

A TEAL DOCTRINE OF QUALITY

The case of Teal self-organization

Andrzej Jacek Blikle

Advance consists in the few convincing the many. New views must appear somewhere before they can become majority views.

— Friedrich August von Hayek
The Constitution of Liberty

Warsaw, November 16th, 2020



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Awards given to the 1st Polish edition

In May 2015, the book took first place in the category "The best economic guide" in the Economicus 2015 competition organized by "Dziennik Gazeta Prawna".

In June 2016, the book received the award of the Collegium of Business Administration of the Warsaw School of Economics "for the best work in the field of enterprise sciences in the years 2014-2015".

To my wife Małgorzata,

To thank her for her understanding of my spiritual absences in the course of writing this book, for her support in moments of doubt, and for the inspiration that proved so helpful.

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Acknowledgments to the 1st Polish edition

The first digital versions of my book were written between 1996 and 2013, while I served as Chairman of the Board of the family company A. Blikle (1990-2010), and later the chairman and vice-chairman of the Supervisory Board of this company. I also gave my lectures and visited dozens of companies teaching the basics of Total Quality Management. I held numerous meetings with business coaches, first as their pupil, and then as a colleague and partner.

My first TQM teacher was Jim Murray, who came to Poland in the first half of the 1990s as a quality management specialist. I met him thanks to Jadwiga Płodowska (who at that time was the head of the sales department in our company), for which I am very grateful to her. At the beginning of our journey to TQM we were also taught by the late Professor Leszek Wasilewski, the late Professor Stefan Kwiatkowski and Helmut Gläser. To all of my early TQM teachers, I would like to express my warmest thanks here.

I have never learned quality management in an academic way. From the very beginning, it was connected with the implementation of this method and philosophy in the everyday life of our company, which was not easy at all. The multitude of changes in TQM's understanding of the world has always given rise (and still does) to defensive and sometimes even aggressive reactions. During this period, I received extremely valuable support from the company's employees, in particular from (in alphabetical order): Agnieszka Bylicka, Robert Główka, Elżbieta Kochańska, and Renata Smardzewska-Lasota. A special place in this group was also occupied by my beloved ones – my wife Małgorzata and my son Lukas – with whom I had endless discussions about the meanders of TQM implementation.

In 2007 the manuscript of my book was so advanced that I made it available in the public domain, thus gaining a circle of active readers, including, among others Professor Marek Kosewski to whom I would like to express my gratitude for introducing me to the new perspective of the theory of motivation and for his countless substantive remarks. I also express my gratitude to Professor Jacek Koronacki, to whom I owe my knowledge of statistical processes and Shewhart's control cards and who has read the sections devoted to them, offering many valuable remarks. I would also like to mention here Zbigniew Bujak, whose two appearances at my seminars were so impressive that I asked for his permission to include his texts *in extenso* in my book.

Dorota and Jacek Jakubowski played a special role in the development of the second version of *A Teal Doctrine of Quality*, but – above all – in the revision of my methods of implementing TQM. Their cooperation was vital when we worked together on creating the Quality Trail program in 2014. The three of us have then decided to promote the catchphrase “Work with a sense of purpose”. Dorota has also carefully read those parts of the first version of my book which relate to the issues in the domain of psychology and contributed dozens of very important remarks.

Separate thanks should go to all my readers who sent in their comments, and particularly to Stanisław Budkowski, Piotr Chrzastowski-Wachtel, Oktawian Nowak and Paweł Sawicki for tirelessly submitting editorial and substantive amendments.

I cannot fail to mention the numerous comments made by the participants of my lectures and workshops, made either during or immediately after the meetings. In addition to the remarks that repeatedly allowed me to enrich the content of the book, they also provided me with a significant number of life examples that I placed in the book in the form of frames. At this point I would especially like to thank Robert Kozak, with whom I often had the pleasure of conducting my lectures.

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Acknowledgments to the 2nd Polish edition

My special thanks go to Dorota and Jacek Jakubowski for their valuable comments to the second edition. This applies, among other things, to the method of the *Quality Trail* proposed jointly by us.

I would also like to thank Ewa Teleżyńska, Paweł Sawicki, and Piotr Chrzastowski-Wachtel for their numerous comments, which improved the final text of the book. I also owe my gratitude to Alicja Wejner for her comments.

Finally, let me thank Teresa Zielińska for her enormous commitment to the process of editing and revising the book and for the pleasant cooperation in the course of getting the book ready for publication.

Prologue

How my book was written

First Edition: towards effective management

When I took over the management of my family confectionery company A. Blikle in 1990¹, knowledge about managing companies in market economy conditions was difficult to access in Poland. The publishing market offered few items, and it was not easy to find people with experience in this field. After all, who could have had any real market experience during half a century of communist rule in Poland? Fortunately, after a few years I found myself on an excellent MBA course at the French Institute of Management in Warsaw. As it was too expensive to send all my managers to it, I decided to repeat the lectures I had listened to myself. I assumed that since at that time I was an academic teacher with over thirty years of experience, I should use this fact in running a company. I even coined a new term “management by teaching”. I bought an overhead projector and in a basement storage room under the confectionery in Nowy Świat, I started a training course as part of – what I called – the Company Academy of Management.

All of us (including myself) needed the lectures at the Academy very much, but the material covered was somewhat traditional. This changed dramatically when I met Jim Murray in 1996 and, thanks to his encouragement, I took part for the first time in the annual conference of the no longer existing The British Deming Association devoted to the Total Quality Management (TQM). I was enormously impressed with everything I learnt there and immediately decided to start implementing TQM in my family business. In order to expand my knowledge, I read an excellent book by Brian Joiner *Fourth Generation Management* [42] (which I got from Jim) and modelled my first lecture on TQM after it, for which the materials included not only a presentation but also a text. And although I didn't know about it at that time, this is how I began to write my book. And this also how – without knowing about it either – I started a series of seminars with the participation of invited contributors, which later developed into my TQM tutorials (free admission, information at <http://moznainaczej.com.pl/konwersatorium>).

Initially, I made the book available only to my employees, later also to a small group of friends, and finally, in 2007, I decided to place it in the public domain, i.e. on the Internet. My decision was based on a belief that quality management presents a great opportunity for Polish companies, for it allows to significantly increase the quality and efficiency of work in every company without incurring serious financial outlays. Attending the conferences of the E. Deming Society helped me realize that sharing the knowledge of TQM with other companies was an element of ethos of companies managed according to TQM principles. I am grateful for this knowledge to White Rose Lane, an excellent and very nice tourist company from York.

Thanks to the decision, which at the time I considered extremely bold, and which today I consider extremely fortunate, I gained a large circle of readers, without giving up the opportunity to continue working on the book. Since then, it has already had a dozen or so online editions, each one accounting for dozens of lesser or more important comments sent in by the readers. It has also been thoroughly revised twice by professional technical editors.

¹ The company was established in 1869 at Nowy Świat Street in Warsaw by Antoni Kazimierz Blikle and since then it ceased to operate only during the 1944 Warsaw Uprising and shortly afterwards.

I drew materials for my book from many sources, the most important of which, in my opinion, include:

1. Sixteen years of experience in implementing TQM in my family business.
2. Meetings with eminent TQM specialists.
3. My interviews with a social psychologist Professor Marek Kosewski.
4. My cooperation with business psychologists Dorota and Jacek (“Jac”) Jakubowski, with whom we established the *Quality Trail* program (see www.moznainaczej.com.pl and www.tropemjakosci.pl).
5. Participation in conferences organized between 1996 and 1999 by The British Deming Association.
6. An internship in a Japanese center run by The Association for Overseas Technical Scholarship, which I completed in 2000 and during which I held many interesting interviews with Professor Jacek Koronacki.
7. Rich literature on the subject, now comprising more than 80 books (see Literature).
8. Discussions with students at my academic lectures, MBA and DBA courses, and seminars
9. Letters written to me by students and readers.
10. The training and implementations courses run by me and commissioned by various companies, state institutions and non-governmental organizations.

Second Teal edition: towards Teal self-organization

Since the publication of the first printed edition of the *Doctrine of Quality* (May 2014), I have met many new people, held many important interviews, visited more companies and organizations, and read several important books. These experiences have enhanced my knowledge of the models and principles of people organizing themselves to perform tasks as a team.

The most important book I read after the publication of the *Doctrine of Quality* was undoubtedly *Reinventing organizations* by Frederic Laloux [52]. Although the idea of self-organizing organization, which Laloux calls a Teal organization, was basically well known to me – in the first edition of the *Doctrine of Quality* it corresponds to process management based on dignity motivations – Laloux’s very convincing description of its philosophical foundations made me cry with delight. And it delighted not only me. Since the publication of the Polish edition of that book at the end of 2015, I have met more and more people impressed by the ideas described in the book. I have also seen companies whose founders and associates made Teal management their lifestyle, without even knowing Laloux’s book. They made a simple assumption that human beings work the best when they are free, fulfilled, and convinced that they are carrying out an important mission. In such an environment, they fulfill their natural need for innovation, creativity, and building self-esteem in the most effective way.

While Laloux writes very convincingly about the Teal model of management, he devotes relatively little time to the issue of how to reach such a model. The task is particularly difficult when the Teal organization is not built from scratch – as in some of the case studies he describes, such as Morning Star (section 2.4.1) and Buurtzorg (section 2.4.2) – but when we need to transform an organization based on a hierarchical management structure and the paradigm of command and control. In such organizations, it is certainly not enough to explain to people how things should be. Instead, it is necessary to convince them, or rather to guide them to a situation

in which they themselves will reach for the style of self-organization. As you might expect, this is not an easy task. It is not easy, because the implementation of the Teal model means the introduction of a profound civilizational transformation of the organization, as well as an emotional transformation of each of its members. This is achieved through a series of coaching and communication workshops where people learn to talk to each other in an open, empathic and assertive way. I began to explore this knowledge and skill through many workshops conducted together with Jacek Jakubowski (known among friends and students as Jac), his wife Dorota, and their daughter Sonia. We called the path of implementation of ideas contained in my *Doctrine of Quality* the method of *Quality Trail*².

Teal organizations owe their effectiveness to the release of human creativity through the creation of a space of partnership, trust and responsibility. It is a natural way that leads to the emergence of initiatives that improve the structure of the organization and work performance. However, one can go a step further by equipping a Teal organization with a range of tools and methods related to Total Quality Management, known and practiced in many organizations for decades and described in many books, including the first edition of the *Doctrine of Quality*. I am deeply convinced that Teal civilization offers an excellent foundation for building a culture of knowledge and quality management, because all the failures known to me when introducing these methods did not originate in their technical or organizational complexity, but in the deficiencies of social adaptation of the organization to the new model of teamwork.

Therefore, in the second edition of the *Doctrine of Quality* I decided to combine three complementary threads:

- the philosophy of Teal organizations;
- the methods of quality improvement described in the previous version of my book;
- the *Quality Trail* method as an implementation path for both of these paradigms.

² Dorota and Jacek Jakubowski run together an organization called TROP, which is an acronym for the name of their method in Polish – Trening Rozwoju Organizacji Przyszłości (Eng. Development Training of Future Organizations).

Who is my book for?

As I explained earlier, the first edition of my book was addressed mainly to managers who want to improve the work quality and efficiency of their teams. I defined the word “team” in broad terms. It could be a brigade of workers, a department of some company, as well as the entire company. It could be a team of employees of a self-government organization or a state institution. It could be a military subunit headed by a corporal, a regiment, a brigade, or the entire army. In each and every situation, however, it was a team with a leader, who decides who should do what and when.

Although I tried to emphasize that the role of the contemporary leader is not to control, but to support, my narration was still dominated by the *superior – charge* paradigm. Although it was no longer a *superior – subordinate* relation, which is based on coercive domination, the domination and asymmetry of roles – though based on partnership and support – remained unchanged. In the first edition, I also described a process organizational model which, together with the previously recommended principles of partnership, largely corresponds to the Teal model; nevertheless, the first edition of the *Doctrine of Quality* was basically addressed to leaders.

In the first edition, I also emphasized very strongly that the most important factor in improving the quality and effectiveness of work is to offer the employees a sense that work gives meaning to their lives, that they may develop thanks to it, and that they work in an atmosphere of partnership and trust. In the second edition of the book – hence also in the English edition – this relation is reversed. What used to be the **way** to achieve the goal, i.e. satisfaction and joy from work, I now treat as a **goal** in itself – in fact, the main goal. On the other hand, the effective work of an organization, satisfying the needs of all its stakeholders (including profit in business organizations), and creating a friendly social environment are the ways to achieve this goal. In order to follow this path, we need tools, such as good communication, dignified motivations, a network structure, and methods of quality improvement.

The second edition of the book is addressed both to leaders in traditional hierarchical organizations and to all employees of future or current Teal organizations, in which there are no managers in the traditional sense of the word, but there are leaders of ideas and knowledge, who act as mentors, trainers, and moderators³, and all of them, in addition to the duties associated with these functions, most often also perform “ordinary” operational tasks – they produce, sell, bookkeep, work on development strategies, etc.

The road to a Teal world is not an easy one and must not be pursued hastily. However, it is worth pursuing, even if the Teal world is not our goal for the time being, because every step taken along this path builds a better organization, in which work offers more satisfaction, teaches responsibility, partnership, and trust, and creates conditions for personal development. The fact that thanks to this, we achieve higher efficiency – which in the case of companies translates into higher profits – is only a side effect, which allows us to be more effective in carrying out the main goal: being useful and thus fulfilled.

My book is addressed to all people who would like to shape their work environment both from the position of a leader and a rank-and-file employee. After all, in the Teal world, the notion of a rank-and-file employee becomes obsolete. All of them are specialists in their

³ A mentor is a wise person to whom we can refer to ask for advice. A trainer is, above all, a person who is able to teach – most often with the use of workshop methods. The role of the moderator is to help the group in holding a discussion. The moderator makes sure that everyone can have a say, that two or more people do not speak at the same time, and that there are no aggressive outbursts.

professional fields, but regardless of that, they may also be leaders of ideas, trainers, mentors, and moderators.

The ideas presented in the book are applicable in both economic and non-profit organizations. In government, self-government, and non-governmental institutions. In the army, police forces, health care, and education. And so, basically, in any form of teamwork, where people combine their efforts to achieve common goals.

In the book, I try to give as many examples from life as possible. It so happens that their source is usually large business organizations, because mainly such examples can be found in the literature. This, however, should not be a basis to assume that the applicability of the described method is limited to such organizations. It can be applied to both a company with several people and one employing tens of thousands of employees.⁴ Needless to say, in small organizations the implementation is simpler and cheaper than in the larger ones.

⁴ The book by D. Petersen and J. Hillkirk [63] is entirely devoted to the description of such an application in the 1990s in the Ford concern. These are highly informative memories of former CEO Donald Petersen concerning his longstanding partnership with Edwards Deming. At that time, Ford employed 370,000 people.

How to read my book

Since the first edition of my book appeared in print in May 2014, I have heard from many readers that they are overpowered by its size. Therefore, I have decided to offer some suggestions as to how to read the *Doctrine of Quality* in smaller chunks, without reaching out for the entire text, as well as how it can be read by those who are not interested in the management of formalized organizations, but only want to learn about the universal aspects of human cooperation. I have often heard remarks that my book – although I wrote it with the professional context in mind – contains content that can also be used in private life.

In the *Doctrine of Quality* it is possible to separate several layers, which are recommended to be read by different groups of readers, depending on their individual interests:

1. The **basic layer** covers the entire part I *Introduction*, sections 3.1 to 3.4 of part II *Building Relationships*, and sections 6 to 9 of part III *Building Motivations*. I recommend this layer to readers who are not particularly interested in aspects related to management, or only want to get acquainted with the ideas presented in the book.
2. The **Teal layer** consists of part I, II, III, and VII in their entirety. I recommend it to readers who create or co-create small Teal organizations, or only intend to try to do so.
3. The **Teal TQM layer** includes the *Teal layer* extended by parts IV and V. I recommend it to those who intend to implement quality management in their organizations. I also strongly advise against restricting oneself to the reading and implementation of only part IV. Attempts to implement TQM tools without proper social preparation are usually limited to the creation of a *book of procedures*, which after some time inevitably lands on the shelf.
4. The **full layer** is, of course, the entire book. It covers the previously neglected part VI *Process Tools*. This is the most technical part of the book (and, I'm also afraid, quite tedious), which I included to support the organizations that intend to implement a process model of teamwork coordination and knowledge and quality management.

I would also suggest that all readers refer to the literature cited in the book in order to deepen their knowledge in those areas which are of particular interest to them or which are of particular importance to their organizations. In order to make the selection easier, I have placed the *Bibliographic Guidelines* at the end of the book.

What's in the book

The arrangement of the material in the first edition of the book corresponded roughly to the historical path to quality management, which I pursued between 1997 and 2010. First I learned the technical principles of TQM, then I acquired the knowledge of leadership, then the communicative skills, and finally the process model and statistical process control.

However, when I resigned from being the Chairman of the Board in December 2010, I started to conduct more trainings and implementations in other companies and organizations, which fundamentally changed my perspective. Meetings with Teal organizations completed the rest. And so, I decided to rearrange the material in my book in such a way that its sequence designated a certain educational path both for the organizations that want to transform from traditional to Teal, and for those that are created in Teal.

Part I – Introduction

This part introduces the reader to the world of Teal ideas from both a social and a business perspective. Mind that in the Teal world, the division into “social” and “business” is to a large extent blurred. It turns out that the realization of social values is the shortest way to economic effectiveness, and, on the other hand, in order to carry out the social mission from one's own work and not from government subsidies, it is necessary to develop appropriate means, and thus to achieve economic effectiveness.

In part I, I have listed examples of organizations that can be treated as Teal models, although each of them differs from the others, just like one turquoise differs from another. In this case, I have followed the path recommended in modern education, where we first show the task – in this case, creating a Teal organization – and only later we present the knowledge and tools necessary to complete it.

Part II – Building relationships

Building a task team, or, more broadly, a task community, requires first of all forming positive relations between individual human beings. We build these relations mainly in communication situations, when we convey not only some content, but also emotions. That's why we can build so much with good communication or spoil so much with bad one.

In this part, I also discuss the issue of fear of telling the truth about our working conditions. Teal organizations should in principle be free from this problem, but for many hierarchical organizations it poses a very serious obstacle to their effectiveness and development. The section ends with material on emotional intelligence, an area of our personality that allows us to create positive relationships with people.

Part III – Building motivation

The most harmful myths in modern management practice find their place in misguided leadership, including the so-called motivation systems. Although the knowledge of the subject has been quite extensive for more than half a century, its awareness is often at the lowest possible level – I don't know that I don't know. This translates into a common belief that people are lazy and dishonest by nature (besides us, of course), so you need to drive them to work with a carrot and stick (everyone except for us, of course), and at work you need to discipline and control them. This is the style of management that I call violent.

Part III abounds in numerous examples of negative effects of violent behaviors, but also contains specific indications on how to replace violence and control with partnership and self-responsibility. In particular, I discuss the method of financial management without budgets treated as contracts.

This part also includes the basic principles of process management, because it is a model in which a superior stops giving operational orders and becomes a leader of ideas and a mentor.

Part IV – The road to quality

As I said earlier, all the examples of unsuccessful implementation of total quality management (TQM) known to me came from the belief that such implementations can be limited to “staff training” in procedures and tools. While TQM’s founding father Edwards Deming has consistently emphasized the importance of building the foundation of partnership and trust, many managers are tempted to limit the implementation to what is the easiest, namely the tools. And the fact that such an approach turns out to be ineffective, they blame on what they believe to be a well-known fact, namely that “people are what they are”.

Therefore, I decided to talk about quality management only after I had presented the reader with the principles of good communication and effective building of positive motivations.

In this part, I have included basic knowledge of the principles and tools of TQM, which also includes organizing quality incubators. The latter constitute a “superior form” of quality circles known from literature and practice.

Part V – Understanding the voice of the random process

If, when playing dice, we score 1 point three times in a row, we probably won’t ask about the cause of such an event. We understand that we are dealing with a random process, so the question about the cause of the event is pointless. However, if we have low sales for the third month in a row, we start to believe that there must be some reason for this. In fact, it’s half the problem if we do look for the cause. It is much worse when we start looking for a guilty person. The former leads to an unnecessary loss of manpower and resources, while the latter – to deep human demotivation.

And yet, the sales process is to a large extent a random one, so the question about the reason for drops or growths may just be as unfounded as in the case of a game of dice. However, the sales process can also be disturbed by external factors, and in this case, the question “What happened?” does actually make sense. The thing is to distinguish between a random situation, in which the cause does not exist, from a non-random situation, when the cause is worth looking for. This requires some general knowledge of random processes and a specialized knowledge of the Shewhart control chart method. And this is what the reader will find in Part V.

Part VI – Process tools

The implementation of process management in a specific organization requires the creation of a *book of standards*, which will include detailed descriptions of all processes, as well as many procedures, instructions, and regulations. This is a very technical layer of process knowledge, so I have decided to separate it from the “ideological” layer, the description of which I have placed in the part devoted to leadership.

Part VII – Managing the flow of information

Information flow management is an inherent activity of every biological organism, as well as of every community, be it human or animal. The related knowledge is very extensive today, so I don't even make an attempt to outline it. However, I show a few examples of this phenomenon, which may prove to be inspiring for the reader.

“Quality doctrine” on the Internet

When the Polish version of my book was released for print in January 2014, I agreed with the publisher Helion that a “living version” of the book would still be available free of charge in PDF format on my website. This agreement was also extended over the second edition. Because of this – for which I would like to express once again my heartfelt thanks to the Helion publishing house – it is possible to continue to make the Polish version of the *Doctrine of Quality* available free of charge on the Internet. I also continue to encourage my readers to send suggestions regarding both the substance and the layout of the material, to indicate which parts of the text are unclear or need to be presented more elaborately. Please, keep writing to me at: andrzej.blikle@moznainaczej.com.pl, and I will take your comments into account in the next digital versions of my book, just as I have done so far. Maybe in the future, a new printed version will be created as a result.

I would like to hear especially from those who decided to put the knowledge contained in my book into practice. I meet more and more of such people these days, and so I would like to be able to write about what they have succeeded at, as well as about what proved to be a particularly difficult challenge.

I would like to invite all Polish speaking readers to visit my website at www.moznainaczej.com.pl, where the current electronic version of the book can be downloaded in PDF format, along with presentations of my lectures (in Polish) in the same format. The website also features descriptions of training courses and implementation workshops that I offer, as well as information about seminars conducted by me since 1997, to which admission is free. You are all very welcome to visit the website.

Part I: INTRODUCTION

1 Social determinants of work

1.1 Objectives of a business organization

Capitalism was invented by the Soviets to make socialism better.

Stanisław Tym

In 1989 we woke up to capitalism. After years of Soviet socialism, we have finally broken free from being told that we work for the good of ..., for building ..., for the accomplishment and transgression of ... Finally, we could openly say to ourselves and others that creating profit – and nothing else – is the driving force behind any business organization.

