the percentage of people who do not get polio (the result). An **output measure**, for example, would be the number of people vaccinated with the polio vaccine (the output). Often we measure inputs (amount of money spent) or outputs (number of people vaccinated). These are usually easy to measure but obviously less valuable proxies for the objective of the system (reducing the incidence of polio).

Both types of measures are important, but outcome measures are most likely to be missing, so special attention to that area is often wise. It is important to define good outcome measures. Outcome measures should reflect the actual success of systems; they are meant to measure results not output or effort.

In-process measures can be valuable in providing actionable information sooner than outcome measures would. In the polio example, an in-process measure example could be percent of vaccination by the time a baby is 18 months old. Looking across a country, it might well make sense to stratify the data to

see if certain geographic areas are doing poorly on this measure (for example: certain states, rural areas, urban areas, certain cities). If so, focusing improvement efforts on these areas may be wise. Waiting until the outcome measure shows failure (people not vaccinated start contracting polio) will likely mean delaying action until years after system processes start to fail, in this example). In-process measures provide early indications of areas to examine.

Waiting for the outcome measure to point to a problem in this case (and in many cases) is far too late for effective process management and process improvement. Therefore, process measures are needed to aid in managing the system and reacting to process results, before those processes create poor outcome measures.

Related: More on outcome measures[49].

Distort the System

As Dr. Brian Joiner said there are 3 ways to improve the figures:

- distort the data
- distort the system
- improve the system

Improving the system is the most difficult.

This is a wonderful point to post up on your wall until it is deeply ingrained in your way of thinking. Any time you are putting new practices in place, consider whether doing so will create incentives to distort the data or distort the system. Distorting the data can be intentional, or it can be largely

[49] http://curiouscat.com/management/outcomemeasures.cfm

wishful thinking (interpreting things favorably to get the desired outcome).

Distorting the system is essentially optimizing one part while sub-optimizing others (in order to meet some desire to improve a figure).

Peter Scholtes, in Total Quality or Performance Appraisal[50], said:

> Distorting the numbers, a form of creative accounting aimed at looking good rather than doing well, is rampant in American business. Given a standard to reduce employee turnover, one vice president of human resources simply changed the formula for calculating turnover. This change reduced the turnover ratio while improving nothing. Distorting the system often occurs because performance appraisal encourages individuals to squeeze or circumvent the system for their short-term individual gain, rather than improve it for collective long-term gain. The sales force pulls out all stops to meet one quarter's sales quota and sales sag in the following quarter.

In a university environment, for example, you can't directly measure an intimate learning environment or interaction with knowledgeable professors who can teach well. You can measure class size. So, if you are seeking to get simple measures you measure class size and hope it relates effectively to the objective of an effective education environment. You canÕt directly measure the benefit of interaction with a professor in a small group on learning to create data to be used in ranking schools. Dr. Deming

[50] http://www.pscholtes.com/articles/total-quality-or-performance-appraisal-choose-one.cfm

discussed the importance of understanding that unknown and unknowable figures: data is extremely helpful but managers also must cope with many instances where data is not available and often the data isn't even possible to obtain (unknowable).

Measuring the percent of faculty with PhDs is an attempt to judge the merit of professors; I think this is substantially less likely to be a useful measure of the value of the education. Data on the number of classes with under 20 students and the percentage of faculty with PhDs can be used as proxies for this idea but I don't think either are particularly good proxies. Being aware of the strengths and weakness of your measures is also important - that should temper how you respond to changes in those measures.

If the proxy measure becomes the focus (as with school rankings), then distorting the system to create better-looking data is a likely result.

The purpose behind the action has a great significance. If an institution wanted to create a better learning environment and it used, say, a cause and effect diagram, to find a group of problems and then determined one appropriate improvement step was to reduce class size (and perhaps another was to reduce the importance of tests and perhaps another was to provide professors training on effective teaching strategies), that would be a sensible path to improving the system. But if the university just aims to keep the average class size number low, in order to help their rankings, the university is not using a very good strategy of improvement.

