

A CORPORATE CULTURE OF FREEDOM: CENTRAL PLANNING DOESN'T WORK IN BUSINESS EITHER

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WHAT THIS PAPER IS ABOUT

First let me point out that if I was in any way a professional management guru, I would be earning heaps of money on the lucrative business lecture circuit. The views expressed here are a product of what I have seen and experienced and also take into account some of the thinking behind contemporary management theory. Something that has become increasingly clear to me is that the culture of an organisation can have an enormous influence on its ability to meet the objectives of its management.

WHAT DO WE MEAN BY CORPORATE CULTURE?

Different people have wildly different views of what constitutes a culture. How many aspects of life must be taken into account? Which ones? In order to decide what bearing culture has on the competitiveness of a company, we must first define what a culture actually is. For our purposes, a suitable definition might be that culture is the attitudes, values and working environment to which employees of a company are exposed.

Let me also establish a distinction between those factors that are internal to a company and hence may be subject to management's control, and those which are external to a company, over which managers may have little or no control. The former category may include rates of pay offered by the company, internal communications and team work-

ing. The latter covers such items as prevailing social ideas, governmental interference and market rates of pay.

THE NEED FOR A CORPORATE CULTURE

There must be many managers in the commercial sector who consider themselves to have some sort of philosophy of life. There is probably a much smaller number who consistently put that philosophy into practice in the way they manage their businesses. Yet the gains from doing so explicitly can be significant, provided it is the right philosophy. Such a philosophy will have a sustained effect on the policies and attitudes formed throughout the company. Different companies in the same industries sometimes produce wildly different financial results. Although it is not the only factor involved, a good culture helps to create a climate where the business can succeed.

A company exists for largely economic reasons. Individuals who participate in it do so because the reward for doing so is greater, or the effort required is less, than working for themselves. The cost of organising is justified by the gain from the division of labour.

When individuals get together to start a company, the aim is to make money, but what really makes a company succeed is a shared sense of values and objectives. The smooth running of day to day operations needs more than the hope of eventual profits. If people working for a business have no

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idea what their objectives are, their efforts will be undirected and a great deal of effort will be wasted by people doing things which people elsewhere in the company are busy undoing. If the members of a company hold a shared understanding of what they aim to achieve and how they are to relate to each other at work, then they will be able to take decisions which are in line with that understanding and this will further the objectives of the business. If any employee does not accept those objectives or values, the great thing about a free economy is that they don't have to put up with them. They are free to look for an employer who shares their own values, or even to set up in business by themselves.

The company in which I work has recently invested heavily in a culture change program to empower employees, encourage people to take risks and 'step outside their paradigm'. The results have been astounding. Some totally 'unreasonable' targets have been hit — new product lead times have been slashed; employee satisfaction has improved significantly; some unhappy customers have been so impressed with our improvement that they have not only kept their existing business with us — they have expanded it!

WHAT SORT OF CULTURE?

Even once it is accepted that some sort of culture needs to be stated explicitly and put into practice, there could be books written about what that culture should be.¹ I will discuss some of the things that go to make up a culture and offer some ideas about the sort of culture that would benefit a business.

WHAT STRUCTURE OF ORGANISATION?

The nature of power relationships in an organisation can be based on either co-operation or command.

A command-based organisation is typified *in extremis* by a militaristic structure with an organisational chart which looks like a pyramid. Every employee knows their place in the hierarchy, gives orders which must be obeyed to those below him and takes orders from the person above, and so on up to the top of the pyramid. This is similar to the centralised structure of the command economy. In *Management Fleas and Leadership Flies*,² David Cox refers to the megalomaniac-sycophant bond which develops over time in this sort of organisation. The book is a story about fleas in a large company, the 'flea circus'. It draws upon the fact that if you put a flea in a box it will try to jump around and will keep colliding with the sides of the box until it works out where it is safe to jump. After this it will continue to jump around inside this 'comfort zone', even when the box is removed. People in organisations have their own comfort zones in which they feel secure. Cox writes:

The disease of megalomania takes hold over time when management fleas continually punish subordinate fleas (i.e. keep knocking them back into their boxes) who question their ideas and instructions, to the point where the challenges cease: the belief that one is always right — megalomania — being the result.