The view that profit maximization is the goal of every company is historically connected with the era of early capitalism, although even by then many entrepreneurs had believed that the company's reputation and honesty towards customers and employees may be at least as important as profit⁵. In fact, whether or not profit is the objective of a given business organization is a matter of sovereign choice for its owners (shareholders), rather than a law of economics. Let's take a look at what happens to each company's revenue. Well, in fact, it is allocated to cover various types of remuneration. In every economic cycle, a typical company has to reward:

- suppliers of raw materials, products, energy and services,
- labor suppliers (employees),
- treasury and related state organizations,
- temporary capital providers (e.g. banks),
- providers of fixed capital (owners).

Remuneration of fixed capital suppliers, i.e. owners, is precisely what we call profit. Profit is, therefore, one of the costs of running a business! One, I must add, out of many. And so the question is whether its maximization must always be put before the board of directors as the main objective to be achieved? It is certainly not a universal law of economics, as evidenced by numerous examples of companies aiming for other goals.

If the company is owned by an international holding company that wants to transfer profits to a lower taxing country, it will maximize the remuneration of suppliers from another company it owns. If the company is an employee-owned business, the owners may be interested in maximizing remuneration for work. If a company has been acquired on the stock exchange in order to quickly increase its value and sell it, the objective set for the management will probably be to increase its profit as quickly as possible. The problem is that if it is an absolute condition and, in addition, provides the management with a high bonus, the increase in profit will most likely be achieved through predatory exploitation of the company – lack of investment in the renewal of the material base and new products, deterioration in quality, worse remuneration and working conditions of employees, as well as the so-called creative bookkeeping⁶. A

⁵ This view has been shared, among others, by subsequent owners of A. Blikle and E. Wedel companies already in the 19th century (source: generational accounts passed within the family), as well as Henry Ford (section 13.14).

⁶ This is precisely what happened in the Enron Corporation scandal described by the media worldwide.

company managed in this way may be capable of achieving a spectacular increase in profit in a short period of time, only to lose its value again after its acquisition by the new owner. Another pathological goal required from the management board may be to reduce the company's value by minimizing profit so that someone can buy it cheaply.

The various goals of the company owners described here are not uncommon, but they are not the rule either. There are companies for which a long-term presence on the market and bringing benefits to all of their stakeholders, i.e. the five groups of suppliers plus the society, are a priority. Such goals are set by, among others, multi-generational family businesses, as well as companies whose significant shareholdings belong to trust and pension funds, and for which a fair return in the long term is much more important than high returns in the short term. More and more managers also understand that the longevity of the company and its socially useful goals are a very important element that builds the image of the company not only in the eyes of its customers, but also employees and shareholders. In the long run, companies pursuing such a mission are more competitive than their "flash-in-the-pan" meteor sisters. Many such companies have been described in Stephen Young's book *Moral Capitalism* [83]. Another important contribution to this issue is Paul Herman's book [37], in which the author shows how honesty towards the employee, the customer, the society, and the natural environment translates into stock market success.

There are more and more companies I hear proclaiming that profit is for them a means to realize their mission and vision, rather than an end in itself. These companies are committed to creating a friendly working environment and a friendly product, as well as being socially useful and respecting the planet. These are their main objectives. Moreover, one may hear from some companies that they have always understood their mission in this way, but were reluctant to talk about it when faced with a charge that it wasn't professional.

The realization of noble missions and visions is obviously not possible without constantly satisfying the needs of all stakeholders, including the owners. And so, even if profit is not a goal, it does not cease to be a necessity, without which the company cannot survive⁷. It is a necessity similar to paying salaries to employees, fees to suppliers, and taxes to the state. In this respect, an economic organism can be compared to a biological organism which, in order to live, must eat, drink, breathe, and move in a balanced way. A violation of the proportions between these activities shortens the organism's life time. Whoever eats in order to live can live a long and happy life. He who lives in order to eat lives shorter. There is nothing bad or good about it. It is only a matter of choice.

There is another analogy between the worlds of economy and biology. Some companies are like mushrooms, others are like trees. Mushroom companies grow fast and sometimes quickly produce high profits, but their lifespan is short. More than half of the companies on the list of the largest corporations published by Forbes magazine disappear within 20 years. These are companies where the management and supervisory boards have short terms of office and very high profit-related bonuses. The strategic perspectives of such organisms are, therefore, limited by an exceptionally strong pressure to achieve a quick result and the principle of "après nous, le déluge" (after us, let there be a flood). Tree companies, on the other hand, have a perspective of dozens of years and even longer. Such companies understand the need to invest in a long-term reputation by gaining the trust of all stakeholders – customers, suppliers, employees and the society. This is how Akio Toyoda, president of Toyota, expressed this thought in 2010:

⁷ One should also bear in mind that a profit not only provides a remuneration of the owners, but is also a resource necessary for the development of the company.

I realized that sometimes our people were mixing objectives and means. Toyota's goal is to serve the society by producing cars. The means to achieve this goal is to increase the sales so that we have the resources for further investments. But if sales and profit obscure this ultimate goal, we will go astray.

It is to companies that understand their role in the above way that my book is addressed.

1.2 Knowledge society

At the turn of the 20th century, public opinion became fascinated with the figures of great owners: the Rothschilds, the Fords, the Poznańskis. Later, some intellectual circles of Western Europe developed a fascination with Soviet state capitalism, i.e. communism. In reality, communism or its more civilized form – socialism – is not an alternative to capitalism, but only its most ineffective variety. A variety in which the market is dominated by one capitalist – the state.

In order to examine the logic behind such seemingly controversial thesis, let us follow the four phases of development of the world's economic systems, all of which derive from feudalism and which were convincingly described in Peter Drucker's *The Post-Capitalist Society*.⁸ Let us begin with feudalism.

According to Drucker, feudalism was born out of two inventions: the stirrup and the water wheel. The former resulted in the formation of the knightly class, i.e. soldiers fighting on horseback. The water wheel, and later the windmill, allowed for the first time to replace the muscle strength with the forces of nature. From the economic point of view, feudalism may be described as a system in which the main actors are the owners of the means of production: feudalists and craftsmen.

A phenomenon typical of feudalism is the lack of a market for means of production, as they usually passed from father to son by inheritance. It is also characteristic for the feudal period that the fields of knowledge which we would call technical today were not available within the open system of education. Knowledge domains available at public schools (medieval universities) would include mathematics, grammar, music, medicine, rhetoric. Knowledge related to the craft trades, such as blacksmithing, bricklaying, cooperage, milling, etc., would remain secret and was closely guarded by the professional organizations established for this purpose – the guilds.

Drucker considers the establishment in 1747 of the world's first Polytechnic School – the French *École nationale des ponts et chaussées* in Paris – to be a breakthrough event that would change this status quo. Since then, technical sciences have ceased to be reserved for a narrow group of students. Their development resulted in a rapid increase in the supply of means of production, which led to the emergence of a market for tools and workshops. The means of production no longer had to be inherited – they could be purchased. The economic initiative has thus passed from the hands of the owners of these resources into the hands of the owners of the capital. This marked the onset of natural selection of companies. The better ones began to push the inferior ones out of the market. Capitalism was born, marking the beginning of a second period in the world's economic history. Dissemination and development of technical

⁸ Peter F. Drucker – an outstanding methodologist and practitioner of quality management. He was an advisor to the largest business corporations. In the mid-1990s, he devoted the entire lecture broadcast over satellite TV and addressed to managers from countries of former Yugoslavia (which I had the pleasure of watching) to a model of business in which the primary resource is knowledge, while the manager's principal task is to shape the relations and attitudes among the employees.

knowledge resulted in the emergence of key inventions of the era of early capitalism – steam engine and electricity.

In the early years of capitalism, the organization of production had a nesting character. Each product, e.g. a shotgun or a carriage, was made entirely by one or a small group of workers. There was no standardization – each part of the final product was individually matched to the others. This resulted in inefficient production and high cost of products. Furthermore, low productivity meant that despite the high price of the product, the worker who produced it earned very little. The demand for industrial products was limited to a narrow circle of affluent people and state institutions, such as the army. It led to a situation in which a small circle of rich people became even richer, while a large number of poor people grew poorer and poorer. The majority of economists at the end of the 19th century believed that if this status quo was preserved, there would inevitably be a social outburst. And indeed, soon local unrest would spread throughout Europe. The circles of economists began to develop two extremely different concepts of preventing a disaster: Marx's concept of a "fair" distribution of produced goods and Taylor's concept of increasing work efficiency.

Frederick Winslow Taylor (1856 – 1915), an American engineer and economist, creator of one of the first systems of work organization, put forward the following principles of manufacturing work:

- Each complex production operation should be broken down into simple operations.
- Each simple operation should be described very precisely, and the description should be consulted with the contractor (!) of this operation.
- After the description of all simple operations, the order in which they are performed needs to be determined.
- One employee performs one operation; accuracy is valued the most, and any deviation from the imposed procedures is severely punished.
- The employee's position in the hierarchy of production process management is determined by technical knowledge.

Taylor believed that an employee's performance can only be improved through training and that with a properly organized training, the learning time can be reduced from a few years to a few weeks. The effects of the Taylorian productivity revolution have exceeded the expectations. Since the introduction of Taylor's methods, productivity in developed countries would double on average every 18 years to reach a 50-fold increase in the 1990s ([18], p. 34). This has led to an increase in salaries in employee positions and a multiplication of the purchasing power of the employee class. As a result, many of the products previously considered luxurious became available to a wide range of purchasers. A notable example of this was Henry Ford's introduction of the popular Ford T at the price of \$750 in 1907.

Part of the productivity growth was absorbed by increased consumption, while more than a third was used to increase leisure time. In 1910, the time spent at work was similar to that at the beginnings of production activity, i.e. approx. 3000 hours per year. In the 1990s, the Japanese worked 2000 hours a year, Americans – 1850 hours, and Germans – not more than 1600 hours.

Increasing the national product made it possible to redistribute part of it for social purposes. The world saw the emergence of insurance and general education. The American society experienced a far-reaching equalization of access to many consumer goods, such as housing, cars, energy, education, and travel. The Taylorian revolution is also credited with the victorious participation of the United States in World War II. As it turned out, Hitler did not view the USA as a potential opponent, because he knew that it lacked two industries needed to conduct

military operations in the European war theatre. The first one was the shipbuilding industry, necessary for the creation of a fleet capable of moving and supplying armies away from their home ground. The other one was the optical industry, necessary to manufacture rifle scopes and binoculars, among other things. Thanks to Taylor's (and Deming's, which we shall discuss later) methodology, both industries were successfully developed in an unexpectedly short period of time.

The return of American soldiers to their homeland after World War II sparked another global economic revolution – the revolution in the *knowledge economy*. When the war ended, the American government announced⁹ that any veteran returning to their homeland can be admitted free of charge to a university of their choice. It was a gesture towards those who, far away from home, were prepared to wage war on the evil empire, as well as probably the best investment ever made by a US government, as it laid the foundations for today's economic and military power of the United States. Several years after the proclamation of the educational privilege for World War II veterans an unprecedented number of well-educated professionals appeared on the labor market, which resulted in a rapid increase in the competitiveness of businesses and drew the attention of managers to the knowledge of employees as one of the most important resources of the company. This, in turn, led to the managers becoming responsible not only for production, but also for taking advantage of and building up the company's knowledge base. The knowledge lectured at universities now also included the ability to manage, which until then could only be obtained by “learning from the master”.

In the book cited above, Peter Drucker writes that in the economies of developed countries, managerial positions were vacated by great owners, giving way to great specialists, who were experts in management, rather than technology. Power in stock exchange corporations passed from the hands of people who **owned** into the hands of people who **knew**. The latter also became the focus of public interest.¹⁰

A very significant example of this phenomenon is provided by the history of IBM, which owes its powerful status to two hired (!) managers: Thomas Watson, Senior and his son, Thomas Watson, Junior, none of whom held more than a few percent of the company's shares. During the Second World War, IBM supplied the American army with counting machines which used punched cards and served the entire logistics of the army. After the war, the company repurchased these machines very cheaply and made them available for free to American companies, which only had to pay for performing the calculations.¹¹ As a result, the company quickly and almost effortlessly created a huge market of future computer users. Introducing “real” computers was just a matter of time and an almost purely technical measure. While for European companies, computerization led to an organizational revolution, for American companies it boiled down to the modernization of the already existing technology.

Besides the knowledge economy, the second factor contributing to the transfer of power from business owners to specialists was the increase in the number of companies listed on the stock market. This was accompanied by a regularity, in which the larger the organization, the more dispersed, diverse and nameless was the group of its owners. When Drucker's book was

⁹ This was the so called *US GI Bill of Rights*.

¹⁰ The situation is slightly different in family businesses, i.e. those in which the family either manages the company itself or has a significant influence on the choice of authorities. In those companies, which in all developed economies of the world constitute the majority of all businesses (in Poland, they account for 78% of all companies), the management usually remains in the hands of the owners, who usually have sufficient knowledge to manage their businesses. It is also characteristic that they often win over non-family businesses because they are able to build work ethos based on dignified values among their employees.

¹¹ Each machine was equipped with a counter and the user paid a fraction of a cent for each operation performed.

published, more than half of the shares of American listed companies belonged to trust and pension funds, i.e. organizations managing very large amounts of money on behalf of millions of very small investors. These funds are – as Drucker calls them – capitalists without capital.

A society in which knowledge determines an individual's professional and social position was defined by Drucker as *a knowledge society*, which provided a model in which he saw a formation that would replace – or rather had already replaced – capitalism. In a knowledge society, every employee brings to the company an important element of his or her work environment in the form of his or her knowledge. This part of the work environment is often much more valuable than the material component provided by the employer, and this part of the work environment is taken by the employees with them when they change their jobs. A natural balance of strength is thus created between the employee and the employer. The employee no longer needs trade unions to protect his or her interests. Their interests are protected by the labor market, so employees with a high level of knowledge, who operate on a free labor market, do not form such unions.¹²

In view of the widespread and virtually unlimited availability on the market of all the traditional resources necessary for running a business — material resources, human resources, information, and capital — the only resource that cannot be purchased in a ready-made form is corporate knowledge, which is a synergistic effect of combining the knowledge and skills of all its employees. According to Peter M. Senge of the Massachusetts Institute of Technology in the USA:

The only sustainable competitive advantage is an organization's ability to learn faster than the competition.

The concept of a knowledge enterprise, i.e. a business organization viewing knowledge as a resource to be managed and multiplied, has existed in management theory and practice for several years now (section 12.2).

Many societies in the developed part of the world are already approaching the model described above. Our (i.e. Polish) society is getting closer, too, although currently we're a little further away from the goal than others. It should be emphasized, however, that this distance is constantly decreasing.

1.3 Civic entrepreneurship

Contrary to what might appear at first glance, civic entrepreneurship is not citizen-driven entrepreneurship, but rather 'citizenship' practiced by businesses.

It has been a somehow established belief that in socialism, as well as in early (and, therefore, also current Polish) capitalism in every country there are three more or less mutually conflicting social entities: citizens, businesses, and the state. Another established belief is that companies are inherently aggressive – after all, their only objective is profit (section 1.1) – and so they exploit society, either exploiting employees, or customers. In this situation, the state must function as a watchdog to ensure that entrepreneurs do not contribute to the biological extermination of the society, plunder the country, or sell it piece by piece to strangers.

¹² A group of employees with a high level of knowledge, who, however, in Poland and many European countries do not operate on the free labor market, includes doctors and nurses. Hence their frequent strikes and demands of higher wages. On the other hand, has anyone ever heard of strikes by bankers, economists, IT specialists or lawyers?

It is not uncommon for the state to be assisted by trade unions, although sometimes this relationship is reversed. Both entities desire to make companies subordinate to them, which is to ensure the proper implementation of the so-called social justice program. The state also has political parties to help, which, similar to the trade unions, basically act in the interests of citizens, albeit in their own way. Some are accommodating with the state, especially when they are in power, others are less so.

And what about the citizens? The citizens have become accustomed to the idea that the role of the state is to take care of them, so when they, the citizens, lack something, they take to the streets, give petitions or burn tires, or announce a hunger strike, depending on the temperament of the organizers.

This is the way it is in Poland, which is going through a stage of early capitalism based on the model from the 1920s. In other countries, especially the more developed ones, the situation is different. Citizens and businesses increasingly take the initiative in their own hands and more and more often search the cooperation of the so-called non-governmental organizations, without looking to the state for help, because an empowered society wants to decide for itself on the distribution of the resources it has developed for social purposes. Here are two examples.

In 1995, the money spent on social purposes by the American society, i.e. the money spent outside the state budget, reached 143.8 billion (yes, billion!) dollars. Of this amount, 116.2 billion dollars was spent by the citizens, 7.4 billion dollars by companies, 10.4 billion dollars by foundations, and 9.8 billion dollars came from charitable bequests for social purposes. When Americans need something, such as a state university or municipal library, they often organize a whip-round and build it themselves without waiting for the state to do it for them. Let us not forget, however, that the role of the American state is not insignificant here. While the state usually contributes nothing, it does not take anything away either! The American whip-round is possible thanks to the relatively liberal tax system in the USA.

Another example, this time from the UK. In 1965, when the Labour Party had about 800,000 members, the Royal Society for the Protection of Birds was established with the initial membership of several dozen thousands of subjects of the British crown. In 1992, the Labour Party had about 350,000 members, while the membership of the society exceeded 800,000.

What do these examples testify to? They show that in developed, educated societies, citizens prefer to count on themselves rather than on the state. Nowhere does the state perform efficiently either as an entrepreneur (investor) or as a manager. The state also has less and less funds to be allocated to general social purposes, as more and more of its budget is spent on fixed commitments. Under John Fitzgerald Kennedy's presidency, 70% of the US federal budget was used to finance social projects, including infrastructure (roads), the judiciary, and the army. In 2003, it was only about 30%. The rest was spent on pensions, medical assistance, and servicing the internal debt.

So who should take care of local social problems? Of course, it should be the citizens, businesses and non-governmental organizations, such as the Polish Humanitarian Action, the Red Cross, the Royal Society for the Protection of Birds or more and more numerous associations of family businesses.¹³ Everyone has their own role to perform here. Everyone should feel a full-fledged, but also a fully responsible (!) member of a civil society.

¹³ In developed economies of the world, the number of family businesses exceeds 60% of all companies, and in Poland there are as many as 78% of them (Polish Agency for Enterprise Development data), not counting farmsteads. Since the beginning of the 19th century, there has been a clear increase in the interest in these companies: institutes have been set up to study family businesses as a social and economic phenomenon, MBA management

The company as a citizen? But yes! A company may, and should, fulfill its civic duty, its very numerous civic duties.

Corporate social activity can take many forms. The most beneficial of these are the ones which, in addition to achieving the primary objective, contribute to the development of civic attitudes and create active local communities.

Let's imagine that in a small town, where company X operates, a committee for the construction of a new school has been established. The easiest way would be for the company to give the money to the committee. However, this is the least socially useful method, as it does not stimulate additional initiatives, does not involve social energy, and does not create added value. It is much better to proceed as follows.

The company announces a collection of money among its employees and local suppliers, many of whom would like to send their children to the new school, declaring at the same time that it will contribute some part (e.g. equal to the collected amount), as well as provide tools and equipment free of charge. It also calls on volunteers to declare their work, while it offers organizational assistance to the Committee and indicates the sources from which the project may be financed.

Such an initiative activates and educates the local society in that it is worthwhile and actually quite possible to take things into their own hands. It also builds positive, friendly relationships between the members of the community. A small homeland, like those mentioned by Budrewicz¹⁴, is being created – a small local community of people who are kind and sympathetic to one another (and others), who know their abilities and their strength, and are ready for many more initiatives.

In this example, the benefits of building a school go far beyond the construction of a building with a team of teachers. The school becomes the center surrounded by local social communities – the most important components of a civil society. The company gains a reputation for being needed and community-friendly, which will undoubtedly have an impact on the attitude towards it by both its customers and its own employees.

Larger companies can, of course, reach for larger initiatives. Some time ago, Procter & Gamble announced in Italy, where it controlled at that time 27% of the laundry detergent market, a collection of money for the construction of a hospital in Ethiopia. Each customer who sent 1,000 liras to the company together with an insert taken out of the purchased packaging was guaranteed that the company would add another 1,000 liras for the collection. The collection was announced by means of a rather intensive and, therefore, expensive television campaign. The results exceeded all expectations. Contributions were sent by 170 thousand consumers, which increased the company's sales by 7%. One consumer sent an average of 10,000 liras, i.e. 10 times more than expected. As a result of that, together with the declared participation of the company, an amount of 1.8 million dollars was raised, for which 5 hospitals and 15 health clinics were built and served as many as 100 thousand people.

There have already been many such initiatives in the world and their number is growing in Poland as well. In order for them to emerge and develop, it is necessary to involve citizens, companies, NGOs, as well as the state and local administration. People representing these groups should be ready to give something from themselves for social purposes. According to

courses have been launched for family businesses (also in Poland), and associations of family businesses have been set up and are growing in number. In Poland, the Family Business Initiative association was established in 2008. More on this issue can be found at www.firmyrodzinne.pl.

¹⁴ Olgierd Budrewicz, *Warszawskie male ojczyzny*, Iskry, Warszawa 1985.

Peter Drucker ([18] and [19]), every other adult living in America – more than 80 million in total – works as a volunteer, devoting on average five hours a week to work in one or more social organizations. In this way, volunteers carry out the work of 10 million full-time employees. If this work was to be paid for, it would take 5% of US GDP to cover this cost. It offers a tremendous potential without which today's America would not exist.

In Poland, the situation is not as good as that, yet, although there are already quite a few NGOs, some of which are branches of international organizations. We may list, among others, Polish Red Cross, Rotary Clubs, Polish Women's Council, Family Covenant, Lyons Clubs, Knights of Malta, Polish Humanitarian Action, Great Orchestra of Christmas Charity, Family Business Initiative, or National Children's Fund. These organizations aim to create benefits that do not benefit themselves. Virtually all of them act to fulfill the Rotarian catchphrase: "Service above self". These organizations have no difficulty finding volunteers to work. Paradoxically, the situation in social organizations established to protect (even the best understood) interests of some professional group or industry is much worse. They find it much harder to find volunteers to work for them. The board of directors is elected and from then on members expect the Board to do all the work. However, the Board is not equal to the state which builds roads with taxpayers' money. The role of the Board is only to support the work of the members. Unfortunately, in many organizations this principle only works on paper. Naturally, there are exceptions to that rule.

Poles do have a tradition, but lack a habit of social work at grassroots level. There is a lack of sufficiently numerous and resilient non-governmental organizations, as well as the awareness that companies are also members of civil society. However, it is necessary to be patient and do not despair over things not being perfect yet. Everything will come along with the progressing education of the society.