When people mistake the data proxy for the thing to improve they focus on improving how the data looks, not improving the system. That is the wrong strategy. The correct strategy is to focus on improving the system and to look at measures as a way

of verifying results. However, you must always remember that those measures are not the end - they are an attempt to measure the end you are trying to achieve.

Distorting the figures is the easiest thing to do (you just change a number how hard is that?). Just changing the number is dishonest, and people have an aversion to doing that, but if pressures and fear are high people will do what has to be done. It is also very common to find reasons to distort the figures in the way that will be helpful. Often judgements have to be made regarding what data should be recorded. Finding odd interruptions is often very correlated to interpretation that are helpful to those making the decisions. Good operational definitions reduce the possibility for bad data, unfortunately using operational definitions properly is not a common practice.

History shows over and over again that numbers will be distorted (through outright lies, or people justifying questionable numbers because of the pressure to meet some target). Practices like forced ranking and huge bonuses create systems in which distortion of the system and distortion of the data are preferable to improvement of the system. Those who fail to design systems with this understanding will get predictable results. Those who setup the system will often cast blame when the predictable behaviors such a system leads to create problems. The way to avoid those problems is to design systems more effectively, not to blame people for acting as people will.

Data Can’t Lie

Many people state that data can lie. Obviously data can’t lie.

There are three kinds of lies: Lies, damn lies and statistics -

Mark Twain

Many people don't understand the difference between being manipulated (because they can't understand what the data really says) and the data itself "lying" (which, of course, doesn't even make sense). The same confusion can appear when someone just draws the wrong conclusion from the data that exists (and then blames the data for "lying" instead of blaming themselves for drawing a faulty conclusion).

The data can be wrong (and someone can even be make the data faulty intentionally). Or someone can draw the wrong conclusion from data that are correct. But, in neither case are the data lying. It is also common to believe that data means something other than what they do (therefore leading to a faulty conclusion) but that is a failure to understand the data - not the result of data lying.

Lets look at a very simple example. Someone may believe that if the average height for adults in the USA is 5 feet, 9 inches, that half the people must be taller and half the people must be shorter. They could then draw the conclusion that half of all adults must be shorter than 5 feet 9 inches. But this is not what average height means (it is basically what median means, though if you want to get technical, even that isn't exactly right). They might draw the conclusion that the average height of an adult in California is 5 feet 9 inches, but that is not supported by the data (the data was for the average adult in the whole country, it doesn't necessarily follow the average for any state would be the same). Also, drawing the conclusion that 5 feet 9 inches is the average height of a women is not supported by the data. This simple example hopefully illustrates some obviously faulty reasoning. It is important to understand what data tells us, and what conclusions are not justified based on the data provided.

In a great speech by Marisa Meyer[51] she shares how Google makes decisions using data and how data are apolitical. One benefit of this, she says, is that Google makes decisions based on what the data support - not based on political considerations. The belief that basing decision on what the data support leads to better decisions can seem false to those who accept the quote about the 3 types of lies.

If there is a lack of understanding of data (innumeracy) then people can manipulate the data (chose the data that support their claim, use false data, mislead about what the data really represent) to support their "political" ends. They can also accept faulty conclusions that others claim the data support (either because those presenting the claims to them do not understand what conclusions the data support or because those people are intentionally misleading - knowing they can trick those without an ability to understand data).

Often, people will try to pick certain data that they believe support their conclusion. Even this act of deceit is not a case of the data lying. Often, the missing data is obviously missing (though if people don't know how to think about data they might not notice). This is similar to someone opening one door on the first floor of a house and said "see - here is the only bedroom. I showed that this is true because I opened this door and there is only one bedroom." Just because one door on the first floor leads to a bedroom in no way indicates that the rooms upstairs are not bedrooms. What about the second floor, which was visible from the outside of the house?

Drawing successful conclusions from data often requires noticing obvious flaws in reasoning. It is not sensible to draw

[51] http://management.curiouscatblog.net/2007/08/09/great-marissa-mayer-webcast-on-google-innovation/

the conclusion that showing a bedroom behind one door means there are no more bedrooms. Upon opening the door you could conclude that the house has at least one bedroom.