The same process in reverse produces sycophancy: after being subjected to pain for long enough every time one voices an opinion, subordinate fleas retreat

into their comfort zones, cease to challenge ever again, and always do as they are told.³

As with fleas, so with people.

Tom Peters says:

A jillion smart, energetic people submitting to the right incentives won't get you a micrometer closer to the customer unless the dead weight of a vertical hierarchy is lifted.⁴

An example of co-operation-based organisation is a fan club. Members join because they identify with the purpose of the club and each contributes to that purpose in their own way. The organisation can often appear confusing to the outsider, as each member is pursuing their own course of action independently of others, while joining forces when it makes sense to do so. On a larger scale, the free market is a co-operation-based organisation.

However much they disagree on other issues there is pretty unanimous agreement amongst Conservatives, economic liberals and libertarians that the free⁵ market is an essential part of the sort of society they wish to live in. Most companies, often managed by people who hold such views, steer a course part way between the two extremes of co-operation and command. But, as discussed earlier, why not apply the principles of your philosophy to the culture of your company? The sort of bureaucratic command structure which has been so disastrous when applied to entire economies should, in theory, also be unsuitable for running a large corporation. Tom Peters expresses it like this:

Most of us are Adam Smith's children until we get to the front door of our own business, when we become devoted advocates of centralised planning.⁶

OWNERSHIP

One destructive trait that is visible in many organisations, even some highly successful ones, is for people to avoid taking responsibility for things when they go wrong. Instead, they look for someone else to blame. This may be justified, but it doesn't stop failures happening. It just leads to a climate where people delay admitting to problems, and they do not get fixed. People also have an incentive not to take any risks and hence do not innovate as much as they would.

The key to neutralising this cultural problem is to be found in realising that blame is a substitute for individual responsibility. A bureaucratic command system discourages people from taking responsibility for issues. When people are 'only obeying orders', they are safe. They did what they were told and if things went wrong it was 'someone else's fault'.

We can draw another parallel here. Responsibility for, or 'ownership' of issues is very like the concept of private property, and spreading 'ownership' within an organisation has a very beneficial effect. Issues which arise within a business need to be solved by someone. When they are effectively public property, the chances are no-one will do anything about them. When an individual accepts ownership of an issue, there is a possibility of action. Giving employees the power to make more of the choices in how they are to reach objectives is the way to persuade them to take responsibility.

Tom Peters gives an example of ownership making a crucial difference to the business of Bethlehem Steel. The company decided to keep employees informed as to how the business was doing, to the extent that it started to send ordinary line operators on customer visits.

For line operators here, the priority for years was to churn out so many tons of steel each hour with quality a secondary concern. But that changed for Tony DeLuca, a mill worker, during a recent trip to a client. "A foreman there said, 'You guys at Sparrows Point are garbage rollers,' and that really hit my pride," he says. Other steelworkers recall how they were jolted after seeing defects in Bethlehem sheet steel show up in their customers' products.⁷

The other aspect to countering the blame culture is to recognise that no-one is infallible and everyone makes mistakes from time to time. (See later.)

My company takes ownership so seriously that probably the largest IT project in progress at the moment is designed to assign ownership of every customer's requests to a named individual.

THE RATIONAL RULE BOOK

Businesses have rules. Whether they are explicit, as in Equal Opportunities policies, No Smoking notices in the rest room, hours of work or implicit: "Do what your boss tells you, or else!", "Don't ask questions!", rules give people an incentive to behave in particular ways.

One example of the way the rules under which an organisation operates has a great impact on the delivery of its stated objectives can be found in the operation of government agencies. What distinguishes a business from Government is that while a company grows as a result of satisfying its customers, Government usually grows quicker as a result of its failure to deliver. Business units which suffer cost overruns and which fail to give the customers what they want are in danger of being closed down or cut back. Government departments which do the same thing are given bigger budgets to avoid embarrassing headlines. There is a great incentive to those in the agency not to deliver within existing budgets since that would weaken their case for more funding.

Every business has to make rules, but the way that new rules are conveyed to the workforce can have a great effect on the relationship between employer and employee.