In the near future, it is companies, not states that will become the principal initiators of changes in the global society. Both large companies – by virtue of their strength, and small companies – by virtue of their number.

In order to realize the size of the large ones, it is enough to recall that only 26 countries of the world (out of more than 120) have a gross national product greater than General Motors' annual income (158 billion dollars). On the other hand, to realize the number of small companies, let's just say that in Poland alone there are about 1.77 million of them¹⁵, which constitutes 99.8% of all companies registered in Poland¹⁶. It is worth mentioning here that the disproportion between the numbers of small and large companies is very similar worldwide.

In the world, and especially in the USA, there is also a growing tendency for companies to "humanize". The level of humanization of companies is measured by the HIP (Human Impact + Profit) index, which takes into account the company's contribution to the development of man (employee and customer), the society, and the natural environment. The company is assessed according to five parameters: health (physical and mental), wealth (increase in profits and accumulation of resources), the Earth (CO₂ emission, recycling), equality (gender and ethnicity), and trust (transparency, openness, reliability and ethics). In his inspiring book [37], Paul Herman, the creator of the HIP index, presents statistical evidence that the HIP index is clearly correlated with the company's revenues and profits and its stock market value. He also shows,

¹⁵ *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2013 – 2014*, PARP.

¹⁶ Quoted after a paper by Grażyna Stefańska, *Sektor MSP a gospodarka polska*, „Gazeta Finansowa”, www.gazetafinansowa24.pl.

among other things, that companies considered by employees to be the best employers have a profit growth on stock exchanges six times higher than the market average.

The civic attitude of companies to the social environment in which they operate will, therefore, be of fundamental importance for the development of the world. We must be aware of this both as employers and as employees. Let us be aware of this as citizens.

At this point, it is also worth quoting the thought of Adam Smith [71], the founder of modern economics, as well as the idea of economic freedom. He believed that the duties of the State should be limited to the following three areas:

1. Defending the society from internal (police) and external (army) violence and injustice.
2. Protection of the society against injustice or oppression (courts).
3. Erecting and maintaining public institutions and public works (e.g. roads and bridges) which could not be erected and maintained by individuals or small groups of individuals.

1.4 Live and work with a sense of purpose

According to a wise saying a truly rich man is the one who enjoys what he has and a truly happy man is the one who enjoys what he is.

Everyone wants to be happy and most people have an opportunity to be so, although not everyone knows how to take advantage of this opportunity. Some people do not know which path to follow, others seem to know the direction, but their goal appears unattainable. Those people are bitter and they blame the world around them for the lack of success.

The phenomenon of happiness has already been studied by ancient philosophers and what they have left us is still valid today, because happiness is built within oneself (today we would say: in one's neurons).

Ancient thinkers distinguished two types of happiness: *hedonistic* and *eudemonistic* happiness, today called *gratification* happiness. The former is experienced in the course of activities that give us joy, while the latter – as a result of activities that contribute to building our self-esteem and dignity.

Hedonistic happiness is most often associated with the consumption of goods. Good wine and fresh figs consumed in an olive grove provided ancient people with hedonistic happiness. Today, it is no different, though the range of consumer goods has grown enormously. It is so wide that it offers us an inexhaustible resource, which we will never be able to consume ultimately. For some, this means that the source of hedonistic happiness will never be exhausted, for others – that ultimate happiness (I have everything) cannot be achieved.

The hedonistic happiness is not something bad and every person deserves it, though it is ephemeral. It is usually concurrent with the consumption that invokes it. We enjoy the wine and figs when we consume them, we enjoy a new car a little longer, but not for life. The hedonistic happiness lasts while we consume its source or, so to speak, while we annihilate this source. In addition, it is a source external to us, which means that in order to make use of it, we must have access to it.

Gratification happiness is different. We achieve it by creating its source, which satisfies us for a very long time, often throughout our lives. We do not look for it outside, either, but we build it within ourselves. When we acquire knowledge and skills, we build self-esteem. When we create lasting benefits for others, we build a sense of self-dignity, a feeling that we have a

reason to be proud of ourselves. A teacher creates this happiness by educating his pupils, a doctor – by restoring health to his patients, an entrepreneur – by creating a company that brings lasting benefits to all its stakeholders: customers, employees, suppliers, the state, society and the owners. Every behavior that benefits others strengthens our source of happiness, every behavior that destroys something good destroys this source. Unfortunately, not everyone is aware of this and not always. Some people do not understand that their chosen path to happiness in fact leads them astray from their goal.

So where should we look for opportunities to build up the sources of our inner happiness and how can we create these sources? There is a Buddhist parable about someone asking a wise man where the road that leads to heaven is. “You’re standing on it” – is the answer. Fine, but which way to go?

The most important advice in this regard is: let us build positive, empathic, trust-based relationships with the people who surround us. Is it always possible? Can we build such relationships with everyone? Should we build such relationships with everyone? Are we capable of doing so? Probably not with everyone and not always, but this does not mean “never” or “with no one”. In fact, this is possible more often than it would seem. One only needs to understand how important it is and know how to get down to it.

A study by the Gallup Institute [8] has shown that success in life depends to a great degree on the so-called *emotional intelligence* measured by the ability to build positive relations with people than on *rational intelligence* measured by the so-called *intelligence quotient* (IQ). The results of the study lead to a very important conclusion: by building positive relationships with people, we increase our chances for not only creating internal sources of happiness, but also for achieving consumer happiness. Unfortunately, we often do a lot, not infrequently with the help of others, to deprive ourselves of these opportunities.

If our personal life is guided by the principle that no one should be believed, that dominance is the most effective strategy, that people are basically evil, lazy, and dishonest, then our chances of achieving happiness are minimal. However, we can change this way of thinking because our attitudes depend entirely on us.

The situation is much worse when the working environment forces us to behave in a way that makes it difficult to build good relations with others. This happens, for example, when we take part in a competition which – even in the most noble form – always makes us desire to defeat our competitors, rather than support them. The same thing happens when a company introduces a system of “financial motivators” to inveigle us or even force us to act unethically. This does not have to mean that the customers are being openly robbed. It is enough to fail to fully inform them about the known defects of the product or such features of the product that the customers do not need, even though they have to pay for them. This is also the case when we systematically fail to meet our obligations towards employees, suppliers or owners of the company. This happens when our company pollutes the earth, water and air or destroys the social environment, e.g. by promoting unethical behavioral patterns.

Although we are not always able to remedy such situations, I will again risk a thesis that we can do so more often than we think. And we do not always have to give up toxic work immediately; instead, we can try to change it, starting with ourselves. In the times of communism in Poland, Jacek Fedorowicz proclaimed that he was eliminating socialism¹⁷ within five meters around him. Today, on a similar basis, we can eliminate conformism, lack of trust,

¹⁷ In the times of the People's Republic of Poland (1945-1989) the word “socialism” for most Poles was a synonym for communism which, in turn, was irresistibly linked with the Soviet occupation of our country.

competitiveness and dishonesty in order to introduce trustfulness, responsibility, partnership and cooperation in their place.

This, by all means, is not easy. In small teams – though it's not a rule – our good example may suffice, but in large organizations with a high level of infection with toxic management, we will have to seek the help of specialists and the treatment process may take years. However, it will always pay off, because in this way we will eliminate most of the costs of waste, such as time spent on disputes and personnel policies, product defects resulting in their replacement or market loss, careless work, fake sick leaves, frequent delays and many others. If people come to work with the feeling that they can build the source of their happiness here, they work reliably and efficiently, make fewer mistakes, share their knowledge and experience, do not compete with each other, but are cooperative, loyal to the company and care about its prospective development. In such context, they also feel that their work and their lives make sense.

Many people will ask the question: “How can such an idyllic state be accomplished and is it possible at all? Is it possible with us, in Poland, in our industry, in our company?” I have heard this question many times and my answer is firm: “Yes, it is possible in every country, every industry, and every company”. There are dozens of thousands of cases providing evidence for this. It is not easy, though, as it is in no way similar to the introduction of a new technology or a new quality standard, such as the ISO. Eliminating toxic behavior from a company and highlighting its strengths is a challenging social, but often also civilizational transformation. We need to change the way we look at people, modify management and communication structures, get rid of many false beliefs, for example, that competition inspires and quality has to be paid for. And this is what my book is about.

Let me end this section with one important remark. If we want to build a partnership, let us not talk about partnership, but let us behave like a partner. If we want to build trust, let us not talk about trust, but show it. If we want to have high profits, let's not talk about them, but about the expectations of the customer and the employee. Nor should we complain that all of this is idealism or utopia that we cannot afford, because on a purely financial level this “utopian idealism” brings the best possible return on investment. This is evidenced by the Gallup Institute's research, which covered tens of thousands of companies (section 6.6), as well as the results associated with the American stock exchange index HIP (section 9.12), and “Teal companies”, examples of which are presented in section 2.4, and hundreds of thousands of prosperous companies that have actually implemented this “idealism”.

1.5 B Corps — people using business as a force of good

I often wonder to what extent business can help society in its goals to alleviate poverty, preserve ecosystems, and build strong communities and institutions...B Lab has proven that there is a way.

Madeleine Albright
Former U.S. Secretary of State

In a book published in 2012 under the significant title *The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and the Public*¹⁸, its author Lynn Stout,

¹⁸ Lynn Stout, *The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and The Public*, Published by Berrett-Koehler Publishers, Copyright © 2012, All Rights Reserved.

a professor of law at Cornell University (USA), makes a certain observation that is surprising in its simplicity. People who care only about their own interests, without considering the damage they may be causing to others, are likely to be treated as psychopaths; why then do we consider such an attitude to be an acceptable standard for companies? Do we really wish to accept the fact that management boards are contractually obliged to use child labor in their supply chain and pass on the costs of current operations to future generations? As the author remarks, the answer to this question seems obvious to most of us.

This voice is one of many testimonies to the emerging belief that the most pressing societal problems cannot be solved by governments and NGOs alone. These issues require broad involvement of companies and, consequently, a thorough redefinition of their social and business role.

Driven by this belief, three Americans abandoned their business careers in 2006 to establish the foundation *B Lab North America*, or B Lab for short, which has since then been dedicated to helping companies achieve mutually balanced goals involving all stakeholders, not just shareholders.

The prefix “B” stands for the word “benefits”, but perhaps the words “good” would be more appropriate because it is not about obtaining benefits for oneself, but about generating good for others. The guiding keywords for the movement are the four Ps: planet/people/purpose/profit.

The foundation has developed a standard that enables the assessment of each enterprise with regard to the extent to which it follows the mission statements characterizing this new generation of companies:

- We must become the change that we expect from the world.
- Every company should operate on the assumption that people and places (on earth) are important.
- Through its products, practices, and profits, businesses should aspire to not harm anyone while generating benefits for all.
- In order to implement these principles, we must act with the understanding that we depend on each other, so we are responsible for each other and for future generations.

The companies that implement these principles in a documented manner are called *B Corps*. They view the global economy as a force that uses companies to create good.

The standard described above comes with a tool called *B Impact Assessment*, which is used to measure the impact of a company on employees, customers, suppliers, society, and the environment. Reports from each assessment or self-assessment are publicly available at the site <https://bcorporation.net/>, administered by B Lab. Companies that achieve a sufficiently high rating confirmed by the foundation receive *B Corp certification* and are called *B Corps*. The foundation maintains a register of certified companies, which as of now (March 2019) includes 2778 companies from 150 industries and 60 countries around the world.¹⁹

One of the B Corps is the American company Patagonia (<https://www.patagonia.com/home/>) – a manufacturer of “outdoor clothing” (tourist wear and workwear). The company decided to contribute to reducing the amount of clothes thrown away each year by Americans (8 million tons per year; 30 kg per citizen²⁰). To this end, Patagonia announced that it will perform repairs

¹⁹ In Poland we now (2019) have a first B Corp, which is Benefit Systems; <https://bcorporation.net/directory/benefit-systems>

²⁰ Source: <https://oees.pl/magazyny/zaloz-to-jeszcze-raz/>

and renovations of its products because it took note that, in the case of its clothing, which is not particularly subject to changing fashions, the most common reason for shirts, jackets, or trousers to be discarded was small signs of wear and tear. In order to reach customers living in rural areas, where Patagonia has no shops, the company organized sewing buses that travelled all over the country so that their customers could bring their clothes to be repaired (or repair them themselves for free using the equipment provided). The initiative was met with so much enthusiasm that today the company is offering to renovate clothes from any manufacturer²¹.

Any company can apply for B Corp certification, regardless of its size²², industry, or geographical location. From the conventional business perspective, the value that the certificate adds to the company is, of course, the image of a company that is people- and planet-friendly. In rich countries, e.g. those belonging to the OECD, the group of customers who appreciate such values is growing rapidly. More and more people do not wish to contribute to the growing mountains of garbage on land and the trash islands on oceans. However, this generally marketing-related aspect is not treated as a mechanism for driving sales, but as an educational activity for the common good, which is our planet and the well-being of the people living on it. It is a value in itself, and so it allows employees to feel that they are doing something important for the world, so that they can be proud of what they are doing and how they are doing it, so they can be proud of themselves. And this is the strongest motivator for useful work and one of the most important sources of human happiness²³. Precisely because of that, it is also a proven source of business success for companies.

The B Corp formula is formalized by *B Impact Assessment*, but does not impose any obligation on management boards to maintain the standard. A company may relinquish its status and simply cease to be a B Corp at any time, e.g. when new stockholders demand it. It turns out, however, that the B Corp certification is starting to be appreciated not only by customers, employees, and suppliers, but also by investors, including investors on the stock exchange. Such an investor acquiring shares in a B Corp would like to be sure that the company will not abandon its philosophy under the influence of a new group of investors.

To ensure this, in 2013, the state of Delaware passed legislation allowing companies to become registered as *benefit corporations* (another type of corporate entity like limited liability companies, partnerships, or join-stock companies). Soon this formula was adopted by the majority of American states, and over 3500 corporations were registered as benefit corporations.

In a company registered as a benefit corporation, the management board is legally obliged to comply with three strict standards defining the company's purpose, accountability, and transparency²⁴:

1. **Purpose.** The company commits to pursue not only profits but also public benefits and (ecologically) sustainable values. This balance is an integral part of the company's offer in terms of building its value.

²¹ In Poland there is a small company <http://woshwosh.pl/>, which carries out a similar mission – although on a small scale – by accepting shoes for renovation and refreshment.

²² I have some doubts whether single-person companies without employees can apply for it because many of the questions evaluating the companies relate to the conditions of employment.

²³ For more information, visit my website at <http://www.moznainaczej.com.pl/artykuly-wlasne/turkusowa-firma-xxi-w>

²⁴ More about these principles and their legal implementation can be found in a comprehensive study by Frederick H. Alexander: *The Public Benefit Corporations Guidebook* (Copyright © 2016, Frederick H. Alexander and Morris, Nichols, Arsht & Tunnell LLP)

2. **Accountability.** The company commits to take into account its impact on society and the environment in order to generate long-term and sustainable value for all its stakeholders.
3. **Transparency.** The company commits to undergo regular (in most states – annual) assessments by independent organizations and present their results. These reports are intended to indicate whether progress is being made in terms of the social and environmental impact of the company on all its stakeholders and, in most cases, on the wider society. However, this reporting obligation is not the same as the certification of B Corps. Benefit corporations do not have to be B Corps, although this is often the case.

Boards of traditional companies are expected to subordinate their main decisions to profit maximization. However, more and more companies are beginning to understand that this principle is detrimental to the creation of long-term value for stakeholders, including shareholders. The boards of benefit corporations are, therefore, legally bound to consider the expectations of all stakeholders. This gives them the flexibility to create universal values in the long term without disrupting this process even in the case of so-called exit transactions, such as listing the company on the stock exchange or selling it.

It should also be emphasized that benefit corporations do not have any privileges (e.g. with regard to taxation) in comparison to other companies. In turn, they are bound by all the standard legal obligations as well as the additional obligations (including legal ones!) resulting from the adoption of the abovementioned standards.

Benefit corporations can already be registered in 35 states of the USA as well as in Columbia and Italy. A further 15 countries are preparing to introduce similar legislation.

2 Teal evolution

2.1 Historical perspective

In his book “Reinventing Organizations” [52] Frederic Laloux analyzed and described the idea of an organization based on a deep understanding of trust and responsibility, which results in the emergence of leaders of knowledge and skills, whose main task is to teach and support co-workers and who replace traditional managers designating and assigning tasks and executing them. In what Laloux called *Teal organizations*, everyone is actively involved in defining and taking on tasks, which causes the paradigm of *management* give way to the paradigm of *self-organization*.

The idea described by Laloux is not entirely new, for many of its elements appeared as early as the second half of the twentieth century, particularly in the works of Edwards Deming and Peter Drucker, as well as in organizations that followed the path indicated by them²⁵. Many were also included in the first edition of my book, the text of which was written between 1996 and 2013.

Although specific ideas contained in the concept of a Teal organization are not new, providing a convincing description of their common philosophy and its presentation against the background of historical evolution of management styles, as well as giving them a meaningful name, resulted in a clear growth of interest in this paradigm. It turned out that Teal organizations already existed around us, even though until then they were unaware of the fact that they spoke in prose. Laloux described as many as 12 of them, including five of the non-profit type, and between having read his book in November 2015 and July 2016 I managed to discover six more in Poland, which to a greater or lesser extent can be classified as Teal organizations (section 2.4).

I have been teaching what today is called Teal ideas since 1997. For the first ten years or so, some of my listeners tapped their foreheads with disgust, making it clear that what I was preaching was pointless, because the world didn't look like that. Later on, they appeased their criticism a little, calling it a “beautiful utopia” that one would like to be capable of achieving, though, unfortunately, this was not possible. And yet, since the publication of Laloux's book on the Polish market, i.e. since the beginning of 2016, after each lecture or course (I give about eighty of them each year), I have been approached by someone who said: "I actually work in such an organization and these ideas have always been close to my heart". Considering the overall size of my audience (from several dozen to several hundred people at each lecture), I estimate that in Poland we have several thousand of less or more Teal companies.

2.2 Teal — as I see it

Two diamonds, two rubies, or two emeralds may differ in size and shape, but otherwise they will be the same. It is different with turquoise. Each features a unique symphony of colors and is clearly different from others. What is more, if we divide the turquoise block into two parts, each of them will be different.

I don't know if Laloux has chosen turquoise (and the Teal blue color that describes it) as a symbol of the paradigm he described, but this choice is very well suited to the nature of Teal

²⁵ Not to mention that on philosophical and religious grounds the thesis that “free and happy people work better” has proved to be correct over several thousand years.

organizations. Although they all have a common philosophical denominator, each one is different and unique in its own uniqueness. Each one can be described and seen in many ways. In this section – and further in the book – I present Teal as I see it.

2.2.1 Partnership democracy

Winston Churchill is known for saying that “democracy is the worst form of government, except for all the others”. He was obviously referring to majority democracy, where by definition the majority is always right, although the subject of the decision is usually known only to the minority.

This syndrome of “structural incompetence”, observed by Friedrich August von Hayek in his excellent *The Constitution of Liberty* [36], is present both in parliamentary and local government bodies, as well as in various institutions and business organizations, i.e. companies. It is at the same time quite obvious that this shortcoming is not associated with a wrong selection of decision-making bodies, but a fundamental flaw in the principle that the majority must always be right.

At the other end of the “democratic scale” are leader’s organizations, where decisions are made by the master-leader appointed in some way. Thus, we can avoid a long voting procedure, but we do not actually get rid of structural incompetence, though this time it does not apply to the parliamentary majority, but to the master-leader. After all, the world today is too complex to be embraced by one person.

Is there any solution to this dilemma? The answer is positive, although for the time being it is a domain of entrepreneurship rather than politics. The solution is provided by “self-organization”, which boils down to a very simple rule:

Decisions are made by those who know and the rest have trust in them.

As little and as much as that. It could be viewed as a utopia, if it were not for the fact that such organizations not only exist, but also outperform everything that is traditional. I call the system of these organizations *partnership democracy*, which is one of the vital characteristics of the Teal civilization.

And so, what does the decision-making process in Teal organizations consist in? Who is liable for wrong or misguided decisions?

Individual companies will differ in details, but I do see a common denominator. If someone takes the initiative to make a decision, then if the decision is obvious (e.g. it concerns the repair necessary to restore the working condition of a device), it is simply taken. However, if this is not the case, the initiator consults with a number of people whom he considers competent in this matter. If none of them raises an objection, the decision is most often made and the initiator takes the responsibility for it, but he can also announce it in public and wait for any objections. If there are none, the decision is taken, and if objections are made, a discussion follows. This is what I call the *weak consensus principle* (see section 2.4.2).

In a simplified form, the Teal principle of decision making looks in the following way:

Everyone has the right to make every decision, provided that:

- *they take full responsibility for it, and*
- *no one raises an objection*

The key element in that principle is that of “responsibility”, which is not understood as readiness to submit to punishment. In the Teal world, responsibility means two commitments made ahead of time in case the decision has been accepted:

1. I will personally implement it or co-implement it.
2. If the decision proves to be wrong, i.e. it will lead to failure, then
 - a. I will remove the consequences of the failure to the degree to which it will be possible,
 - b. I will remove the causes of the failure – in this case the obligation is unconditional.

These commitments do not mean that I always have to remove the effects and causes of a failure on my own. If it is a simple task, naturally, I do it myself. However, it may exceed the capabilities of one person, and then my task is to organize a team that will support me in the realization of my obligation.

It should be emphasized here that the elimination of effects and causes is not a punishment for a mistake, but a consequence of it. Everyone has the right to take risks, but if they fail, they have to clean up. Understanding the difference between punishment and consequence is fundamental to the Teal civilization. The role of punishment is to discipline, while the role of consequence is to eliminate or alleviate the consequences of failure. More on this subject can be found in part III: BUILDING MOTIVATIONS.

In some Teal organizations, the “perpetrator” of the defeat is additionally obliged to explain why he believed that his decision was a good one. Important: not why it was good one (because it wasn't!), but why he considered it to be so. In other words, he is to show that he acted in good faith. One might say that it is an incentive for abuse. Perhaps it is, but only in communities where people do not trust each other and feel no sense of responsibility for their actions. That's why so much effort in Teal organizations is devoted to building responsibility and trust.

There are also situations in which decisions are made by a general vote. This often happens when a decision concerns the employees themselves, rather than the company. I am familiar with a case in which employees had to make a decision whether the company will build a swimming pool for them or whether it will invest in the development of the company and will reimburse them for their tickets to the municipal swimming pool. They chose the latter solution.

2.2.2 A new philosophy of life and work

A company, especially a large one, is usually associated with a hierarchical structure built on the model of an army, where we know exactly who gives orders to whom and then controls their execution. Each employee is assigned a range of duties closely related to his or her position, as well as individually set goals, the achievement of which determines bonuses, commissions, and prizes.