If all those involved understand how to draw conclusions from data it is not easy to mislead them. They will notice if you try to pick only those data that supports your claim, and they will notice if you failed to see something that the data show. They will also notice if there are obvious gaps in the data that should be shown to support the conclusion you are drawing.

But when both sides do not understand data well they often realize a false claim is being made but cannot understand what is false. Rather than becoming more educated on how to understand data so they can identify the faulty conclusions or false data, they claim statistics lie.

Google is a rare place, where those trying to mislead others by making false claims about data (or by trying to present a faulty picture by manipulating which data are chosen to make a case, or by claiming the data support conclusions they does not…) would have a great deal of difficulty convincing others. When those you address have too much knowledge to miss manipulation, sloppiness with the data itself, and poor conclusions that are not actually supported it is very difficult to mislead them. Building the capability of those in your organization to understand data and resist common traps those without an understanding of data fall into will make your origination more effective.

Strive to get your organization to the point where decisions are based on sound interpretations of the data. Don't let your organization be one where people are afraid of data because they draw the wrong conclusions when presented with data (and can't tell when someone else claims support from data for their

conclusion, but the data actually does not support that claim). One easy way to manipulate data (or get lousy data that leads people to draw false conclusion) is to have sloppy (or even more likely non-existent) operational definitions.

Common and Special Cause Variation

Every system has variation. Common cause variation is the variation due to the current system. Dr. Deming increased his estimate of variation due to the system (common cause variation) to 97% (earlier in his life he cited figures around 80%). Special cause variation is that due to some special assignable cause.

The purpose of separating the classification of variation (as common cause variation or special cause variation) is to guide improvement efforts. Special cause variation should be explored using special cause thinking which is an attempt to discover what is special about that one data point. Time is of the essence in exploring this case as it is much easier to notice what is odd that led to the data point immediately. Trying to remember what was special about some data point 3 months ago, 3 weeks ago or even 3 days ago is harder.

Common cause thinking requires looking at all the results of the system and is not convened with the special situation surrounding one data point.

The control chart (in addition to other things) helps managers to avoid tampering (taking action on common cause variation as though it were a special cause). In order to take action against the results of common cause variation the performance of the system the system itself must be changed. A systemic

improvement approach is needed.

To take action against a special cause, that isolated special cause can be examined. Unfortunately that approach (the one we tend to use almost all the time) is the wrong approach for systemic variation (common cause). Also special cause thinking often results in less improvement. This needn't always be the case, but it is more often that not true. By the nature of the activity in one the focus is on improving the system and the other focused on just one result. A number of management improvement tools attempt to push solutions into solutions that will result in more systemic improvement (5 why analysis is a great example of this thinking).

That doesn't mean it is not possible to improve results by treating all problems as a special event. Examining each failure in isolation is just not as effective as examining the entire system when their is no indication of a special cause for this specific result. Instead, examining the system that produced that result is the best method.

The control chart provides a tool to indicate when a result should be treated as a special or common cause result.

The chart shows what the process is capable of producing and how much variation is in the system now. If you would like to reduce the variation picking the highest data values (within the control limits) and trying to study them to figure out why they are so high is not effective. Instead you should study the whole system and figure out what systemic changes to make.

Related: Understanding Variation by Tom Nolan and Lloyd Provost[52] - Understanding Variation by Don Wheeler[53]

[52] http://www.apiweb.org/UnderstandingVariation.pdf
[53] http://management.curiouscat.net/books/130-Understanding-Variation

Chapter Seven - Customer Focus

Cheetahs in Kenya

Customer Focus

Customer focus is another critical area to address in your management system. The biggest problem is not in getting people to say that customers are important, but in getting the organization to act as if customers matter.

Sadly, even getting the enterprise to take actions that show that the customer is valued is often difficult. Often policies are used as shield against serving customers well. The decision to staff to a level where only the most serious fires can be given any attention is another common barrier to customer focus. Short-term thinking often serves as a barrier to any customer

improvements that will take time to implement.