Here, we can draw another lesson from the libertarian approach to the economy. Well-intentioned regulations can be a bad thing. Within a corporation, unnecessary or arbitrary rules can strangle initiative.

Tom Peters (yes, him again⁸) identified the problem:

Suppose you have a dozen facilities. There's a fire in one of them. You put together a SWAT team of your best people to analyze why it occurred. They do a super job (you can depend on it — after all, they're your best and brightest). They come up with a 35 page report, concluding with 42 recommendations about what to do to avoid the problem in the future. The recommendations are without exception solid and sound. As a responsible leader, you want to make sure that everyone can take advantage of this wisdom, so

you pass it along, in the form of hard-and-fast rules, to all of your twelve facilities. Great (so far). And then a major computer failure occurs in another location six weeks later. Another bright and aggressive SWAT team is instantly mounted. Another 30 page (more likely 300 page) report and another 26 (or 86) recommendations. Again, all sound. Again, everyone should have the opportunity to take advantage of this wisdom. Again, 26 "recommendations" are added to the rule book. At the end of five, or ten, or, heaven help us, seventy years, the Sarah Cliftons of the world are trying to work according to 950 page rule books. That's when we get into trouble.⁹

Directives which may have had valid justification when they were issued may no longer be needed. However, if they were not explained to begin with, the chances are, people may continue to obey them unquestioningly. They foster a "More than my job's worth" attitude because anyone with a good idea is likely to be frustrated by the sheer effort required to change rules which no-one knows the reason for, and hence cannot challenge. People feel safer staying within the confines of what they know. It usually takes a real management effort, and a bonfire of regulations, to persuade employees to step outside of a cosy routine.

Explaining decisions is something that is often missed when the style of management is dictatorial. A militaristic model of authority demands obedience without reason, but this can often mean people go along with decisions without any enthusiasm and contribute far from 100 per cent. Dee Hock, the former chairman of the Visa organisation, puts it this way:

Substituting rules for judgement starts a self-defeating cycle, since judgement can only be developed by using it. You end up with an army of people who live by rote rather than reason, and where reason cannot be depended on.¹⁰

Treating employees as intelligent human beings takes more effort, but it is worth it.

POSITIVE SELF INTEREST AS A BUSINESS DYNAMIC

Motivated employees produce more.

You employ people for their skills, knowledge and perceptiveness. If you don't use these advantages your business will deserve to be beaten. Presumably most of them can walk on their hind legs and talk. Some of them may even choose to think. Employers have to learn to treat their staff as intelligent human beings. If you think the people you employ are not intelligent, it does not say much for your recruitment policy.

Employees must have a belief that success will be rewarded.

Some academics, mostly left-wing sociologists, who have looked at business organisations, have decided that the most successful companies are those where employees have developed a mysterious self-sacrificing loyalty to their company. They often point to the Japanese as the supreme example of this type of company. Ouchi¹¹ refers to the use of rice as a staple food and points out that in order to bring in the rice harvest, traditionally several peasant families have to collectivise their efforts and work together. He

extrapolates this to claim a deep-seated collectivist tradition in Japan and attributes Japanese success to the existence of this tradition.

The underlying idea behind the claim that a collectivist culture is good for business is that people do better for their companies if they forsake their own interests in favour of a 'greater good', and participate in a culture of altruism.

Ayn Rand, in her novel *Atlas Shrugged*,¹² gives many examples of what happens when businesses are run on altruistic principles, but the most glaring example given is that of The Twentieth Century Motor Company. New owners inherited the business and decided they would run it for the sake of the workers. Each worker was paid according to his needs, and expected to work according to his abilities. As a former employee of the company later told Dagny Taggart,

We began to hide whatever ability we had, to slow down and watch like hawks that we never worked any faster or better than the next fellow. The one accusation we feared was to be suspected of ability. Ability was like a mortgage on you that you could never pay off.¹³

After a time, no one dared show any signs of ability, or produce more than the bare minimum demanded of them. Unsurprisingly, the business soon failed.

Real-life examples are to be found right across Eastern Europe.