This system introduced in the nineteenth century made sense when production lines were manned by illiterate peons, whereas today it contributes to an unimaginable waste of human creativity. Unfortunately, quite a number of its active advocates still do not seem to notice that this is exactly how the universally criticized “planned economies” of the entire Soviet empire functioned. Their legendary ineffectiveness resulted mainly from the fact that man was treated chiefly as a tool to implement the plans of the headquarters.

It is highly puzzling that, notwithstanding the general consensus on the ineffectiveness of the command-and-quota economies, the Soviet model of management is still so widely regarded as unquestionable, although this is never admitted openly. Fortunately, something in this matter has begun to change.

In his book, Frederic Laloux has synthesized a new paradigm of teamwork, which dates back to the mid-20th century, but which has only started to gain momentum over the last 20 years. This new paradigm, called Teal by the author, is characterized by a very high efficiency, which it owes to the rejection of the majority of seemingly inviolable principles of the so-called corporate order, including budgets understood as contracts, bonuses and commissions, a hierarchical management structure, giving orders, competition, periodic performance evaluation interviews, etc. Instead, it introduces rules that to an average manager seem highly unreliable, if not ridiculous and naive. Let us take a look at one of them (F. Laloux [52] p.171):

When we act in deep integrity and align with what we feel to do, the universe conspires to support us.

This must sound like some utopian phantasmagoria! Could such a statement be a sign showing the direction of a company’s development? Could it form a foundation of any business plan?

The answer turns out to be positive, though one needs to be able to understand its meaning. Let us split this statement into three parts and analyze each part separately.

- *When we act in deep integrity ...* – when we act in accordance with our system of values, with a sense that we do something important and necessary, that we do not deceive or hurt anyone with our work, that we do it better and better, that we can be proud of what we do and how we do it, and as a result we can be proud of ourselves.
- *... and align with what we feel to do....* – when we act in conditions that allow for the release our creativity, when we have been given the right to make decisions and take responsibility for them, when we have a sense of agency and a sense of affecting the reality around us, and thus also our future.
- *... the universe conspires to support us* – we have statistical certainty of success²⁶, as indicated by both scientific research and daily business practice.

Is it really so simple? In reality, it is, albeit the simplicity of these principles does not in any way translate into the facility of their implementation. Converting a traditional company into a Teal organization requires a profound civilizational transformation in the company and an emotional transformation of each employee. It requires determination, work, and time. It usually takes several years, but the first effects can occur much earlier. The feasibility of that transformation is witnessed by the examples presented by companies described by Laloux: AES (40,000 employees) is active in the construction of power plants and transmission of electricity in many countries worldwide, BSO/Origin (10,000 employees) in the IT sector, the Dutch social

²⁶ By this I mean that success is basically certain, unless there are special situations such as floods, fires, meteorite fall, or a deep economic crisis. To put it more scientifically, in a group of Teal organizations, the probability of success is close to unity.

nurses organization Buurtzorg (15,000 employees), or the German Evangelische Schule Berlin Zentrum ESBZ with 1500 students and teachers.

There are also examples from Poland, though Laloux does not mention them. We may list Sodexo, a company administering buildings, two companies in Kraków: LeaNCe (kindergarten) and Notjustshop. In the latter, children design children's clothes and their mothers sew them. There is an IT company Kamssoft Podlasie from Zambrów, Marco company from Gliwice, Brewa company from Kalisz, and many others. As I have already mentioned, since I started talking about Teal companies during my training courses and lectures, I have been discovering more and more of them.

Laloux points out that all the companies he described in his book have developed very similar organizational principles, without knowing about each other and without referring to a common template. They embraced these principles, based on the rational assumption that man acts most effectively in conditions of freedom, trust, partnership and cooperation. After all, this is nothing new. We have known this for centuries, if not longer, but most often we think about it in the context of states and nations, not smaller communities such as companies or nonprofit organizations. And yet, it is such companies and organizations that employ people who can become creative when surrounded by an appropriate environment.

To understand how the Teal model compares with the current management models, let us take a look at how the latter are described by Laloux, who assigns each of them with a symbolic color and arranges them in an order from the most authoritarian to the most democratic ones.

- The red paradigm is centered on strong leadership based on fear: one leader and one punishment – the publically executed death penalty. The most important value is absolute obedience. Typical red organizations today are street gangs. Unfortunately, some companies, institutions, organizations, and political parties also fall into this category.
- The amber paradigm is centered on many leaders occupying various levels of formal hierarchy. The main value is the subordination to a certain unquestionable code of honor (army) or ethical code (organizations). Armies and churches are typical examples of amber organizations.
- The orange paradigm describes another hierarchical organization, the most important value of which is effectiveness, often sanctifying the means. The organization functions like a machine in which people are “human resources”, and the measure of their value derives from their utility to the organization. Many corporations feature such a structure. It must be emphasized here that not all corporations are orange and that not only corporations fall into this category.
- The last hierarchical structure is green, with democratic decision-making rules and the most important values including equality, freedom, and justice. An individual is not a resource, but a subject deserving of interest not only in what he/she produces, but also in what he/she is. Cooperatives and cooperative movements are examples of such organizations, although other like-minded companies may also exist.

Although very different from each other, all four types of organizations – especially the first three – share some common features:

- management hierarchy with top-down communication and rigid decision-making competences,
- issuing commands and controlling their execution,
- centrally set plans and budgets (similar to the economies of real socialism),

- “motivational systems” based on the carrot and stick method.

People in these organizations are often subject to the syndrome that Laloux describes in the following way:

For people who toil away at the bottom of the pyramids (...) work is more often than not dread and drudgery, not passion or purpose. Further he writes: There is a dirty secret: (...) that life at the top of the pyramids isn't much more fulfilling.

This condition is also referred to as *Monday syndrome*, because for the people burdened with it, the worst part of the week is Sunday evening: “Oh, God. Tomorrow is Monday! I have to go this damned work again”.

People living with Monday syndrome are not people who do not like to work, but people who do not like their workplace. And they don't like it because they feel disregarded in it, treated arrogantly, because they never know what may happen to them, as they have no influence on what they do and how they do it. And this applies not only to those working at the bottom of the pyramid, but often also to those at the top.

People in such organizations are longing for retirement, and if the nature of their work allows them to do so, they try to achieve material success in order to buy a “good life” for their old age with the money they earn. “Good” here means a life in which the Monday syndrome is absent. A life in which what they do every day gives them joy and satisfaction. For such a life, it is worth struggling with the hardships and inconveniences for many years, it is worth giving away a little bit of your dignity.

Teal organizations destroy this way of thinking and reverse the order of things. They assume that since a good life is a fundamental value for us, it is necessary to take care of it first, starting with re-modelling our life and our work. Let us organize our work in such a way that it gives us a meaning in life, allows for development, and offers space for creativity and innovation. So that we can be proud of what we do and what we are. Let us also take care of a good life in the social area: let us be partners rather than competitors, let us cooperate and support each other instead of competing, let us build good relations based on trust.

A good life is the feeling that what we do is important, that someone needs it, it allows us to develop, use, and improve our talents. A good life takes place among people we trust and they reciprocate. Working in organizations that provide a good life is a joy for employees and is therefore more efficient, more innovative and less error-prone. And that is what gives such companies and organizations an advantage over others.

At the level of operations and management, we abandon central planning and budgeting in favor of forecasting, which is used to make optimal decisions and not to account for the performance of tasks. We also abandon the principle that decision-making must be permanently assigned to positions, in favor of the principle that decisions are taken by those who are best acquainted with the subject, though often after consulting others.

In a Teal organization, no one needs to be watched at work, no one needs to be judged or coerced to work with a carrot and stick. Since there is no need to watch or coerce people, the managers turn into authentic leaders and mentors. No one issues commands to anyone and the tasks of each employee fall under the following four principles:

1. You do what you can do.
2. You do what is necessary to do.
3. You are responsible for it.
4. You can change what you do, but only if you follow rules 1, 2, and 3.

As a result, in a Teal organization, no one says: “This is not my duty”.

Teal organizations resemble multi-cellular organisms, where there is no central control system and where cells with different functions commission each other to perform the necessary tasks. For hundreds of millions of years, nature has developed biological organisms in exactly the same way. Today, organizations built by people are beginning to follow its example.

2.2.3 Self-management or self-organization

Having read Laloux’s book, I came to the conclusion that the term “self-management”, which is sometimes used to refer to Teal organizations, is not entirely appropriate, because management – however independent, subjective, and democratic – is, after all, associated with issuing commands by the manager and controlling their execution.

In the case of Teal organizations, on the other hand, we are dealing with making team decisions regarding the distribution of tasks rather than issuing team orders, so it is more like “self-organization” than “self-management”. This is an entirely new paradigm of organizing teamwork, and not just a change in the managing entity. The inadequacy of the term “self-management” could be compared to the inadequacy of the word “self-rowing” used to describe propulsion, which on modern ships replaces the oars of galley slaves. (Fig. 2.2-1).

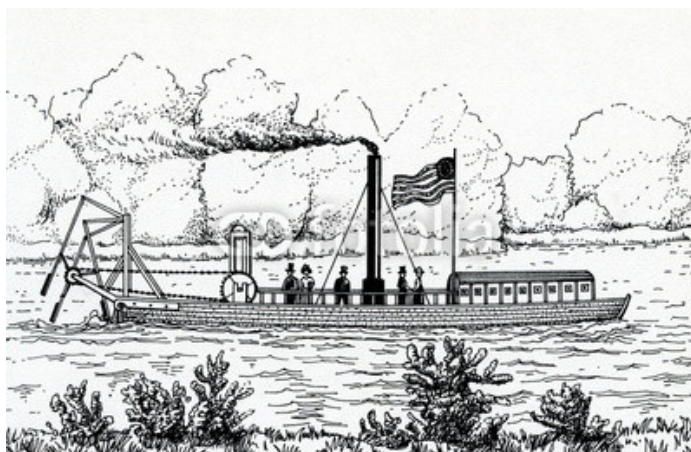


Fig. 2.2-1 A self-rowing steamship

Breakthrough discoveries often begin with the improvement of something that we know well, and only later we understand that new techniques allow for the thorough reconstruction of a historical model. The first steamship actually moved the oars, and the first sewing machine was a mechanical version of the seamstress’s hand.

2.3 A path to Teal and quality

2.3.1 A new perspective

I wrote the first Polish edition of my book from the perspective of (and for) a leader who wants to build his organization taking into account the principles and over sixty years of experience of the idea of Total Quality Management (TQM). For a leader who wants to increase the quality and productivity of work, and thus achieve greater competitiveness of his company in the market. I also emphasized very strongly that the most important factor on the way to this goal is to

enthusie the employees with a sense that work offers meaning to their lives, that they can develop in it, that they work in an atmosphere of partnership and trust. I tried to prove – as I would say today – that a Teal approach to work organization is the most effective way to success.

In the second Polish edition, I have chosen the opposite perspective. The main goal, which determines the direction of the path, is the organization of people fulfilled in their actions. In order to build such an organization, we pursue to fulfill three fundamental conditions:

1. In our actions, we are guided by values that build our sense of self-dignity, such as honesty, reliability, justice, etc. (more on this in section 7.1),
2. We create a friendly and supportive work environment based on respect, trust, and partnership.
3. The effective operation of the entire organization makes it possible to ensure good material working conditions, including satisfactory remuneration.

In order to build such an organization, one needs the tools to which I have dedicated my book. The sequence of sections is subjected to the order in which, in my opinion, the main goal should be pursued: from the principles of good communication, through leadership based on partnership and a process management of knowledge, to specific TQM tools. This order should allow for gradual improvement of the organization as the ideas contained in the book are read and implemented. At any time, it is possible to stop, look back at what has been achieved, establish oneself in a new role, and then go further – or maybe not. One may stop upon achieving good communication or a hierarchical green structure. Or, one may pursue the goal to the very end, creating one's own vision of a Teal organization, as different from other Teal organizations as two turquoise stones are different from each other.

I have also tried to make sure that the book was no longer written from the position of a managerial armchair, but rather from the perspective of a future participant in the Teal civilization, who is a performer, leader, mentor, and moderator – all in one person.

Ultimately, I tried to show what an organization that implements the principles of Teal civilization should look like and how it uses this foundation to manage knowledge and quality in a systemic way. I am also pointing out a possible path leading to such an organization, whether we build it from scratch, or whether we transform an existing, though traditionally managed organization.

The road to Teal and quality, however, is not easy and requires patience and time, as well as resistance to failures, which are bound to happen. It requires not only the implementation of new rules, customs and habits, but also – which is more difficult – the abandonment of those to which we are accustomed. By and large, building a Teal organization requires working on three complementary paradigms:

1. Teal civilization of work.
2. Teal organizational structure.
3. Teal quality culture.

2.3.2 Teal civilization of work

The key to a Teal civilization of work is to build trust and partnership between all members of the organization, a task that cannot be enforced with a decree or coerced in any way. It needs to be pursued step by step, by getting rid of bad communication habits and toxic management methods in the first place. Competition must be rejected, because it destroys cooperation, and

hence also partnership. You have to give up the carrot and stick method, because it leads to a war game between the company and the employees, which the company will inevitably lose. The hierarchical management structure must be abandoned, because it suppresses the natural innovativeness and creativity of an individual; the belief that people are lazy and dishonest (of course, we are not, but others ...) must be rejected; judging must be changed into appreciation and control into support. And it is not easy at all.

In a company that resembles a labor camp rather than a team, we cannot declare overnight that we have confidence in each other... because we simply do not. What's more, we cannot have it just like that! We must laboriously build such working conditions which allow us to show trust and gain it from others.

There are various ways to achieve this goal, ways which are as different as companies and people in these companies are. However, it is possible to indicate one universal direction – let us call it a decalogue – of building a Teal organization²⁷:

1. Do not look for a guilty person to punish him/her – look for a cause to remove.
2. Do not expect perfection, which cannot be achieved – expect progress, which is always possible.
3. Avoid competition, which destroys partnership – create conditions for cooperation.
4. Do not be judgmental, because it is destructive – be appreciative, because it strengthens.
5. Do not say what is wrong – say what could be better.
6. Do not ask what people could do better – ask what bothers them at work.
7. Do not try to build anything by exerting control – build on trust.
8. Do not say that someone is evil – say how you feel about it.
9. Do not exercise power – create conditions for self-organization.
10. Do not be a supervisor – be a teacher, moderator, and learner.

My experience shows that the path to a Teal civilization starts by learning good, empathic communication. That includes the ability to debate with those with whom we disagree. section 3. “When you listen and speak” is entirely devoted to this issue.

As communication is improved and trust is built up, it is time to start thinking about transferring more and more decisions to those who will then be responsible for implementing them. This is a natural way of making control less and less necessary and takes most of the decision-making and supervisory responsibilities off the shoulders of team leaders and, later, also the company's management. The role of a manager, who tells an employee what to do and when to do it, is taken over by that employee's client, either internal or external. As a result, leaders stop issuing instructions and can take care of supporting people in their work and development. From task supervisors they turn into leaders of ideas, knowledge, and skills.

The lack of the need to control also naturally eliminates the carrot and stick method, i.e. all the so-called incentive systems, which for more than half a century now have been known (though this knowledge still not universal) to actually deeply demotivate people instead of motivating them to take action.

Making the organization free from the carrot and stick allows it to address one of the key challenges of a Teal organization, which is team style of decision making following the

²⁷ All the recommendations listed here will be explained in the following sections of the book.

paradigm of partnership democracy (section 2.2.1). It is not an easy challenge, because most of us are familiar only with the alternative between majority democracy and autocracy. Partnership democracy is little known, but fortunately some experiences in this area are already available. A Dutch organization Buurtzorg (section 2.4.2) provides a good example. It is an association of 15.000 community nurses organized as a federation of 800 teams of a dozen or so members each. They started very modestly, with one team of ten members, but thanks to their effectiveness and good working atmosphere, they began to attract crowds of other nurses. Today, there is a twin organization that has been established in the USA. An American company Morning Star (section 2.4.1) and a Polish company Marco (section 2.4.8), along with many others, operate in a similar way.

Another very important element of building a Teal civilization is the creation of a specific climate of social responsibility, building the feeling that we are responsible not only for ourselves and our organization, but also for our small and large homeland, as well as for the planet on which we have all come to live.

A new outlook on the paradigm of leadership is discussed in part III “Building motivations”.

2.3.3 Teal organizational structure

I shall use the term *a task force* to refer to a team of individuals assigned to cooperatively perform certain tasks. In each of such situations, the tasks entrusted to the team are broken down into sub-tasks, each of which is carried out by a different individual. Most often these people do not perform tasks entirely independent of each other. Usually, the effect of completing one task becomes the starting point for another one. This makes it necessary to somehow synchronize the performance of tasks, and to allocate the necessary resources – materials, tools, money, people, and even time – for the work to proceed smoothly. It is, therefore, necessary to establish principles of communication between the members of the task force.

In traditional organizations, task forces have their own leaders, and if they are large, they are divided into smaller ones, each with its own local leader. The local leaders form a higher level task force. A hierarchy built in such a way can have multiple levels.

On the left side of Fig. 2.3-1 we see a traditional management structure based on the hierarchy of command and control, and on the right side, there a Teal network structure. In both cases, the lines between the points – the latter we shall call *network nodes* – represent communication channels, indicating who is exchanging messages, and often also products, with whom.

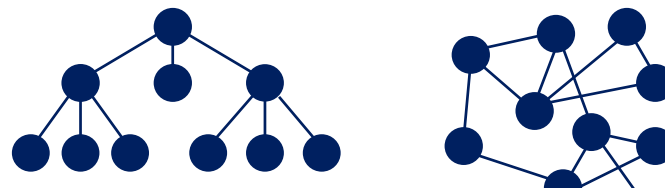


Fig. 2.3-1 A hierarchical and network structure

Note that a hierarchical structure is a particular case of a network structure. In the former, commands flow from the top to the bottom, while reports on task completion flow from the bottom to the top. The executive structure, i.e. all the nodes above the lowest level, is used to synchronize the work of “final contractors” of a task. In the latter structure, there is no dominance or central control, and the nodes place orders amongst themselves for performing a task or delivering a product. In addition, the hierarchical structure is rather constant over time, which cannot

be expressed by a static drawing, and if it changes at all, it happens relatively rarely, while the network structure changes dynamically depending on the tasks performed by its nodes and groups of nodes.

In both cases, network nodes may represent both individual employees and their teams, or even much larger organizational units, e.g. firms cooperating within a holding company. In every case, however, the network includes a team of people whose common goal is to perform certain tasks.

As I have already mentioned, in order to carry out the work in a team, it is necessary to allocate the tasks and the necessary resources among the team members. It is, therefore, necessary to define the principle according to which tasks and resources will be shared. One option is to establish a leader and equip him/her with the appropriate decision-making tools. Half a century ago it seemed to be the only choice. Today we know that it is neither the only one nor the best.

In traditional organizations, everyone has their own superior, who tells the subordinate what to do and controls the execution of the command. In Teal organizations, as described by Frederic Laloux, there are no superiors, and so there are no subordinates either. There are people who organize their work together within a dynamically changing network. Sometimes they make decisions, at other times they implement them, and at yet other times they try to find the best way to perform both of these tasks. Everyone receives something from someone and passes it on to someone else. The *superior-subordinate* paradigm is replaced by the *supplier-recipient* paradigm. The latter is also called a customer.

I am no longer told what to do by my supervisor, but by the customer who places his order. In order to fulfill this order, I place appropriate orders with my suppliers.

We are no longer supported by our superior, but we support each other, we are not “taught” by someone, but we “learn” with the support of those who know more about the subject. And soon we may be in a position to support others, who will learn with our help.²⁸

2.3.4 Action teams

In many organizations, there may arise a need to perform a given task in a particularly efficient way and the cost of making a mistake is very high. In such situations, the task force is transformed into an *action team* with a commander (or commanders) appointed for the duration of the action and strict rules regarding both the issue of orders and their execution. Here are typical examples of such situations:

- an army unit during a combat action;
- a fire brigade during a firefighting action;
- a team of doctors and nurses in the operating room;
- a symphonic orchestra playing under the direction of the conductor;
- a sailing ship’s crew performing a maneuver.

Such examples can, of course, be multiplied. In each of them we are dealing with a task that needs to be performed very efficiently, within a specific time, and in accordance with the principle: “A poor decision is better than none”.

²⁸ The dichotomy between “I am learning” and “I am being taught” was pointed out to me by Jacek Jakubowski.

It needs to be emphasized strongly that introducing an action team formula does not contradict Teal principles. In the above mentioned situations, it is simply impossible to operate in a mode other than action mode. This does not mean, however, that having completed the action, the team cannot return to the formula of a Teal task force, which employs empathic, assertive, trusting, and responsible ways to debate the best methods of performing tasks and actions.

After a combat alert is issued, the army must remain as amber as possible, but it does not always have to be so. A very beautiful example of a Teal army is provided in the memories of Captain Michael Abrashoff [1], who turned the worst unit of the American navy – the rocket destroyer USS Benfold – into the pride of the entire US fleet. In his extremely moving story, Abrashoff does not mention Teal, which of course he could not have heard about, but he recommends taking such actions towards the crew as if he actually read Laloux or Deming – talk to the sailors, ask them for their opinions, try to solve their problems together with them. He dedicates his book not only to military commanders, but also, and perhaps above all, to managers. This is how he addresses them in the introduction:

My ship's job was war; your company's purpose is profit. But we will achieve neither by ordering people to perform as we wish. Even if doing so produces short-term benefits, the consequences can prove devastating. My experience has shown that helping people realize their full potential can lead to attaining goals that would be impossible to reach under command-and-control.

And one more fundamental confession of the captain:

We didn't fire or replace anyone. We tapped the potential that has never been recognized.

This is a very important lesson for all those “business healers” who begin their term of office by firing half of the crew²⁹.

However, it should be remembered that the action formula should only be used when it is really necessary. It should not become an excuse to introduce the amber code where it is not indispensable. And one more important remark: action sanctions amber, in which an honorary system of values prevails, and not orange, in which the primary value is effectiveness, regardless of the cost to the environment.

2.3.5 The role of former management

The fact of abandoning a hierarchical management structure in a Teal culture does not mean that we get rid of all managers, beginning with foremen and ending with the president. Such an action would usually entail depriving an organization of a valuable pool of knowledge, skills, and experience. We do not get rid of managers, but we free them from dealing with the daily organization of work, which allows them to focus on what goes beyond this role and what has always been their primary task, namely the development of the organization both in terms of culture (Teal civilization) and products (new products, tasks, areas of activity). They cease to be managers and become leaders of a Teal idea, and one of their primary duties will be to care for the Teal task space, which means:

- building a space for dialogue;
- building partnership and trust;
- building cooperation;
- supporting the principles of the Teal decalog;

²⁹ Unfortunately, I met someone like that and I witnessed the disgraceful collapse of the company he managed.

- being a role model.