It is fairly easy to see what an organization thinks of customers when you are a customer. Especially if anything deviates from the companiesâ€™ hope for how a process would play out, and the enterprise needs to react to the deviation. Sadly, most companies fail and donâ€™t have systems in place to learn about how they are failing customers.

I am a huge fan of simple solutions. If there was a cookbook solution such that following these 10 steps would assure that the organization would be managed wonderfully, that would be great. I have seen nothing that even hints that such a hope is sensible. Managing human organizations is difficult. An understanding of the important areas of a successful management system is needed. But what form a management solution should take in any specific organization (and at any specific time) varies a great deal. Managers need to learn, experiment, make judgements, act, and continue to adapt and learn as effectively as they can. There is no simple guide that can provide a recipe on how to manage successfully.

There are a few tools, concepts, and practices that are close to a simple recipe for success. The problem is that while such practices are very powerful (and that such practices will nearly always be wise) applying those practices without a management system that supports such behavior will greatly limit the benefits or may even be harmful.

One of those tools is a simple question to ask all your customers: **What one thing could we do better?** This is extremely powerful. This supports building the capability of the organization because the enterprise is getting constant feedback on what customers would like improved. This practices also helps avoid complacency. Many organizations fall into the trap

of saying they are customer-focused but their actions show that are not. This practice helps avoid that trap of believing that your proclamations matter more than your actions. But without a supporting management system the value of this practice alone is usually limited.

Chapter Eight - Management Tools

Arches National Park, Utah, USA

Management Tools

In this chapter we will discuss useful management tools to use to build enterprise capability.

Tools are meant to be fairly straightforward. How the results of using the tool integrate back into the management system

however often is not. The same tools in different management systems have greatly different capability.

The goal is to build your enterprise to maximize the benefits the tools provide. Many of the tools are useful with most any management system. But the benefits grow tremendously as the various components of the system are straightened.

As the capability to understand and use of data grows the power of tools grows. As extrinsic manipulation of motivation lessons the power of using tools grows. As people believe they are respected there belief will greatly increase the benefits of their interaction with the tools. As people learn which tools are most powerful in which situation the results again improve.

The degree to which this multiplier effect takes effect depends on the tool (some are much less dependent than others), the individuals involved, the complexity of the issues, and the state of the management system in the organization.

So you can take these tools and use them. But to gain the real power they offer you need to focus on building the capacity of the enterprise by strengthening the management system continually.

Chapter Nine - Ideas for Managers

Sunset, Khao Lak, Thailand

Ideas for Managers

This chapter includes short thoughts on useful ideas. This handful of ideas are those that I see applicable over and over. I find myself thinking of these ideas as issues are discussed. Often, actually, because it seems to me we failed to build the understanding in the organization that allowed us to integrate these ideas into our thinking. Therefore we kept ignoring this knowledge at our peril.

The ideas are all fairly simple. And they provide a good target for building the capability of the organization. One of my goals is to grow the understanding in the organization so these ideas are considered by everyone and they stop being things that keep needing to be addressed either:

1. when we are discussing a possible plan
2. finding that we failed because, for example, we forgot that revealed preference is much more meaningful than stated preference.

For that reason I target these as things to have learned as we make progress. Training the the ideas is fine, and wise, but not extremely helpful in really getting them appreciated.

To get the ideas appreciated:

1. point out how these ideas impact your predication, when making predictions
2. when the ideas helped make predictions successful, make that point again when the results are being studied.
3. when problems are found, and a failure to appreciate these ideas is one of the reasons, bring that up

Do that and pretty soon everyone will be considering the relative weakness of stated preference in comparison to revealed preference. And they will appreciate the need to test stated preferences to reduce risk.

Chapter Ten - Ideas to Inspire

North Cascades National Park, Washington, USA

Ideas for Inspire

This chapter includes short thoughts on various ideas that managers may take inspiration from. Many of these ideas won't work in your system. Their purpose is to provide some sparks to aid in thinking creatively. Are there ways to adapt the principle behind

a particular idea to your system?