NO ONE IS EQUAL AND SOME ARE LESS EQUAL THAN OTHERS

Treating people as the individuals they undoubtedly are has its implication for pay and conditions, too. Collective bargaining removes from individuals much of the incentive for them to perform well. If the results of their efforts are not recognised, who will not settle back into mediocrity? Individual contracts, arrived at by bargaining between the employee and the manager are far preferable to an inflexible grading system although there are disadvantages with this system too. One problem often pointed out is that some managers may have an irrational reason for favouring one employee over another. This is certainly possible, but this drawback can be overcome by training managers for their human resources responsibilities, by setting out objective performance standards that everyone understands and by putting in place an appeals procedure to ensure that appraisals are carried out within the constraints of the company's culture.

FAILURE CAN BE WELCOMED

One theme that arises time and time again in contemporary management literature is that failure is often a sign of effort. People make mistakes. In fact, the innovator who comes up with the ground-breaking products and ideas has usually produced more than his fair share of foul-ups. Tom Peters refers to one company which embraces failures in its company philosophy:

Our favourite is from a small, very successful computer peripherals company, brought to our attention by our colleague Jim Kouzes. One of just a half-dozen points in their formal written philosophy is this: "We tell our people to make at least ten mistakes a day. If

you are not making ten mistakes a day, you are not trying hard enough."¹⁴

Failure is a result of taking risks and an essential part of the learning process. Quite often there is a reluctance to admit to failure because of the fear that there will be punishment. In some cases, only the courage to face the fact that the way you tried something did not work, gives you the opportunity to take a new direction that will lead to success. If it might work, and it will not cost you too much, why not try a prototype or pilot? Johnsonville Foods CEO, Ralph Stayer says the key to his success is:

"Anything worth doing is worth doing poorly!"¹⁵

CONCLUSION

Again and again, we see parallels between the culture inside successful companies and the political culture of free economies. From leadership which gives clear signals about its broad direction, to giving the individual more freedom in meeting objectives, these themes occur and re-occur. Contemporary management theory is full of them. The creativity of the individual can only be released when people are not spending the majority of their time following orders that have been handed down from on high. The more individualistic the culture inside a company, the greater the incentive people have to develop their skills.

NOTES

1. And there have been many of them!
2. David L. Cox, *Management Fleas and Leadership Flies*, Tresises, Burton-on-Trent and Derby, 1993.
3. *Management Fleas and Leadership Flies*, p. 27.
4. Tom Peters, *Liberation Management*, Macmillan, London, 1992, p. 131.
5. 'Free-ish' markets in some cases, I must admit. However, the common aspect to all these viewpoints is the belief that central control of an economy is not as efficient as decentralising economic choices. From 'Conservative' I exclude the Tory Paternalist tradition, which has always supported substantial state interference in individuals' economic choices.
6. *Liberation Management*, p. 14.
7. Tom Peters and Nancy Austin, *A Passion for Excellence*, Collins, London, 1985, p. 227.
8. I quote Tom Peters rather a lot for two reasons. Firstly, I have read quite a few of his books and they are very good, being stuffed full of examples taken from real-life companies. The other reason is that, as Mr Peters explains in *Liberation Management*, his ideas on how companies should be run have undergone something of a revolution since he began working in the field. Originally tending towards the belief that everything could be achieved if managers put the right plan in place, he started reading the works of F. A. Hayek and in *Liberation Management* he devotes an entire section to explaining how markets produce totally unexpected and beneficial outcomes which could not have been planned for. In essence, in *Liberation Management* he drew many of the conclusions that I came up with independently when writing this paper. He wrote the book that I wish I had written. This explains why Tom Peters is a wealthy and successful management expert and why I am not.
9. *A Passion for Excellence*, p. 249.
10. *A Passion for Excellence*, p. 250.
11. William G. Ouchi, *Theory Z: How American Business Can Meet the Japanese Challenge*, Addison-Wesley, Reading, Massachusetts, 1981.
12. Ayn Rand, *Atlas Shrugged*, New American Library, New York, 1957.
13. *Atlas Shrugged*, p. 161.
14. *A Passion for Excellence*, p. 180.
15. Quoted in *Liberation Management*, p. 15.