This was what happened in Morning Star, whose creator and leader of ideas is Chris Rufer, as well as in Buurtzorg, whose founder was Jos de Blok, among others. On the other hand, as far as the performed functions are concerned, former managers may become:

- process owners,
- mentors and trainers,
- moderators and coaches³⁰,

which does not mean that these roles are reserved exclusively for them. Neither does it mean that leaders are not supposed to perform any operational tasks connected with production, sales, marketing, accounting, machinery maintenance, etc.

Finally, let us quote Frederic Laloux on the new leadership role:

One role remains the same: the CEO is often the public face of the company to the outside world. Suppliers, big clients, and regulators often want to deal with the “head” of the organization, and the CEO often (but not necessarily) takes on that role. But as for the rest, most of the other responsibilities traditionally held by the CEO simply fall away — there are, for example, no targets to set, no budgets to approve, no executive team to run, no top-down strategies to devise, no disputes to settle, no promotions to decide on.

On the other hand, the research into the pioneer organizations suggests there are two new and critical roles a CEO needs to play:

- *creating and maintaining a space for Teal ways of operating*
- *role-modeling of Teal behaviors.*

Beyond that, the CEO is a colleague like any other, who can sense what’s needed, get involved in a project, and make decisions using the advice process. ([52]), p. 240.

Put yourself in the shoes, for instance, of Chris Rufer, the successful founder and president of Morning Star. He started the company more than 20 years ago, driving a truck to haul tomatoes. Today, Morning Star is the biggest tomato processor and transporter in the world. The company has been so profitable that it didn’t need outside investors to finance its growth. Rufer owns 100 percent of the company and he is its sole board member. And yet, as the founder, president, and owner of the company, it is not proper for him to make any decisions that meaningfully affect other people on his own without consulting them.

³⁰ In English, a “coach” simply means a “trainer”. However, in Polish — and in the context of this book — a trainer is a person who teaches and under whose supervision students practice what they are learning. The trainer says how things should be, conducts lectures and workshops, most often with a predominance of the latter. On the other hand, the coach mostly asks questions, which allows the questioned person to better understand, or even discover, the dilemmas bothering him/her, as well as to overcome internal weaknesses. To put it simply: the trainer tells you how things should be and the coach allows you to better understand what you are. These two roles are fundamentally different and require fundamentally different skills. The trainer is a teacher and must know the subject he teaches, e.g. how to build and implement an organization’s development strategy. The coach is more of a therapist and should have quite advanced knowledge of psychology. That is why, though I consider myself to be a business trainer, I am definitely not a coach. A trainer differs from a mentor in that he is a professional not only in his discipline, but also in his teaching skills. A mentor, on the other hand, is a wise and experienced person, who can give many valuable tips, answer specific questions, but will not necessarily be able to give a lecture or conduct a workshop.

2.3.6 Teal culture of quality

All the failures which I have witnessed in companies on their way to Total Quality Management did not result from the fact that people were unable to use quality tools and procedures, but because they did not want to do so. It is the lack of commitment to a new work culture – and often also an active commitment to combating it – that sometimes causes the implementation of various quality systems, including TQM, to remain on paper.

Teal organizations are by definition committed to and in a natural way oriented towards self-improvement. It is enough to convince them that the path to quality makes sense and they will ask themselves how to pursue it. When a quality instructor arrives at a Teal organization, the most difficult part of his task has already been completed earlier.

A quality instructor arriving at a Teal organization has the most difficult part of his task already completed by the organization.

2.3.7 Step by step

There are two paths that lead to a Teal organization.

The first one is to build such an organization from scratch. We start with a few people and then grow organically, inviting new members to the team who express their willingness to embrace the Teal culture. This is how Chris Rufer built his Morning Star, which today is the world's largest tomato processing company with a year-on-year growth rate of a dozen or so percent over the last 20 years. This is how Buurtzorg was created, which started with ten nurses, and today gathers 8000 nurses grouped in 800 teams. This is how a Polish company Marco was built, starting with four founders and today employing approx. 80 people.

The second path, a much more difficult one, is to transform a traditional organization into a Teal one. This is a path on which the main challenge is not the implementation of new ideas and habits, but getting rid of the old ones. For many people, the prospect of such a revolutionary change raises fears of something new – whether I will be able to cope with the new situation or find myself in it – which is often accompanied by resistance. It will not be easy for a person accustomed to the “command and control” style to give up the role of a supervisor in favor of that of a trainer, mentor, or moderator, or even the role of a subordinate in favor of that of a partner. It requires, first of all, the abandonment of beliefs that have often been instilled since childhood, and, secondly, not only understanding and mastering the new methods, but also their implementation into everyday work at the level of habits.

And so let us not hurry to change orange or even green into Teal. This must take a while because it takes time to get used to a new way of thinking about ourselves and the world around us. It is worth knowing, however, that every step that brings us closer to Teal will bring measurable benefits both in terms of living comfort and the effectiveness of the organization.

2.3.8 Can we succeed?

My goal is to encourage everyone to think, live, and work in Teal. I've been trying to do this for over 20 years, although in the past I used to spread the accents differently, not to mention the fact that the very concept of a “Teal organization” in the sense offered by Frederic Laloux was not yet known two decades ago.

My enthusiasm for this philosophy of partnership and trust may give the reader the impression that the path leading to it is simple and all we need to achieve the goal is desire. Unfortunately, it is not that simple, but sometimes the difficulties may be exaggerated.

Naturally, people can be very different. There are individuals who are basically evil and mean. We are not capable of coping with everybody. Some might require a deep psychological therapy, so our amateur knowledge of psychology would render us helpless. Unfortunately, it is necessary to part with such people.

However, what is difficult does not have to be impossible. For more than ten years I have been observing a growing interest among my listeners and readers in the ideas of partner leadership and giving up the carrot and stick. When I talked about such things in the second half of the 1990s, people thought I was out of my mind. Today, after almost every lecture I give, somebody comes to me and says: “I already organize my work in this way”.

Hundreds of conversations and dozens of hours of workshop work make me think that the vast majority of people are willing to think positively and build good relations. It was not uncommon for me to see a group of participants who started a communication workshop slightly distrustful of each other at first, only to say by the end of the day that they considered themselves lucky to meet such fantastic people.

I will never forget a three-day workshop that I conducted with Jacek Jakubowski in the fall of 2015, which was attended by six tax officials and six family entrepreneurs. It was a pilot meeting for a project planned by the Ministry of Treasury to implement a new doctrine of work of tax officers. A doctrine based on trust and responsibility on both sides of the counter. A doctrine based on the sense that we all share the responsibility for our country, our economy, and the well-being of Poles.

At the beginning of the first day a high level of skepticism was felt on both sides. After all, it is a known fact that a tax officer is a robber, while an entrepreneur is a fraudster, isn't it? In the evening, however, there was a prevailing belief that each side operated in its own unique circumstances and faced unique challenges, which needed to be understood and respected. That a well-meaning cooperation between a tax official and an entrepreneur is entirely possible. In fact, it is necessary. And by the end of the third day, we were all talking about how we could jointly convince hundreds of tax officials and hundreds of thousands of entrepreneurs to think like this. Unfortunately, the changes that later took place in our country and in the Ministry put an end to these dreams.

Whenever I think about what people really are, I am reminded of the wise message of my friend Marek Kosewski, who wrote in his excellent book *Wartości, godność i władza. Dlaczego porządni ludzie czasem kradną, a złodzieje ujmują się honorem* [Values, dignity, and power. Why decent people sometimes steal and thieves take offence] [50]:

The private theory created by each of us for everyday use divides people into honest and crooked, decent and villains, and claims that those who appreciate commonly recognized moral values can be recognized by their actions. This is a mistake. An individual is not always, but only sometimes decent: sometimes he is a good or bad father, sometimes he lies and sometimes he tells the truth, those who believe and those who practice religion sometimes commit sins. The social world is made up solely of people who sometimes are decent and sometimes are not. They appreciate values and externalize them as attributes of their own ego, they are regarded by the social environment as “people of values” and sometimes they violate these values. We should leave the dregs of society consisting of ‘indecent people’ who fall outside of the above definition to psychiatrists, policemen, and prosecutors.

Similar observations put in different words are expressed by Philip Zimbardo in his book *The Lucifer Effect: Understanding How Good People Turn Evil*. [84].

Zimbardo believes that human behavior is determined more by external conditions than by character predispositions. In the famous Stanford experiment which he designed, one group of

students played the role of prisoners and the other – the role of guards. The latter were dressed in uniforms and trained in US prison regulations. The experiment was scheduled for two weeks, but was interrupted after only one week, as the student-guards developed an incredible repertoire of methods of physical and mental abuse of the student-prisoners. And yet, both groups consisted of students of a renowned university, they did not come from pathological environments, and they did not have any criminal history. However, the fact that the guards were dressed in uniforms and were given the right to punish resulted in their extremely brutal behavior. They acted worse than real guards, even though in a few days' time they were supposed to return to the university and stand face to face with the colleagues they had treated so badly.

I have also seen a documentary shot in one of the Central American prisons, which was an account of several years of work by an experienced psychologist with a group of multiple murderers with life imprisonment. At the beginning of the film, the prisoners talk about themselves and their philosophy of life, which actually is shared by all of them: you have to kill first, because otherwise they will kill you. This also applies to fellow prisoners. By the end of the film, they are different people – they trust each other and are ready to talk about it with others.

These and other similar observations, as well as my own life experience, make me believe that although it is not always possible to implement a Teal model of thinking, it can actually be done more often than it might seem. But it will never be easy and that is another thing to bear in mind.

2.4 Case studies

When the Americans built the first atomic bomb at the end of World War II, its construction details were kept in utmost secrecy. The Americans – quite rightly so – did not want to have competitors in this field. However, as it was later noted by probably Niels Bohr, nobody thought about protecting the most important information, namely the fact that the atomic bomb could be built at all (note that at that time Albert Einstein himself did not believe in such a possibility). When this most important secret was revealed, the initiation of research aimed at constructing nuclear weapons in other countries was only a matter of time.

The new paradigms of management described in this book are questioned in a similar way as the theory of relativity was at the beginning of the last century. For some, they are the subject of fascination, but many do not believe in the feasibility of their realization. Fortunately, we already have evidence that it is possible to implement all these management models. Below are some examples of such companies, partly taken from the book by Laloux [52], partly from other sources, and partly also known to me personally.

2.4.1 Morning Star

The company has completely eliminated the hierarchical power model in favor of the process model based on bilateral supplier-customer contacts. It has a mentoring structure, which – as indicated by the available descriptions – has two-levels. Remuneration is not dependent on an individual employee's contribution to the company's revenue, but on the so-called *reputation capital* measured by that individual's contribution to the company's improvement, as assessed by the employees themselves.

Today Morning Star³¹ (USA) is the world's largest manufacturer of tomato products, with a 25 to 30% share of the American market. It employs 400 permanent employees and in the high season – 2000 additional employees (most often the same people every year), has 23 branches and 700 million dollars of annual income. Within the last 20 years it has been achieving a double-digit year-on-year growth with the average industry growth by 1%. It is not listed on the stock exchange and finances its development mainly with its own resources.

Morning Star entirely rejects the managerial management model. The company has no managers or, as it was described by its boss and founder Chris Rufer, everybody is a manager. The entire organization of the company is based not on the relationship of subordination, but on the supplier-customer relationship, not on the control exercised by the boss, but on the mutual self-control of everyone by everyone. The company's employees form a network of nodes linked by a supplier-customer relationship and coordinating their actions with the closest neighbors within the network. It could be said that they implement the process network model (section 2.3.3 and section 12) in its purest form.

Every employee has a certain permanent mission to carry out, such as, for example, *effective production of good tomato juice while taking care of the natural environment*. Each year every employee presents a document entitled the Colleague Letter of Understanding (CLOU), setting out the intended operational activities leading to the implementation of the mission. Everyone negotiates such a document with all their internal and external suppliers and customers, but only the author of the document bears full personal responsibility for it.

The company's goal is to create an organization in which all employees will be, as they define it themselves, *self-managed professionals who establish communication and negotiate the coordination of their activities with other employees, customers, suppliers, and cooperating companies. An organization in which no one issues commands to anyone*.

Basic principles of organization:

1. The CLOU documents play the role of commands coming from the headquarters. These documents are responsible for everyone receiving the ordered deliveries on time and knowing what to do and for whom. Like in any other company, sometimes something will not work. In such a case, the person who is disturbed in the performance of his or her tasks will talk to the person who is not fulfilling his or her obligations. No one takes their complaint to the boss, because there is no boss, but speaks directly to the perpetrator of the problem. All employees receive appropriate training in communication so that such conversations do not lead to conflicts. If the parties fail to reach an agreement, they receive support from a negotiator, who may be an experienced employee of the company, and in particularly difficult cases – a professional outside negotiator. The company takes great care to ensure that conflicts of interest are resolved on the basis of an agreement between the parties, i.e. by a win-win method (section 2.3.1), and not by arbitration, where one party is always a loser.
2. The company has no centrally planned budgets or central management of expenses (section 10). Every employee has the right, and even the duty (!), to make such purchases as he or she deems necessary for the completion of his or her tasks. However, larger expenses must be justified on the basis of the assessment of the return on investment. This assessment is made public and can be challenged by anyone. However, in order to facilitate the evaluations, a full report regarding the company's finances is made

³¹ This company is also described by Laloux [52] as a Teal company.

available to all employees twice a month. Information on the general condition of the company is also made available on an ongoing basis.

3. There are no centrally defined roles and positions in the company, and so there are no promotions. However, every employee has a chance to increase the scope of their tasks and the importance of their decisions as they gain new competences. This means that Morning Star employees generally have much wider responsibilities than employees of other companies. Promotion consists in gaining new competences and building one's reputation in the eyes of other employees, not in rising in the hierarchy of positions.
4. The driving force (motivation) of employees' improvement is the reputation capital. Every employee who improves something in the company's operation builds his or her reputation in the eyes of other employees.
5. Admission of a new employee to the company is preceded by a two-hour introduction to self-management, followed by interviews with 10-12 of his future colleagues. Not with an employee of the HR department, because there is no such department, but with people with whom he will work in the future.
6. Once a year, several compensation committees are set up in the company to evaluate the performance of tasks by employees and determine the related remuneration (profit bonus). The amount of remuneration depends on the added value contributed to the company. The final salary decisions are taken by employees through multilateral negotiations.

More about Morning Star can be learnt from the following sources:

- an article by Gary Hamel *First let's fire all the managers*, Harvard Business Review, December 2011, <http://hbr.org/2011/12/first-lets-fire-all-the-managers>
- a four-minute lecture by Seth Godin *Leaders share the faith – and promote heretics* at <http://www.managementexchange.com/video/seth-godin-leaders-share-faith%E2%80%94and-promote-heretics>.

Here is what was written in the announcement to the latter material:

The work of leadership changes dramatically when wage slaves become artists, argues MIX³² Maverick and bestselling author Seth Godin. The best leaders make their organizations heavens for heretics by suspending religion (rules) whenever possible and focusing on faith (deeper purpose).

The same address features a lot of similarly interesting content.

2.4.2 Buurtzorg

Buurtzorg³³ is a Dutch association of community nurses paid for by the state to look after patients in their homes. It was founded in 2006 by nurse Jos de Blok in order to improve the organization of nurses' work. It originally consisted of 10 members, but the extraordinary efficiency and working atmosphere in Buurtzorg resulted in the growth of membership to 8000 nurses in 2016 and to 15.000 in 2018.

³² MIX (*Management Innovative Exchange*), a very interesting portal devoted to modern management: <http://www.managementexchange.com/>.

³³ This company is also described by Laloux [52] as a Teal organization. Buurtzorg literally means "community care".

Below are the most important principles and tools of partner democracy, on which the functioning of Buurtzorg is based (slightly enriched by my own experience).



Tab. 2.4-1 30-member headquarters of Buurtzorg

1. Process organizational structure

- a. Buurtzorg is a federation of about 800 small groups (from several to a dozen or so people), which self-organize their own work and cooperate with each other. If a team grows above this standard, it is divided into two smaller ones. Teams do not have managers, and moderators (see below) can be selected on an ad hoc basis prior to each debate.
- b. The teams recruit their members themselves, i.e. they decide who is to be accepted and on what conditions. They also decide who leaves the team, for what reason, and under what conditions.

2. Methodological and expert support

- a. Teams regularly train to develop the skill of a fruitful debate based on respect for the people involved and their views. A number of coaches who cooperate with the organization train employees in how to conduct fruitful debates, as well as to lead them as moderators. Over time, experienced moderators can themselves become coaches. The coaches do not make any decisions for the team, nor do they take any responsibility for decisions made. Their only role is to support the debate. Each coach takes care of several dozen teams. He spends relatively little time with them, trying not to take on the role of a moderator and not to deprive the teams of their independence.
- b. Teams are trained in the use of collaborative decision-making tools. Initially, this is done by outside trainers and later by in-house trainers selected from among the employees.
- c. A team of experts works with the organization to advise the teams in areas that go beyond the knowledge and experience of team members. These are medical experts, as well as specialists from sectors not related to medicine, such as finances and law. Similar to the coaches, the experts do not make any decisions for the team, nor do they take any responsibility for decisions made. Their role is to share their knowledge and experience.

3. Self-organization

- a. Teams meet regularly in order to organize and improve their work.
- b. Each meeting of the team is led by a *moderator* whose role is to ensure that the principles of fruitful debate are observed and that each participant has an equal right to speak. Most often team members choose a moderator from among themselves, but in particularly difficult situations they may ask for the support of an outside coach. The moderators may change from meeting to meeting. It is desirable that all team members are capable of performing this function.
- c. Decisions are taken on the basis of *weak consensus*. That means that a group – not necessarily the majority – is strongly in favor of making a given decision and the others do not object strongly. It is essential that all team members are convinced that achieving a *strong consensus* (involving the agreement of everyone) can be extremely difficult and time-consuming. A weak consensus does not rule out the possibility that, if the decision taken proves to be wrong, it is possible to consider ways of changing it.

4. Sense of responsibility

- a. All team members feel responsible for the decisions made by the team and make every effort to implement them.
- b. Teams feel responsible for carrying out the mission and vision of the company.

Here is what Frederick Laloux writes about Buurtzorg ([52]), p. 66:

The results achieved by Buurtzorg on the medical front are outrageously positive. A 2009 Ernst & Young study found that Buurtzorg requires, on average, close to 40 percent fewer hours of care per client than other nursing organizations – which is ironic when you consider that nurses in Buurtzorg take time for coffee and talk with the patients, their families, and neighbors, while other nursing organizations have come to time “products” in minutes. Patients stay in care only half as long, heal faster, and become more autonomous. A third of emergency hospital admissions are avoided, and when a patient does need to be admitted to the hospital, the average stay is shorter. The savings for the Dutch social security system are considerable – Ernst & Young estimates that close to €2 billion would be saved in the Netherlands every year if all home care organizations achieved Buurtzorg’s results. Scaled to the US population, this savings would be equivalent to roughly \$49 billion. Not bad for just home care. Imagine if the incomparably bigger hospital organizations were to be run in a similar manner.

These numbers fail to include what might be even more important — how patients feel about the emotional and relational support they receive during their illness or the last years of their life. Trying to put numbers on this would be arbitrary and ultimately meaningless. It would be equally pointless to try to peg a dollar value to the sense of vocation that has been restored to nurses. A common phrase heard within Buurtzorg teams is, “I have my job back.”

2.4.3 Egon Zehnder International

In its primary area of operations (acquiring managers for other companies), the company’s functioning is based on mutual cooperation of substantive employees called consultants. Their remuneration consists of the basic salary plus a share in the company’s profits. The first component is fixed, while the second component does not

depend on the revenue generated by the consultant, but on the degree of his or her contribution to the construction of the company's position and reputation, as well as his or her seniority. The contribution to building a company is assessed not by the company's management, but by the consultants themselves³⁴.

Egon Zehnder International (EZI) acquires top managers for business and other organizations. It was founded in 1964 in Zurich by Egon Zehnder.

In 2010, with the annual profit of \$605 million, EZI was the world's second largest company in the industry. Over the years 2005 – 2010, the company has recruited more than 1,000 high-level managers and evaluated 20,000 candidates.

EZI employs 380 consultants working in 63 branch offices in 37 countries. Customers range from large and small businesses, long-standing and nascent companies, to public organizations and governments. EZI searches for candidates for managers, as well as entire future management or supervisory bodies. The most common orders include:

- creation of new management and supervisory bodies from scratch and the evaluation and/or restructuring of the existing ones;
- finding outside managers for family businesses;
- creation of strategic advisory bodies;
- management consultancy;
- consultancy in the scope of building remuneration systems.

Work style

The fee charged by EZI to the client is agreed upon before signing the contract and does not depend, as in other companies of this type, on the salary of the future candidate for work. When setting the rate, the future position of the candidate and the level of difficulty in finding the candidate assessed by the company are taken into account. This principle eliminates any conflict between the company's interest and that of the client. It also turns out that EZI's fees – due to its outstanding reputation – are usually higher than those charged by its competitors. In the case of small companies, remuneration in the form of company shares is also accepted.

More than two thirds of orders come from regular customers. A candidate's job recommendations are based not only on the assessment of his/her competences, but also, to a very significant extent, on the assessment of his/her readiness (and capabilities) to adapt to the culture of the organization which is to employ him/her. EZI representatives take part in the interviews between the job candidate and the client. Each consultant handles an average of 12 orders per year.

EZI boasts the lowest staff liquidity ratio in the industry (at the level of 2% with the industry average of 30%), which also allows for maintaining very good and steady contacts with customers. Corporate culture is based primarily on the cooperation between consultants.

Consultants

Consultants, i.e. EZI's substantive employees, must not only have very high professional qualifications (at least two completed fields of study, or one field plus MBA, or a doctorate), but should also be characterized by modesty, reliability, and readiness to devote their entire professional career to the company. Each candidate for a job meets with 20-30 EZI consultants before

³⁴ All information in this section dates prior to 2014.

he can be accepted. If any of the consultants expresses serious concerns, the candidate is no longer considered for the position.

After five years of work, the consultant may apply for partner status. During this time they are closely monitored by the company, but not in terms of the number of acquired customers and earned revenues, but in terms of honesty, commitment to work, ability to cooperate with other employees, and entrepreneurship. Their non-business activities (e.g. publication of articles, invitations to give lectures) or active participation in groups of graduates of their former university are also taken into account. The partner status is decided by the assembly of partners at the request of the partnership evaluation group, which has the right to consult all persons who have contact with the consultant, i.e. his/her colleagues, partners from his/her branch, and even the clients for whom it worked. For about 20 candidates for partners per year, not more than one or two fail to obtain this status.

A consultant who becomes a partner buys a three shares issued by the company. These shares must not be sold on the outside market, but their value increases year on year (see Point 2. below). On leaving for another job or retirement, a partner sells his/her shares to the company, thus obtaining an additional bonus.

Consultants' fees

Non-partner consultants have a fixed salary plus an annual bonus depending on how effectively they supported their colleagues in their work and to what extent they have contributed to enhancing the company's reputation, e.g. by publishing an article in a prestigious magazine. In no way does the bonus depend on the individual financial results of their activities.

The remuneration of each partner is comprised of four components:

1. Basic salary, which depends (insignificantly) only on the country of operation of the partner. The purpose of this is to ensure equal living conditions for all partners despite the differences in the cost of living between, for example, Warsaw and New York.
2. The increase in the value of shares growing annually by the amount being the ratio of 10% of the profit of the entire company – the entire company, not just a given branch (!) – and the number of shares currently in the hands of partners. This 10% of the company's profit remains with the company.
3. An equal share in profits for all, calculated by dividing 54% of the profit by the number of partners.
4. Seniority bonus calculated by dividing the remaining 36% of the profit by the total number of man-years of seniority and multiplying it by the number of years of seniority of a given partner, though not more than 15. If the partner does a particularly bad job, the number of his/her seniority years may be reduced.

In order to calculate the seniority bonus, the number of seniority years of all partners is added up first (assuming that seniority above 15 years counts as 15 years). Then 36% of the profit is divided by this sum, which yields the value of one seniority year. Finally, the seniority bonus is calculated for each partner by multiplying the value of the seniority year by the number of seniority years, but not larger than 15.

The only exception to the rule of seniority is Egon Zehnder himself (now retired), who has never received the highest salary in the company. In his opinion, it facilitated the acceptance of the remuneration system by the other partners, who otherwise – especially the younger ones – could have viewed seniority bonuses as a neat formula to conceal cronyism. According to Mr. Zehnder, the remuneration system outlined above has three main advantages:

1. It prevents employees – as well as branch offices of the company – from competing with each other over gaining a customer, but encourages them to transfer the customer among each other in such a way that the service is performed in the best possible way. For example, if a client requests the help of a Zurich partner in finding an employee for his company in New York, that partner will refer him to his New York colleague, who is sure to have a better knowledge of the local job market. For the client, it will be not only better professionally, but also cheaper, because many expensive trips between Zurich and New York will be avoided.
2. It allows the consultants to avoid facing the problem of conflict between their own interest and the interest of the company and the client.
3. It is very simple in calculating remuneration. Competitive companies, in which remuneration is based on the income earned for the company by the employee, complex bookkeeping must be employed in order to assess how much revenue each of the several employees working together for the same client has brought to the company. It is not infrequently the case that a company has to deal mainly with such calculations throughout one whole month of each year.

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2.4.4 Mary Kay Cosmetics

A typical huge sales pyramid consisting of 1.8 million independent consultants, whose operations are synchronized only by a deep, 15-level mentoring hierarchy.

The company sells cosmetics and provides cosmetic services in 30 world markets. In 2007, it reached \$2.4 billion in turnover, and has experienced double-digit annual growth since its inception in 1963. In 2003, a Polish subsidiary was established.

All sales are carried out by 1.8 million *independent beauty consultants* organized into a structure, which I shall call a *mentoring pyramid*. This is a kind of sales pyramid known from other companies, but it is distinguished by the emphasis on the mentoring function of each consultant of a higher level in relation to their mentees of a lower level. The structure, from the lowest to the highest level, features the following posts:

1. Independent Beauty Consultant (IBC)
2. Senior Consultant
3. Star Recruiter
4. Team Leader
5. Future Sales Director
6. Sales Director in Qualification
7. Sales Director
8. Senior Sales Director
9. Future Executive Senior

10. Executive Senior Director
11. Elite Executive Senior
12. National Sales Director in Qualification
13. National Sales Director (NSD)
14. Senior National Sales Director
15. Executive National Sales Director

All consultants buy products from the company and receive training and organizational support. Beginning from the Star Recruiter, the company pays a commission on the sales of recruits. This is the remuneration for the training provided to the lower-level consultants.

Nobody has a boss over them, and the gradation of positions indicates who provides support and experience to whom, and not who can give instructions to whom. It is, therefore, a gradation of mentors, a gradation of knowledge rather than power. Mentors are not bosses, because they do not make decisions regarding the actions of their recruits.

Here is what a Polish consultant wrote to me about the company:

Owing to these simple principles, there is no artificial hierarchy, autocratic rule, carrot and stick, or other negative behaviors, which are so often found in corporations or smaller companies.

The respect that female directors have with consultants comes from their work, because being a director at Mary Kay means being a leader, not a manager. In addition, each director has previously followed the path of a consultant and knows exactly how to lead her recruits well, while the consultant – being aware of this – has sincere respect and trust in the director, because she knows that she has managed to deal with what is now her path.

Mary Kay Cosmetics was founded by Mary Kay Ash, who decided to create a company which offers women a job that brings satisfaction and a sense of commitment. The role of the head office, together with its local branch offices, is not only to provide consultants with cosmetic products for sale, but above all to ensure that they are happy and committed to their work.

Find more about the company at www.marykay.pl and in the book by Mary Kay Ash [5].

2.4.5 W.L. Gore & Associates

The organization lacks a central management structure. It is based on the cooperation of partners and the leadership of spontaneously selected project sponsors. The variable structure of the project teams adapts to the current tasks of the company. Much attention is paid to developing innovations. This is also the source of the company's greatest successes.

The company originated as a producer of guitar strings coated with Teflon, and today it supplies the market with over 1000 plastic products, the most common of which is GORE-TEX fabric. For 50 years, it has been one of the 200 largest private U.S. companies, and its medical products only are used by 7.5 million customers worldwide. The company focuses primarily on innovation, and one of its most innovative elements is its leadership model. In 2008, the company earned \$2.1 billion and is considered one of the most desirable employers. It employs 250 employees.

The company features no formal job structure and employees are called partners. All offices are of equal size. The work is carried out in small teams being formed and changing according

to current needs. Partners decide on the employment of new partners and are remunerated on the basis of the contribution made.

The organization of the company is based on a *grid organizational structure* created by its founder Bill Gore and having the following characteristics:

1. Communication between employees takes place without intermediaries.
2. There are no permanent authorities and instead of bosses, there are project sponsors.
3. The one who has supporters becomes a leader.
4. The goals are set by those who will pursue them.
5. The task is given to the one who commits himself to carry it out.

The company's corporate culture is based on four foundations:

1. justice,
2. freedom,
3. commitment,
4. taking prudent risks.

Each employee may devote half a day a week to work on his or her own concept. Most of the ideas leading to new products emerge at that time. When the concept is ready, a team is created for its implementation, for which, preferably, volunteers are recruited.

According to Bill Gore, the team leader should meet the following conditions:

- he/she is valued by the team for their knowledge and experience;
- the team expects him/her to coordinate its activities;
- he/she sets important goals, indicates actions, and is capable of achieving a consensus within the team.

As a rule, decisions are made as a team. This also applies to salaries. There is a special committee which allocates the level of remuneration to each partner depending on who "contributed the most" to the operations of the company. The understanding of "contribute the most" is determined by the partners themselves.

Source: Baghai et al. [6].

2.4.6 Semco

The company lacks typical management structures. Employees make most of their own decisions and feel responsible for them. They also determine their own salaries and those of their bosses. Much attention is paid to revealing and developing talents.

Semco is a Brazilian electromechanical company with the world's longest queue of managers who want to visit it and – in order to do so – need to sign up many months in advance. Since 1994, the company has enjoyed a double-digit growth almost every year. For the last 25 years, staff rotation remained on the level of 1-2% (with the industry average of 18%).

Semco has 3,000 employees, but no typical management structures, such as vice-presidents, directors of operations, or human resources, and one of the six managers plays the role of CEO on a semi-annual rotational basis. There are no rigidly defined responsibilities and no formal structure, and employees are called partners or coordinators.

Every six months, employees determine their own salaries, as well as those of their bosses. They also rate the bosses, and those who receive low grades have to leave. Nevertheless, at Semco, management salaries are among the highest in the country.

The head of the company and the creator of its corporate culture gives employees the right to make most decisions and to act in their own and the company's interest. Nobody controls anyone in the traditional sense of the word. According to the head of the company, the efficiency of employees is a result of freedom. The company culture is based on ten principles:

1. To be a reliable and trustworthy company.
2. To value sincerity and openness higher than immediate business.
3. To seek a balance between short- and long-term profits.
4. To sell products and services at fair prices.
5. To provide personalized customer service.
6. To encourage employees to be creative.
7. To encourage everyone to make decisions and to challenge decisions coming from above.
8. To maintain a pleasant and informal atmosphere.
9. To maintain safe working conditions and control industrial processes.
10. To have the humility to admit to errors.

These principles are laid out in a comic book. The company emphasizes that *employees should speak and argue when something is wrong or does not fit the company's vision*. Ricardo Semler, the founder of the company, claims that the aim of his work is not to earn money, but to make his employees *feel good about life*. His principles of work organization without top-down control are as follows:

1. Forget about management.
2. Never stop developing.
3. Do not be a nanny.
4. Allow talents to be revealed.
5. Make decisions quickly and openly.
6. Build a differentiated partnership.

Source: Baghai and others [6].

2.4.7 Marco

It is a modern and dynamically developing company with virtually no management structures, which has set as its main goal the following task: *to make the world a better place through products and services and social activities for the benefit of the local community*. The company produces labels, gaskets, washers, and packaging. About 50 small but very modern production lines are manned by 20 operators. They execute a dozen or so production plans at one time.

Marco company from Gliwice (<http://www.MakingThingsUnique.com/>) was founded in 2000 by Marek Śliboda by inviting three of his colleagues to cooperate. As a student, he lost his job at a label printing company and decided to stay in the industry and compete with his former employer.

And so initially, there were four of them. Today they employ more than 100 people and have sales offices in Brno (Czech Republic) and Sofia (Bulgaria), a production branch in Toruń, and a warehouse in Usti (Czech Republic). They boast of their fully automated production lines, most of which they design themselves in cooperation with leading manufacturers in the country

and around the world. The IT system created by them is used to manage the company, as well as to control production lines.

The company's headquarters is located in an elegant and friendly building with an area of 4500 m² located in the Katowice Special Economic Zone, while another building has already been designed. The layout of the interiors including the furniture was designed by themselves. In business, they obtain a 20% profit rate. They successfully apply for EU funds by investing in research and development work.

Marco is one of many young, ambitious, and thriving companies in Poland, but what distinguishes it from others is the highly Teal philosophy of work and life, even though the founders had not heard about Frederic Laloux's book until June 2016. They define their strategic foundation (cf. section 9.11) in the following way:

- **Mission** – to design and deliver unique, high quality products that will positively influence the lives of people and the development of enterprises.
- **Vision** – to become one of the most innovative and influential companies in the world in terms of global progress.
- **Values** – widely understood respect for people. Solving social problems and respecting the environment.
- **Methods** – an endless process of improving and eliminating unnecessary losses. A continuous process of inspiring and motivating people to further development.

They follow this foundation on a daily basis, remaining faithful to the 14 principles that they have called the Marco Organization Culture:

1. *Providing exceptional products in terms of quality and functionality for the development of the global economy and progress.*
2. *Broadly understood respect for people.*
3. *A consistent and endless process of training for all by all.*
4. *A consistent and endless process of improvement and rationalization.*
5. *A consistent and endless process of learning, upgrading qualifications, and skills development.*
6. *An endless process of facing new challenges and taking more responsibility in the organization's structures.*
7. *An endless process of raising everyone's awareness on a micro and macro scale.*
8. *An endless process of developing and improving communication at every level of the organization.*
9. *A broadly understood commitment of everyone to all areas of MARCO's activities.*
10. *Developing the organization while respecting the environment and actively promoting 'green thinking'.*
11. *A unique approach to charity and community work.*
12. *Exceptional support and respect for the family and the immediate community in order to achieve a long-term symbiosis between private life and professional career.*
13. *Security and stability of employment and exceptional support for members of the organization in case of family or health problems.*

14. Building long-term common prosperity through exceptional efforts, best ideas, and actions in all areas of the organization's operation.

This ideological core was created by several dozen employees when the organization was still in its early years. Since then, as they say themselves, it has become *an unchangeable foundation on which Marco builds its timeless organization*. This means, among other things, that the recruitment process for all positions, from an engineer to a cleaning lady has been entirely subordinated to it. At Marco, they assume that professional competence can always be improved, but changing the system of values may not be feasible. That is why they talk to each candidate for a job for many hours about their values. And it works for them in almost one hundred percent of cases.

Having been accepted to work, every employee is provided with a continuous support in personal development and an extremely socially friendly working environment. There are, in fact, no positions in the company, only functions. And so, there is no hierarchy of power, but there is a hierarchy of knowledge and experience. For example, the leader in the production hall – wearing a white shirt – is appointed to solve emergency technical and organizational problems. However, he never tells anyone what to do, but supports people with his knowledge and experience.

The company's principle is that everyone deserves the same respect, has the same tools, benefits, rewards, and gifts. In the company's car park, there is a luxurious Mercedes at the disposal of every employee who, for example, goes to see a customer. It is also possible to reserve it free of charge for a weekend trip with the family. Since the beginning of its activity, the company has focused on long-term development through raising the awareness of all employees and business partners. Employees, going through successive stages of personal development, design and implement tools which improve the company in the field of values, communication, technology and organization.

As it is often the case in Teal organizations, there is no performance bonus at Marco. What motivates people is the feeling that they are implementing the company's most important goal – *to make the world a better place through products and services and social activities for the benefit of the local community*. For them, money is only a side-effect of work, but not its ultimate goal.

Leaders learn to serve the development of their coworkers. Recapitulation and feedback regarding work travel in both directions: from the leaders to the employees and from the employees to the leaders. In an integrated management system, every feedback is the basis for continuous improvement of processes and self-improvement of people. In addition to respect and proper communication, continuous improvement is the driving force behind Marco's efficiency.

At Marco, in addition to training, of which there are many, employees set up working groups to solve problems, optimize processes, and eliminate losses. For years, Marek Śliboda, the founder and President of the Board, has been running his own Academy, where he passes on the values of the company, infects people with passion, and builds responsible attitudes in accordance with the principles of corporate social responsibility. Meetings within the Academy, as well as meetings of all employees provide excellent opportunities for democratic consultation of many decisions. It builds a sense of respect and mutual trust – people feel that the company is the result of their joint work.

Despite its excellent financial results, Marco does not boast of its successes, claiming that *they are but three steps out of a hundred planned*. In the near future, the company intends to

focus on research and development in order to design more and more modern, high-quality products for people and industry.

The third (besides respect and self-improvement) pillar of Marco's operations is active and effective work for the local community. The company's budget for the implementation of the #marcopamaga [Eng. marcohelps] program (approx. 10% of the annual income year on year) is also supplied by the employees, who allocate 1.5% of all received financial gratuities for this purpose. They also regularly devote their time to a continuous program of knowledge sharing and the promotion of company values.

Marco proves that a company can be both profitable and socially responsible, that it is possible to learn, develop, and have no conflicts among the staff of several dozen people. It is possible to regularly ask colleagues what problems or barriers they are facing and what else the company can do for them. Or rather not "what the company can do for them", but: "what they can do for themselves", because the company is them. By designing subsequent tools that protect the company from squandering values and ideals (while the company increases employment and its scale of operations), Marco builds high responsibility and commitment of people in its timeless, visionary organization.

2.4.8 Brewa

Brewa (<http://www.brewa.pl>) offers solutions based on clean and renewable energy sources, specializing in solar power plants (photovoltaic installations). It installs energy management systems with the use of LED lighting and the selection of appropriate heat power and electric energy power, and helps to choose the cheapest energy operator. It is a team of five people which has formally existed since February 2015. An executive team of five persons cooperates with them on a permanent basis.

Below is a report by Maciej Borowiak, one of the founders of the company.

School education means permanent evaluation, classification, competition, and it is not important who we are, but how many points we scored or which place we took. In business studies, we learn that the winner takes all, that business is a jungle, that the only thing that counts is profit. Win-win negotiations are presented as a curiosity and not a natural process of cooperation with suppliers or customers. What counts is negotiation techniques, manipulation, NLP, etc. Thus, the education I am writing about does not offer us space to build self-esteem or trust in ourselves and other people.

Poles are brought up in the Catholic tradition of values, unfortunately often misunderstood, because we replaced the religion that promotes love and joy with mortification. However, if we are lucky enough to find good educators, read the Scriptures and other literature, we will begin to arrive at interesting conclusions and wonder what mercy, love, respect for another human being are.

Upon graduation, we can easily fall into the trap of "Excel assessment", which completely dehumanizes us, but this is exactly what corporations are like. In Joel Bakan's book *The Corporation*³⁵ we find the following words:

35 Joel Bakan, *The Corporation: The Pathological Pursuit of Profit and Power*, Free Pr, 2005 (a text from the back cover)

The corporation lies, steals and kills without remorse and without hesitation when it serves the interests of its shareholders to do so. It obeys the law only when the costs of crime exceed the profits. Corporate social responsibility is impossible except insofar as it is insincere.

Over the years, various ideas, philosophies, and values mill about in our minds; the question is: will they be discovered, will we find the courage to live in truth and in opposition to the everyday world? We are going to be “suckers”, or at least considered to be less enterprising, if we do not break 10 or 20% of the initial price from each transaction. And yet, such an attitude is based on the assumption that the seller overstates the price, and not that he based it on fair calculation!

For me, Christianity and the simple attitude of Christ are invariably inspiring – respect, mercy, joy, using one’s talents, hard work, fun. I would lie if I said that I was always guided by these values, but I will tell the truth if I say that I think about them every day. Religion and sport, which are both very important to me, carry a common message: it is not important how many times you fall, it is important how many times you rise.

I have always believed in people. Working in student organizations, I was guided by the belief that people are like a stone, which needs to be pushed a little and then it will roll on its own. This metaphor has proved its worth many times.

Working in various companies, always as a salesman, I was most often evaluated according to a simple system: “You are as good as your last sales month”. In every company, I became one of the best traders, which wasn’t easy, because I’m a marathon runner – literally and figuratively – rather than a sprinter. I learned a lot during this time, but it also cost me a great deal of health. After working for one company, I was ill for almost two years.

I have always dreamt (and I was even sure of it) that one day I would co-create an organization in which respect is gained through knowledge and through one’s attitude, in which admitting one’s mistake is a sign of strength and not weakness.

I am convinced that nothing happens without a reason. Three years ago I met Karol Marczak, who became my partner a year and a half ago. We know each other only briefly, but we understand each other as if we were as thick as thieves. There is no doubt that we share similar values. The family is important to us, just like another person is, and we believe that profit is a side effect of hard work. We want to create a unique, or colloquially speaking “cool” organization, enjoy the process of creation, and share it, believing that the award will come later as a consequence of our courage. Courage seems to be the right word, because unconditioned trust in people when we invest all our assets in one undertaking is exactly that, isn’t it? To make it clear: I still have a problem with trust, it costs me a lot of work and stress.

At this point I must add that we and our organization are lucky to attract great people. Those who come to us become acclimated quickly and give their hearts to the company. We haven’t yet created a full hierarchy of values – the right moment for that is still ahead of us. Last year (i.e. 2017) brought a constant struggle, month after month as the market turned out to be difficult. However, we did manage to work out some principles:

1. Since the company was founded, we have assumed that sooner or later it would be owned by many people, certainly those who joined us and took the risk when it was serious; when we were talking about a bright future and not about the facts.
2. Team members are the basis of our activity; therefore, we invest in them through training, financing their postgraduate studies, buying life insurance, etc. We began with apples and an espresso machine.

3. We are working on ECOMANIFEST, e.g. we would like to co-finance the purchase of bicycles for people who plan to commute to work in this way.
4. We have all decided to pay a “tithes” from the net profit for social purposes. At the turn of the year, we jointly determine which charity activities we will allocate these funds to. We make sure that this is not a one-off measure, but one that will allow our beneficiaries to change their life perspective and have hope. We believe that the worst thing that can happen to a human being is the lack of prospects for changing his or her fate.
5. From the very beginning, we have taken great care to maintain good relations with our business partners. It is very important for us to pay all invoices on time.
6. Trust in employees and co-workers is the basis of our existence.
7. To avoid control, we established sales and production standards. We are now creating another one – the standard of regulations – and we are going to stop there. However, because we are only human, the principle of *double check* can be very helpful.
8. Everyone has the right to make a decision, if they can take responsibility for it.
9. We stopped drawing up budgets. We make an investment or purchase decision when it is necessary.
10. If we want the team to be a team for thick and thin, everyone must know what the financial condition of the company is, not only when it is necessary to cut costs, but also when the company is flourishing. And so the information about how much we have earned, who is our debtor, etc. is available to everyone. Towards the end of the year, we determine what part of the profit can be used for additional remuneration.
11. We don't have work regulations, so in principle everyone can come when they want to and leave when they finish their work. In practice, however, mostly because we have to adapt to the rhythm of our children's day and also to the rhythm of our customers' work, we usually work from 8 a.m. to 4 p.m.
12. The hierarchy is simplified to a minimum. There is a leader and a specialist-consultant. Who is the leader accountable to? To other leaders.
13. Each sales team consists of two people, each with their own sales targets. They also receive an additional bonus when they together complete the tasks which they set themselves in advance. Salespeople know what the cost of their work position is and what monthly income they need to generate in order for the company to function.

Personally, I think that a sales department is like a football team: if you can't win the Champions League (meaning: receive a big bonus), the motivation to work is lower, and the work itself loses the “commercial flavor”.

As the author of the above statement, I would like to be assessed objectively, because self-assessment is always subjective. Perhaps when one of my co-workers reads this story, they will say that we often don't act as I said we do. But perhaps they will also add that we are always trying to do so.

Part II: BUILDING RELATIONSHIPS

3 When you listen and speak

The first step on the way to Teal is to master the ability to build good relationships with another person. We build these relationships first and foremost when we come into direct contact with someone. When we listen and speak.

3.1 Mindfulness

One of the four components of emotional intelligence (section 5) is social skills, by which we mean: effective persuasion, ability to listen, mitigating conflicts, catalyzing change, creating bonds, cooperation, and organizing cooperation. To put it in other words, we should:

- know when and how to listen to people;
- know when and how to talk to people;
- resolve conflicts in such a way that no one feels affected by failure;
- build and maintain an open dialogue with those we care about.

3.1.1 Active listening

*We were given two ears but only one tongue
so that we can listen more and speak less
— an old Polish proverb³⁶*

Many people think that the one who speaks controls the situation, not the one who listens. After all, listening is a completely passive activity, isn't it? So I just sit and listen. An inexperienced negotiator is, therefore, rushing to the floor. He tries to tell the other party as much as possible, to convey as many arguments as possible in favor of his position or proposal. He cuts the other party off from speaking or interrupts. He does not understand that the more he learns about his interlocutor, their doubts and expectations, the more effective he will be in the process of negotiations. That is why an experienced negotiator speaks little at first, but listens a lot and asks questions. He or she understands that:

*The direction in which the conversation is heading
is not determined by the one who speaks, but by the one who asks questions.*

Of course, listening is not only important in negotiations. Listening is important every day, because it is listening, more than speaking, that builds a relationship with another person. But it cannot be just sloppy listening. It must be a kind of listening which makes the speaker believe that we are actually listening to them, that we are listening with interest, that we want to know as much as possible and, finally, that we respect them, even if we do not agree with them. Listening, which builds such a belief in the speaker, is called *active*. The most important principles of active listening include:

³⁶ Source: Anna Dąbrowska, *Język polski*, Wydawnictwo Dolnośląskie, Wrocław 1998

1. Body language

- a. Position yourself in front of your interlocutor (the hips, not the shoulders, are the point of reference).
- b. When you are facing each other, do not enter the personal space of the interlocutor. Check whether you're not standing too close, because some people may feel abashed or even irritated. In our cultural zone, the safe distance is about one meter. Of course, this principle applies not only to listening, but also to speaking.
- c. Focus your attention on the speaker. Make eye contact from time to time, but don't let it be the "eye of the investigating judge".

2. Respect the speaker

- a. When you listen, don't think about what you are going to answer. Just listen.
- b. Do not interrupt and do not end the sentence for the speaker, because it may irritate them. Ending the sentence for someone is a hidden message with the following content: "Your speaking is too long and uninteresting, and I still know better what you have to say".
- c. Use "empathic grunts" such as "Oh", "Really", "Ah", "Mmm", "Hmm", "Mm Hm", "I see" to make your interlocutor feel that you are listening. This is particularly important when talking on the phone. Notice that as soon as the listener stops grunting, the speaker almost immediately asks: "Are you still there?"

3. Try to understand

- a. Focus on the experiences and emotions of the speaker.
- b. Ask explanatory questions to get to the details you are interested in. Their presence testifies to your interest.
- c. Use paraphrase, i.e. recreate in your own words what your interlocutor said.
- d. When the conversation was long, end it with clarification. Say: "Let me now summarize what I've heard and you'll tell me if I have understood you well".

Active listening informs the speaker that the listener has understood and taken note of his position, although he may disagree with it. If there are negative emotions, it allows to bring about a change in the attitude of the parties towards each other and thus facilitates understanding.

As in the case of communicating, you should "keep your senses" when listening. However, while the rules related to communicating are important especially when the conversation is difficult, it is worth using them every day when listening, as well as in situations free of bad emotions. The point is, good active listening is an extremely effective way to build a good relationship with another person.

*In order for you to understand the speaker,
your thoughts need to focus on his or her emotions.*

3.1.2 Assertiveness

Assertiveness is a social attitude in contacts with another person, which consists in recognizing that each of the parties (me and you) deserves equal respect, protection of dignity, and respect

for personal rights. Accepting any imbalances in this area – whether to one’s own advantage or to the advantage of the other party – is a departure from assertiveness. Therefore, it is not assertive either to rise above someone, or to allow someone to rise above us. Assertiveness is also the ability to clearly disagree with someone’s proposal. For example, when we are asked, no matter by whom, to do something we definitely do not want to do, we should say so without resorting to messages of a kind: “Well, I don’t know....”, “I’ll think about it”, “Let’s talk about it tomorrow...” etc. We should say, “I will not do this” and then explain our reasons in a way that does not violate the dignity of our interlocutor.

Assertiveness means respecting one’s own boundaries and needs while at the same time respecting the boundaries and needs of others.

In everyday situations, it is good to remember about the following three principles of assertive behavior:

1. **Firmness without violence.** We defend our arguments and if we are not convinced otherwise, we remain faithful to them. At the same time, however, while defending these arguments, we refrain from exerting pressure – whether by taking advantage of our position (superior, teacher, parent), our social status (age, popularity), or even intellectual status (knowledge, ability to ridicule). We also talk openly about our arguments and attitudes. We do not say, “Maybe” when we actually think “Certainly yes” or “Certainly no”.
2. **Kindness without submissiveness.** We are always ready to accept the other party’s reasons, but only if we are genuinely convinced. We do not give in to others just for the sake of peace of one’s mind or in pursuit of popularity.
3. **Techniques without manipulation.** There are many techniques of holding a discussion or dialogue, reaching a consensus or handling a conflict (sections 3.2 and 3.5). If we use them in good faith and they lead to a better agreement, conciliation, a real consensus, it is not manipulation. Manipulation begins when we use techniques that take advantage of someone’s ignorance of the merits of a dispute, someone’s lack of access to information, or someone’s ignorance of the laws of logic.

In order to use assertiveness techniques efficiently, it is good to remember about four areas in which assertive communication skills are used:

1. **Method of communication** – sending a message.
2. **Method of listening** – the so-called active listening.
3. **Method of argumentation** – dialogue, discussion, and reaching a consensus.
4. **Manners** – so that people feel good in our company; in the past, it was referred to as “social refinement”.

3.1.3 Communicating

To talk about assertive communication, it is good to divide the messages into three groups based on the kind of emotions they arouse in our interlocutor:

1. **Positive**, e.g. “Your job has been highly rated”.
2. **Neutral**, e.g. “We have just received an order for a new lot of products”.
3. **Corrective**, e.g. “I have reservations about the report you have written”.

The first two types of messages are easier, so I will leave them without comment, although here, too, we can find some traps (cf. praise or recognition in section 9.6). The third type needs to be discussed, because in this case, it is easy to make a mistake. Naturally, I mean only such situations in which we want to maintain good relations with our interlocutor. I ignore situations in which we intentionally want to discourage someone from further contacts with us.

To explain how to avoid errors in the case of corrective messages, let us begin by considering three more situations in which such a message may be communicated:

1. We want to change someone else's way of doing things.
2. We want to change someone's behavior.
3. We want to change someone's attitude.

The order these three situations are listed is not a coincidence. As one can easily see, each subsequent one is more difficult than the previous one, because it requires a deeper interference in the personal space of our interlocutor. In order to analyze them, I will begin by quoting the well-known – though rather paradoxical – truth:

*In emotionally difficult situations, the way we speak
is usually more important than what we are saying.*

By and large, a verbal message transmitted in direct contact with the recipient is made through the following conventionally understood channels³⁷:

1. Content.
2. Intonation and tone of voice, the use of pauses.
3. Body language, i.e. non-verbal communication – facial expressions, gestures, posture, appearance.

In the case of emotional messages, the most important part of body language is facial expressions, because the interlocutor's mirror neurons responsible for activating the mechanisms of defense react to it. As a rule, facial expressions precede the verbal part of the message, which means that the interlocutor can be prepared to defend himself even before hearing what we have to say to him. I don't need to explain that this doesn't make the task any easier for us. So how are we to cope with such situations? The first most general principle is:

Rule 1

³⁷ This classification is often associated in the literature with the percentage weight of each of the channels – 7%, 38% and 55%, respectively, derived from a 1967 study by Albert Mehrabian conducted at Stanford University. In fact, the study was limited only to statements about attitudes and feelings and involved a small group of respondents. According to the author, today his research is often over-interpreted. Here is what he says about it himself (source: <http://www.speakingaboutpresenting.com/presentation-myths/mehrabian-nonverbal-communication-research>):

I am obviously uncomfortable about misquotes of my work. From the very beginning I have tried to give people the correct limitations of my findings. Unfortunately the field of self-styled 'corporate image consultants' or 'leadership consultants' has numerous practitioners with very little psychological expertise. (31 October, 2002). (For indicating this source I would like to thank my reader Mr. Jerzy Chrzęszcz).

Do not behave in a way which makes your interlocutor defend themselves.

Body language is not only the most important part of the message, but also the part that is most difficult to control. If we do not want to say what we actually think, in the verbal layer it comes to us relatively easily. Unfortunately, body language is usually not cheatable and this is all the more difficult the higher the level of our emotions. So if we want the mirror neurons of our interlocutor not to mobilize them to defend themselves, we must change our internal attitude towards them. The second principle is therefore:

Rule 2

*Before you begin a difficult conversation,
try to see your interlocutor as a human being.*

Fine, but how to do it? We are angry with someone because he has spoiled our work, jeopardized our reputation, or even offended us. What should we do? How should we behave? The answer is 'Wait'. Let emotions calm down. Let us give ourselves time for to reflect. If we were attacked, let's consider emphatically what brought about the aggression of our interlocutor. Note that aggression is usually a defensive reaction, and we defend ourselves when we feel threatened. If we are dealing with such a situation, then by responding with aggression to aggression, we only strengthen the sense of threat in our interlocutor, so we provoke an even stronger reaction. Or maybe we are also falling into a vicious circle of suspicion, of which I am writing in section 4.1.4. Let us consider what our interlocutor may fear and how his fears may be alleviated.

When we intend to correct someone's way of working, someone's behavior or attitude, our interlocutor may be afraid of losing reputation, be it in the eyes of others, his own or often both at the same time. In order to reduce this feeling to a minimum, we should consider the third principle:

Rule 3

*Instead of telling someone what they are,
focus on the effects of their actions.*

Therefore, when we talk about someone else's work, about performing tasks, we should separate this work from the individual. Let us say this clearly, or let us give them to understand that our criticism is not about the person, but only about their actions. And come to think of it, it is not necessary at all, or at least not always, to express criticism. If the actions of our interlocutor do not disqualify him or her entirely, if they do not require a complete change or abandonment of certain types of conduct, we should focus on the positive aspect of the problem. And here we have reached the fourth principle:

Rule 4

*Instead of saying what is wrong,
let us talk about what can be improved.*

The phrase “let us talk” used above does not necessarily mean that we show the interlocutor what to do or how to behave. It will be much better if the interlocutor notices it themselves and offers the way to change. In this case, their attitude to change – instead of being forced by us and therefore rather negative – will be spontaneous and positive. It will be associated with a sense of success, rather than defeat. And success has a much better motivating effect than failure. The question is how we can achieve this. The best way is to apply the third principle, i.e. to talk not about the action itself, but about the effects of that action.

An inexperienced programmer

In a certain company, there was a young man who, in addition to his trade, was also an avid programmer. Let us add, an amateur programmer. This young man once built an in-house website for the company, which stored various documents and information important for the employees. Additionally, the website was used to manage customer relations, as well to place orders by the sales department in the production department. Unfortunately, it did not feature an administration panel, which meant that only its creator could modify the list of users, introduce new price lists, or post files with descriptions of standards. It was necessary to manually insert data into database tables or modify programs. When the creator went on holiday or was ill, the company had a problem.

After some time an elderly employee, who was a computer scientist, met with the amateur programmer. He pointed out to the younger colleague that his website, which performed its function very well, had a major drawback. Nobody other than the creator could change anything in the so-called website engine, because even a professional programmer usually prefers to write a program from scratch, rather than try to understand someone else's code. At that point the young man offered to write a guide to his programs and databases. In the professional language, such a guide is called *documentation*. When the young programmer later left the company, IT specialists who stayed there could further develop and modify the website.

P.S. Unfortunately, only the first part of this story is true. However, I quoted both, because the latter could have happened as well.

It's all very beautiful, someone will say, but what should I do if my colleague behaved in a completely unacceptable way? He was supposed come to the meeting with an analysis of a new project, but he did not prepare the analysis and instead claimed that the project should be rejected without discussion, because it “made no sense”. In such a case, should we say that he could come to a meeting prepared “even better”? Of course not! There are situations when you have to tell someone clearly and openly that they work poorly, that they impede the work of others, and that their behavior is unacceptable.

Sometimes you also have to be able to say that someone is simply not suitable for something. In my scientific career, I have witnessed many human tragedies resulting from the fact that someone did not say this to someone at the right time. The “right time” seems to be crucial here, because life will sooner or later reveal the truth, and then there may be no time left for a change. I have also seen very positive cases of people who understood that they were not meant to be scientists and took up a job in business or commerce and almost immediately turned from a loser into a winner.

But the painful truth must also be told properly and this can be done in two ways.

The first way is to use a *YOU-message*. We say: “You behaved badly”, “You act in a wrong way” or – worse still – “You are an idiot and a jerk, too”. Such a message, whether or not it is justified, triggers a defense reaction, which may turn into aggression. This, in turn, makes us feel surprised, offended and, as a result, also aggressive. However, such developments were to be expected. After all, we broke the first and second principle.

In emotionally difficult situations, it is much better to use the *I-message*. Here, we do not say what someone is like, but how their behavior affects our feelings and emotions. That is the fifth principle:

Rule 5

*Instead of expressing negative emotions,
talk about them.*

Instead of saying, “You behave badly”, we say, “Your way of behaving is very offensive to me, which makes me angry with you”. Instead of saying, “You are an idiot and a jerk, too”, we say, “The way you have behaved makes me angry with you and I would gladly kick your ass”³⁸. Such a message has several advantages:

1. We do not attack, so we do not provoke defense.
2. Our interlocutor cannot say that we are wrong, because we do not formulate any opinion about someone or something; we only report our emotional state. After all, only we know how we feel. And if someone says that we have no grounds to feel that way, we should ask them to convince us of that.
3. It is not a challenge to fight, it is rather a request for help. It is also an expression of trust, because we are rather reluctant to talk about our own emotions to outsiders and people hostile to us.

The *I-message* was very aptly described by Jacek Santorski, who said: *Let us turn insults into confessions*.

It is also worth remembering the following traps, which can happen during a conversation in an atmosphere of conflict:

- **Error of attribution** – others act badly, because it is in their nature, while if we act badly, it is because we were forced by circumstances.
- **Aggression** – it helps others make an error of attribution and causes us to lose our moral advantage. It always destroys the effect of confrontation.
- **Silence in suffering** – contrary to appearances, it leads to explosions of aggression. This is the way in which the sufferer manifests his moral advantage over the interlocutor.
- **The need for social acceptance** – because of the need for acceptance, we are ready to act in an absurd way.

³⁸ As for “kicking someone’s ass”, we can, obviously, use this phrase only when speaking with people with whom we have intimate relations, and never, ever, when talking to our subordinates.

Finally, one more very important point: let us keep our senses. The I-message is a tool we use in difficult situations. If someone in the kitchen is putting together a mincer in a wrong way, we should tell him about it straight away. We do not need to say: “You know, I feel bad seeing you struggle with this machine, maybe you would like to talk about it?”. Obviously, it sounds ridiculous and, therefore, unauthentic. Every day, in normal situations, we should try to be as natural and kind as possible. Simply friendly. It does fix a lot of things. And we should save our special tools for particularly difficult situations, or otherwise they will quickly lose their value. And one more final sentence from Thomas Gordon ([31] page 105):

*When people resist changing, it is generally useless
to keep hammering at them with subsequent I-messages;
what is called for at such times is a quick shift to Active Listening*

In the case of negative emotions, it allows for a change in the attitude of the parties towards each other and thus facilitates understanding.

3.2 Dispute

Now that we have got to know universal communication techniques, we can address one unique communication context, which is created by a dispute. It should be remembered, however, that a dispute is not an argument, although if handled poorly, it may soon turn into one. Someone once said wisely: “If you expect progress, provoke a dispute”. To be able to differ beautifully means to be able to have a good dispute, and this is what I will talk about it in the following sections.

3.2.1 Win-lose or win-win

Many people believe that if two parties are in dispute – one wants to have it one way and the other wants it differently – any settlement of such a dispute must end in the defeat of one party. This is the only outcome, they think, because you cannot have “yes” and “not yes” at the same time.

True, “yes” and “not yes” cannot exist at the same time, which does not mean that every dispute must end with someone’s defeat. This mode of dispute resolution is referred to as *win-lose*. It turns out, however, that very often there is a third option that can be satisfactory for both sides. And that’s the mode called *win-win*.

If the disputing parties are alien to each other or have no intention of ever cooperating with each other, the win-lose resolution is acceptable, at least for the winning party. If, however, the dispute takes place in a team of cooperating individuals, the win-lose resolution means the loser will remain in the team with only one goal: to show that they were right after all.

Of course, the loser cannot show directly that their choice was the right one, because the team is now acting according to its own choice. But this is not a lost cause! After all, it is possible to show that the choice made was wrong. That the established goals cannot be achieved in the selected way. This is usually not difficult, because it is much easier to bring about a disaster than to succeed. All we need is throw a spanner in the works, put a spoke in the wheel, or maybe simply fail to notice that something is already burning. Even if the loser does not act

deliberately, they will almost certainly attribute every defeat in achieving the goal to the wrong choice. Such an individual will be interested in nothing but a disaster!

Imagine the following situation: John and Mark come to the boss. They are to take a batch of goods from London to Manchester. On their way, they should also visit Leicester and Birmingham. John believes that you have to go to Manchester via Leicester and return via Birmingham, but Mark believes it is the other way round. Each of them has their own good arguments. If the boss decides in favor of John, Mark will submit to it, but he will spend the entire trip pointing out the flaws of this solution. His cooperation with John will be limited, because deep down in his soul he will be interested in not succeeding.

What can the boss do if the concepts of John and Mark are mutually exclusive? How can he or she arrive at a win-win situation?

First of all, the boss must stop playing the role of an arbitrator and assume the role of negotiator. His task is no longer to decide who is right, but to reinstall cooperation between John and Mark. So the boss should say: “You are currently sitting at the opposite ends of the negotiating table. You are not cooperating, you are arguing. Please, imagine that you are sitting at the same end, while the other end is occupied by your problem, which you need to solve through cooperation.

First of all, consider whether there are any alternatives to your two proposals. Maybe there is a third, or even a fourth option. Maybe one of these options will be satisfactory to both of you? In this case, the problem would be solved. But if that doesn't work, try to agree that you don't actually know which way is the best. This will be the first step towards consensus. Then draw one of the routes and treat this choice as an experiment. When you're on the road, you'll record all the advantages and disadvantages of this choice. And when you need to travel to these cities again, you will choose the alternative and you will also record your observations. In this way you will collect a lot of observations, which will help you to find the optimal solution. Do not assume in advance that it will be one of the two with which you started your experiment.

By and large, I suggest the following procedure:

1. Identify and describe the problem.
2. Describe possible solutions.
3. Evaluate possible solutions.
4. Make decisions by consensus.
5. Implement the decisions.
6. Assess how the solution works in practice.

The ability to solve (no longer “settle”!) disputes with the win-win method is as useful as it is not common. It is uncommon, because in order to be able to apply it, the parties in dispute must meet three conditions:

1. They need to know in the first place that a win-win method exists.
2. They need to show willingness to cooperate.
3. They need to understand that feelings are transient.

In teams in which the members are in conflict or compete with one another – which is usually all the same (section 8.12) – the win-win method has little chance of success. In such teams the situation often ends up to be the lose-lose one. I may lose as long as he or she does not win. This is, of course, the worst possible solution.

HE/SHE	WIN	win-lose 1 + 1 = 1 (compliance)	win-win 1 + 1 = 3 (no defeat)
	LOSE	lose-lose 1 + 1 = 0 (insistence)	lose-win 1 + 1 = 1 (power)
		WIN	LOSE

I

Table 3.2-1 Four possible versions of resolving a dispute

In the lose-lose version, none of the two potentials for action is preserved. In the win-lose version, only one is preserved. In the win-win version, the combination of two potentials gives their sum increased by the synergy effect (Table 3.2-1).

3.2.2 Consensus

Reaching a consensus is not always easy, nor is it always possible. However, as it turns out, if both sides adopt assertive attitudes, if they want to reach a consensus, and, finally, if they use appropriate techniques, a consensus can be reached more often than it might initially seem.

The first step in reaching a consensus is, naturally, to inform each other of their positions. We call this part of the negotiations a *dialogue*. During the dialogue, one party communicates, while the other party listens actively. The listener makes inquiries, asks clarifying questions, applies paraphrase. Then the roles change. The first party listens, while the other party communicates. During the dialogue, we do not evaluate or oppose each other’s positions. The dialogue serves the purpose of learning and not convincing. More than two parties can participate in the dialogue, but this does not change the rules of conduct – each time one party communicates, while the others actively listen.

When the dialogue is over, the *discussion* begins. Now is the time to convince, to present opposing positions, to challenge the arguments, to reach a consensus, or at least to work out a common position. In order to increase the chances for reaching such a solution, the parties should:

1. Adopt assertive attitudes towards each other.
2. Listen actively.
3. Respect the adversary.
4. Follow the principles of ethics and logic.
5. Use positive techniques but avoid manipulation.
6. Seek a consensus.
7. After the discussion, they should respect the adopted solutions.

If a full consensus cannot be reached, the parties should draw up a protocol made of two parts: agreed positions and divergences. Such a protocol is in itself a form of consensus, which I shall

continue to call a *compromise*, because it allows the parties to cooperate, at least on agreed positions.

A compromise is most often recommended when the parties reaching it do not have a sense of belonging to a single organic entity. Typical situations include negotiations between countries, companies, in the tripartite committee (the state, employers, and employees) or between the management and the trade unions of one company³⁹. A compromise is the best possible consensus in a given situation, but it does not guarantee a peaceful cooperation between the parties in all common areas of activity. A compromise is a way of working together in one area with a divergence of interests remaining in another.

If a discussion about agreeing positions takes place in a team where we care about maintaining a sense of common interest and unity of purpose, then a compromise is not a good solution, as it divides the team into two or more parts, which in certain situations will act against each other rather than together. In such situations, when a consensus cannot be reached, voting is the most common option. A minority commits to subordinate itself to the will of the majority. This solution, although very common and by all means democratic, also results in the emergence of losers in the team. While they have undertaken to subordinate themselves to the will of the majority, the very fact that they have subordinated themselves means they have been coerced, rather than acted by their own choice. The team will, therefore, split into winners and losers, and this leads to the consequences I have already discussed in section 3.2.1.

What can be done in this situation? I suggest to use the win-win approach described in section 3.2.1, which in the case of a decision taken within a team can be implemented in one of two alternative ways, chosen depending on the situation:

- **Experiment.** Circumstances permitting, we choose one of the proposed solutions by drawing lots and then implement it to a limited extent in the form of an experiment. If the experiment is successful, we adopt the solution, and if it is not, we repeat the experiment, but with the use of another solution.
- **Unity in the face of the opponent.** The discussion leader chooses one of the submitted solutions at his or her own discretion and at the same time suggests to the team to choose any other solution, providing everyone (apart from himself or herself) agrees to it. This is, of course, a somewhat enforced consensus, but every decision is made in some kind of circumstances.

Naturally, everything that has been said here must be applied with reason and moderation. Not every situation poses a threat of a rebellion on board, just as not every vote, and not every arbitrary decision of the boss creates a group of losers. If the situation is simple, technical, or organizational, if the boss enjoys a significant and real authority, if the team is well-integrated with relationships based on partnership, then the tools described here will not always have to be applied. Whether to apply them or not is a matter of the boss' intuition and experience. It is a matter of emotional intelligence of the boss and his team members. It is also a matter of openness and trust, because if we do not know how to act, we can ask the team.

³⁹ It would seem that the management and the trade unions are two parts of one entity, which is the company. This may indeed happen, but most often it is not the case, as trade unions are, by definition, organizations that are supposed to defend their members against the actions of the management that are unfavorable to them. And defense is an element of war rather than peace. So if the unions were formed in a company, there must exist something which makes it necessary to defend oneself against. In my opinion, trade unions perform a similar function in the company as the increased temperature in the body – it helps to fight the disease, but it is also a testimony to its existence.

In this context, it is also worth to note how a consensus is understood at Toyota. They define it in such a way that “every person has been heard with due respect and his or her proposals have been seriously considered”. In order for this to happen, an informal process of testing and developing ideas called *nemawashi* is initiated before making a decision on an important issue. The word literally means “digging around the roots of a tree, to prepare it for a transplant”. Before making a decision at a formally convened meeting, the leader speaks to those who should have a casting vote on the matter. Such a procedure gives time for a discussion and reflection and offers a possibility to agree the standpoints and possibly to modify the proposal [54].

Another way of collective decision making is the *weak consensus* used, for example, in Buurtzorg, as discussed in section 2.4.2. However, in this case, a high sense of responsibility among team members and mutual trust are indispensable.

3.3 Criticism

3.3.1 Prosecutor and coach

If we want to communicate our lack of acceptance of someone’s behavior, there are two – quite different – paradigms of behavior that may be implemented:

1. Prosecutor – “I want to prove someone’s guilt”.
2. Coach – “I want to change someone’s behavior”.

The prosecutor’s attitude is acceptable if nothing is to connect us with the criticized person in the future and, in particular, there will be no co-operation between us. Such proceedings are typical in criminal courts and may also take place in a company, e.g. if we want to dismiss someone in a disciplinary mode. However, these are extreme situations and quite easy altogether. Much more often, however, we criticize someone we do not want to part with. This may be an employee, a spouse, a child, a friend or a colleague whose behavior is unacceptable to us. If we still assume the attitude of a prosecutor in such cases, it is probably because we expect the following course of events:

inappropriate behavior → *accusation* → *sense of guilt* → *appropriate behavior*

Such a course is feasible, though most often, it will be different:

inappropriate behavior → *accusation* → *sense of threat* → *defensive behavior*

An accusation can only result in a change of behavior if it entails a genuine sense of guilt on the part of the accused and if this sense of guilt is stronger than the fear of an imminent punishment. Let us add that the expected punishment does not need to be corporal, material, or disciplinary. If we make someone accept their guilt by force rather than by arguments, if we do so in an arrogant manner which violates their dignity, their admission of guilt causes a sense of humiliation (section 3.4.3). From the emotional point of view, it is a very severe punishment.

For the above reasons, it is not a sense of guilt that is usually the consequence of the accusation, but a sense of threat, which is all the stronger the higher the expected punishment. And what does a person who feels threatened do? Naturally, they spring to defend themselves. They will deny the facts, behave aggressively, try to discredit us by using manipulation. They will also assume, quite rationally, that by changing their behavior, they will acknowledge their guilt. So they become bent on not changing anything. Now inducing any change in their behavior becomes much harder than before. Even if we succeed, it will most often be just a superficial change. Deep inside, the accused will continue to be convinced that they are right and will

return to their previous behavior as soon as an opportunity arises. They will also often use camouflage instead of changing their behavior. Although they will not change their behavior, they will try to hide it from us. For example, this will be the case when the task we ask someone to perform is not feasible (section 19.2).

In order to avoid all these problems, it is necessary to move away from the prosecutor's model and replace it with the model of a coach: move away from proving guilt in favor of searching for the cause and act towards the following sequence of events:

inappropriate behavior → *cause analysis* → *removal of causes* → *appropriate behavior*

Here are five basic principles that a coach who wants to change someone's inappropriate behavior into appropriate behavior should follow:

1. Do not express an opinion – describe the facts.
2. Do not use allusions – speak straightforwardly.
3. Do not talk about guilt – talk about consequences.
4. Do not force anyone to lose face – help them save it.
5. Do not talk about punishment – talk about change.

A certain production company prepares to negotiate a contract with a very large customer with an extensive sales network. For that reason, it instructs one of its employees to prepare a report on the offer, which would be a starting point of the negotiations. Alas, the report is prepared carelessly and as a result of that, the contract is not signed. Table 3.3-1 presents examples of two interviews with the author of the report, one conducted from the position of a prosecutor and the other – from the position of a coach.

Prosecutor	Coach
<p>Opinion Your report is unacceptable. You have shown no sense of responsibility.</p>	<p>Facts You did not include any market research or consumer preferences in your report. It also lacks final conclusions.</p>
<p>Allusion Some people think that they can afford to neglect their duties in our company.</p>	<p>A straightforward message I have the impression that you have not devoted enough work and attention to this report.</p>
<p>Guilt It is your fault that the company has been exposed to serious losses.</p>	<p>Consequences As a result of this, we did not sign a contract that was very important to us. This may result in a loss of our financial liquidity.</p>
<p>Losing face You must admit that you behaved irresponsibly. Like a whipster!</p>	<p>Saving face You have made a serious mistake, but who does not make mistakes? However, you cannot just disregard this.</p>
<p>Punishment You can expect no bonus this month.</p>	<p>Change Let's consider together the reasons for your failure to prepare a proper report and what can be done to prevent this from happening again in the future.</p>

Table 3.3-1 A comparison of the prosecutor's and coach's statements

The statements presented in Table 3.3-1 are examples of confrontational messages. In order for such messages to be effective, they need to comply with the following four conditions:

1. They must have a high probability of triggering a positive change.
2. They must not lower the self-assessment of the other party.
3. They must not harm mutual relations.
4. The method of addressing the problem should remain an open question.

The example from Table 3.3-1 corresponds to a situation where the coach was not personally involved in the issue which was the subject of the interview. If this is not the case, it is necessary to include the I-message into our speech. This is how such a conversation could begin:

	Topic of statement	Statement
Facts	Description of interlocutor's unacceptable behavior without blaming them.	You give me materials to report on immediately before the meeting.
Results	Description of specific direct result of that behavior for you.	As a result of that I cannot prepare my statement properly.
Feelings I-message	Description of feelings evoked by that behavior.	I feel uncomfortable in front of the participants and I am terribly angry with you.
Consequences	Description of your possible behaviors resulting from those feelings.	I think I will have to tell them why I was not prepared.

Table 3.3-2 Personal confrontation statement

When we feel that our reasons prevail, that our interlocutor is ready to accept them, we should try to make it easier for him or her by helping them to save face. At that point it is worth remembering a wise Chinese proverb:

Build them a golden bridge, so they may have a way to retreat with dignity.

Finally, here are two more pieces of advice in case we are criticized:

- Do not deny it – make it more precise.
 - instead of saying: “It is not true that I am always late”.
 - say: “During the last two months I was late twice”.
- Do not accept accusations passively – ask about expectations.
 - instead of saying: “I did indeed behave terribly and I honestly don’t know what to do now”.
 - say: “I didn’t behave well, so I’d like to fix it now. What would you expect me to do?”

3.3.2 A complaint by a subordinate against their boss

It may happen that your *charge's* or charge will come to you with a complaint against their boss. How should you react then? Thomas Gordon ([31] p. 223) proposes the following procedure⁴⁰:

1. Listen to the employee in an atmosphere of empathy, but do not take a stand on the issue. Suggest ways/techniques of solving it.
2. If you find a good solution, this is the end of the conversation. If no solution is found, suggest to your interlocutor to speak directly to their boss using the I-message.
3. If the employee is afraid of such a conversation, suggest that the problem be solved with three parties present.
4. If that is also not good enough for the employee, explain to them that you will not make any decision in the absence of their boss. Do not let yourself get involved into solving the issue. It should be solved by the interested parties themselves. You can only be a moderator, but never a referee.

Naturally, this scenario concerns a situation in which there has been no drastic violation of the rules, law, or principles of social coexistence. Because if that is the case, you must apply the procedures provided for in such situations.

3.3.3 If you have a problem with your own boss

Here is another situation, this time you having a problem with your boss. In this case, Thomas Gordon ([31] p. 226) proposes the following conversation scenario⁴¹:

1. Ask your boss for a meeting at a convenient time.
2. During the meeting, use the I-message and be prepared to listen. Suggest a win-win method.
3. If your superior does not agree to the interview or no agreement is reached, suggest an interview with a moderator. Ideally, it should be someone in an equivalent position to your boss, but it may also be his or her boss.
4. If your superior does not accept such a solution, tell him or her that you are going to ask their boss for help, but you would prefer to go there with your superior.
5. If you still do not get your boss' consent, go to their superior and explain that steps 1-4 did not lead to an agreement.

3.4 Traps, mistakes and problems

Building positive relations with another person is not a simple task, and the principles associated with it are not always obvious. It is also easy to fall into a trap, which someone set on us, or to set it up ourselves, often unknowingly.

⁴⁰ This is not a quotation, but my analysis of Gordon's scenario.

⁴¹ This is not a quotation, but my analysis of Gordon's scenario.

3.4.1 Manipulation

From the point of view of assertiveness criteria, *manipulation* is a cardinal sin, because it is an unfair attempt to gain an advantage in a debate, either by concealing the truth or by falsifying it.

Technique	Example
Reinforcing the opponent's thesis (then it is easier to disprove it)	Statement: The head of a state institution should not employ his children there. Reinforcement: Only orphans may be employed in state institutions.
Change in the context of the statement (a particular kind of reinforcement)	Statement: <i>You should not say that your team is the only one that works well.</i> Out of context: <i>Am I forbidden to say that my team works well?</i>
Concealing real information (then it is easier to prove something)	Statement: <i>The fraction of errors dropped from 36 to 4%.</i> Concealment: <i>He acknowledged himself that they keep making errors.</i>
Populism (a particular form of concealing information)	<i>A statement on the flat-rate tax: Is it OK for Mr. Kulczyk to pay the same tax as Kowalski?</i> <i>In fact, the flat-rate tax is a tax proportional to income at one equal rate for all but not the same for all.</i>
Intonation fraud (in fact, a change of content)	<i>When reporting on someone else's statements, there is a complete change of intonation in relation to the original.</i>
Transferring the discourse to the interlocutor (a new field of discussion, new arguments, the interlocutor begins to defend himself)	Statement: I think it is a good project. Transfer: <i>You have a vested interest in saying so. And you also want to please your boss.</i>
Thematic leap (a higher form of topic change)	The example from the movie <i>Upał</i> [Heat] by Wasowski and Przybora shows the most common techniques of manipulation (all examples are authentic!).

Table 3.4-1 The most frequent manipulation techniques

A typical manipulation measure, quite often used in discussions (not to say: in arguments) between politicians, is to strengthen the opponent's thesis in order to make it easier to disprove it. In a radio discussion (2012) about nepotism in some political parties, one of the politicians criticized for the fact that his child worked in the institution he headed said: "We aim to ensure that only orphans can be employed".

Another manipulation technique, called populism, consists in using incomplete knowledge of the other side and referring to sentiments with concealed facts. For example, in the discussion on the need for a flat-rate income tax, political populists say: "Adopting a flat-rate tax would mean that a millionaire will pay the same tax as an ordinary citizen". But the truth is that, first of all, if a millionaire was employed at a full-time job at all and paid PIT, he or she would pay the multiple value of the income tax of an ordinary citizen resulting from the same multiple

difference in earnings between them. Secondly, the proceeds to the Treasury from tax progression are completely negligible. Thirdly and finally, tax progression affects first and foremost the best employees and not the millionaires.

Another frequent manipulation is to transfer the subject of the conversation from the main issue to the interlocutor. Most people are accused of having a vested interest in saying what they are saying, or that they do not have their own opinion, and that they are under someone's influence (classic: "I guess mom told you"). This technique is particularly perfidious, because while it is not an offense against logic – changing the subject of the conversation does not contradict logic – it causes many people to be trapped in this way. It is also effective because the attacked person most often starts to defend themselves and the manipulator immediately benefits from four major advantages:

1. They avoid talking about a topic for which they have no more arguments or which they simply do not know much about.
2. They transfer the discussion to an easy ground, where there is no need to prove anything and insinuations suffice.
3. If they have an audience, they can take advantage on the audience's antipathy towards their opponent.
4. They make the opponent become defensive, so his or her position is immediately weaker.

The most common mistake in response to such an attack is to adopt the tactics of the opponent: "Mum said so to me? And who told you? Surely daddy?" And that is exactly what our opponent was all about! Their goal was to move away from the difficult subject of genetically modified food, where we are clearly more knowledgeable than they are, to the ground of a backyard shouting match, where they have a significant advantage. So what should we do? Well, don't let yourself be pushed into this ground. Upon the first attempt to change the subject, we should say that we are ready to talk about our personal qualities as well (on a reciprocal basis, of course), but we would prefer to return to the interrupted discussion for the time being. The word "interrupted" should be strongly emphasized, so that it becomes clear to the listeners that the comments on ourselves were an unauthorized digression and not an element of discussion.

A more sophisticated form of changing the subject, which only the virtuosos of manipulation can afford, and which I called a thematic leap, is a change that creates a seemingly logical continuity of discourse. I was amused by such a thematic leap that appeared in the 1960s movie *Upal* [Heat] by Jerzy Wasowski and Jeremi Przybora. Here is a scene from that movie:

Przybora and Wasowski stand in a nicely furnished lounge. It is a sunny morning. At some point bell ringing is heard somewhere in the apartment.

Przybora: *Who could be paying us a visit so early?*

Wasowski: *But it's not the doorbell, it's the alarm clock.*

Przybora: *Alarm clock? But the alarm clock is not set!*

Wasowski: *Well, set it up then!*

3.4.2 A commissioned report

A syndrome which I call a *commissioned report* often occurs when we are forced to explain events the causes of which we do not really know. In such situations, we use a completely unjustified reasoning that, since the cause always precedes the effect, everything that precedes

an event can be considered as its cause. Here are some typical examples of an unjustified assumption that the relationship *earlier-later* is identical to that of *cause-effect*:

1. If a driver who exceeded the speed limit caused an accident, then the accident was caused by speeding.
2. If after installing a better lighting system in the sewing room productivity increased (section 16.2.2), the reason for this increase was the installation of a better lighting system.
3. If the setting of a sales target for sellers was followed by exceeding this target, then exceeding the target was caused by the setting of the target (section 18.6.1).

Of course, each of the earlier events could have been the cause of the later event, but the assumption that since it occurred earlier, it really was the cause is unjustified. In the first case, it could have been the cause, but in the other two cases, we know that it wasn't.

3.4.3 Arrogance and humiliation

Marek Kosewski (cf. [50], p.90) analyzes two types of situations that pose a difficult choice for an individual: the situation of temptation and the situation of humiliation.

A situation of temptation occurs when we can gain an advantage, but at the price of betraying one of our values (section 8.2). As the name suggests, the situation of temptation is usually not a result of coercion. We are not forced to violate our values, we are only encouraged to do so. A typical situation of this kind is the proposal to accept "material gain" in exchange for an illegal service.

A situation of humiliation is similar, but at the same time dramatically different. We still have to choose between good and evil, but this time we face severe punishment for choosing good. Typical examples include the behavior of a corporal towards a recruiter or a prison guard towards a prisoner. In both cases, self-dignity is the sacrificed value.

Unfortunately, situations of humiliation may also occur between a superior and a subordinate. I will continue to refer to the behavior of a superior leading to such situations as *arrogance*. Here are some typical examples which by no means have been conjured up by me:

- When entering a room, the boss rarely says "Good morning". Most often, he or she immediately gets down to business, which is often a reprimand.
- The boss speaks to us using a language of violence and superiority, often letting us know that he is in command and we are to listen.
- The boss is often late for meetings and never apologizes for it. And we sometimes wait an hour or longer.
- When the boss calls us, he never asks if we can talk. Sometimes he or she reprimands us for half an hour without taking into account whether or not we may be in the presence of other people.
- The boss blatantly disregards the in-house rules, which apply to all employees. He or she demands that we follow them, but ostentatiously shows that he or she does not need to.
- The boss does not respond to e-mails and makes employees wait for simple decisions for a very long time. Nor does it allow us to make these decisions ourselves.

- The boss does not respect working hours and sometimes does not appear at work at all. We often wait until the afternoon, not knowing whether or not he or she will come to work. For that reason, we do not know what to say to customers who call.
- The boss waits until the last minute to entrust us with an important task and then expresses disappointment that it is not completed on time.
- The company lacks money for wages, while the boss ostentatiously shows his wealth: a luxury car, an expensive watch, designer clothing.
- The boss explicitly or indirectly expresses a profound lack of trust in us. We often hear that there are thieves in the company.
- The boss does not meet the deadlines set for his or her tasks.

The above list could be dragged much longer, but we already have a picture of what it is all about. It is about behaviors that show that in the eyes of our boss, we are a “lower species”, while he or she belongs a “superior species”.

Let us now take a look at the effects of arrogance:

- **For employees**, the arrogance of the boss can be a real nightmare, a reason for which they dislike, often even hate their workplace.
- **For the company**, this means a high level of absenteeism, lack of loyalty of employees, employee anomie (section 8.2), attacks on the company on anonymous Internet forums, increased staff liquidity.
- **For the boss**, this means a united and often well-organized group of opponents, hidden opposition, sabotage of orders, workplace ostracism, and sometimes denunciations.

If everyone – including the boss – is a loser in such a situation, why does the boss behave arrogantly? The answer to this question can be found in section 7.5, in which I write about relational satisfaction of ambitions. It manifests itself when we satisfy our ambition not through autonomously achieved self-esteem and self-development, but through searching for people who seem to be worse than ourselves. If we cannot find such people, we must create them. Arrogance is the way to create such a reference system. It is, therefore, a characteristic attitude of people who, contrary to appearances, have an undervalued sense of self-esteem.

What can we do in this situation? The analysis of the phenomenon indicates that we should help the boss to increase his or her self-esteem. This is not a simple task, however, because it is easy to fall into primitive toadyism. Rather than express complimentary praises (I write about praising in section 9.6), it is better to help the boss to achieve successes that result from his or her own merits. Those of my readers who are interested in educating their bosses should read Thomas Gordon’s book *Leader Effectiveness Training* [31].

3.4.4 Anger

*Anger is never without a reason,
but seldom with a good one*
— Benjamin Franklin⁴²

According to Wanda Sztander [78]: *Anger itself, understood as an inner feeling, is not harmful, it even has its “merits” in recognizing the threat to our order and our values.* So there is nothing wrong with feeling anger, but it does make a difference what we do with it.

Anger is an emotion, which usually appears as a result of other emotions – feelings of humiliation, harm, disappointment. This tells us that when we are angry, we should look at the source of this anger to find an answer to the question: “How to act?”.

If anger is the result of humiliation, let us remember that the one who humiliates us most often has a low self-esteem (section 3.4.3). If this is not someone we definitely do not value, then maybe it is worth helping them by reducing their low self-esteem. It may also happen that someone humiliates us unconsciously. In that case, we should tell them what hurts us the most in their behavior, what makes us feel humiliated. Because it is not always obvious to the other party.

A cake for the 50th birthday

Mother enters her daughter’s room with a cake with number 50 on it. This is, after all, the birthday of her only child. However, the daughter reacts reluctantly and almost aggressively. She perceives the gesture of love on the part of her mother as a reminder not only of her age, but also of her unsuccessful life (the contribution comes from Wanda Sztander [78]).

Anger may also be the result of shame. In that case, we may be feeling angry at ourselves. So let us consider what we could change in ourselves.

It is worth realizing that there are two fundamentally different ways of expressing anger in terms of form and effect:

- **aggressive anger** – when we violate the limits of someone else’s dignity or possession;
- **assertive anger** – when we try to understand its sources and have influence upon them.

Aggressive anger is used for defense and may be indispensable. Examples are probably redundant here. Assertive anger concerns situations in which we want to rebuild a relationship with someone or weaken their negative attitude towards us. Naturally, in the context of building relations, these situations are of primary interest to us.

Unfortunately, it is often the case that when we should act assertively, we react aggressively – “we give vent to anger”. As psychologists say, we *cover a primary emotion*, which is painful for us, with a secondary emotion, which is easier to endure. For example, we cover humiliation or shame with anger. However, such behavior is only a treatment of symptoms. The cause of anger remains and will probably reappear at some point.

⁴² Quoted after [30], p.

Correct assertive behavior is a conversation about anger either with oneself, when we are the source of it, or with the perpetrator of our primary emotion. In the latter case, the I-message should be used (principle 5 in section 3.1.2). Let us also remember the following maxim:

*Giving vent to anger
is one of the worst methods of disposing of it.*

The reason is because giving vent to anger:

- leads to a loss of control over the situation;
- increases the level of adrenaline, which makes rational thinking difficult;
- weakens our arguments;
- directs the interlocutor's thoughts to our mistakes of the past;
- is perceived as a declaration of war.

So when we feel anger welling up in us, we should try to postpone the conversation until later, and when it comes to it, we should talk about our feelings.

Slightly different reactions are required when we are dealing with the anger of another person. Then it is also worth trying to postpone the conversation, although in this case it may be much more difficult. Let us also remember about the following principles:

- Do not let yourself be drawn into the violent rhetoric of anger. Do not respond with anger to anger, because it leads to an escalation of bad emotions.
- Do not be indifferent. Anger is a strongly negative emotion that puts your interlocutor in need of help and support.
- Do not be patronizing. Arguments similar as above.
- Reach to the sources – listen. Remember that anger is not a primary feeling, so try to discover its source. Ask, encourage a conversation, paraphrase in order to understand better.
- Suggest solutions. In this way, you show willingness to help and prevent similar situations in the future.

3.4.5 When our comments are ignored

In my management practice, I often come across a question of how to act when our comments are ignored by person under our care. “I have said that a thousand times and nothing changes! It's all falling on deaf ears”. What then? Most often the superior makes one of the three errors described in Table 3.4-2.

mistake	results
Dressing-down	All consequences of arrogance plus the so called costs of dressing-down
Punishment	Spoiling of relationship, serious impediment to its rebuilding in the future
Let go	Things are still bad, but others see it and are affected by it

Table 3.4-2 Incorrect behavior of the superior

Let me begin by explaining what the ‘costs of dressing-down’⁴³ are. By and large, these are the costs of idle time at work and reduced productivity of many people:

1. The reprimanded person stops working for some time, because he or she needs time to react. The individual returns from the boss’s office and first talks about the dressing-down to everyone in their room or in the production hall. Everyone starts to ponder what kind of boss they have. Naturally, all participants in that conversation do not work during that time.
2. Next the reprimanded person goes to a friendly team to talk about their misfortune. Those with whom he or she spoke earlier are still commenting on the event, because the reprimanded person is now gone and they can freely discuss it without him or her present.
3. Now the message circulates at lightning speed among all teams that have direct contact with each other. After some time it reaches even further, because – after all – this is what the modern means of communication are for, aren’t they?
4. Until now, the dressing-down has only been commented upon inside the company, but the reprimanded person now calls his or her spouse or friend to tell them about the event. The effects of the dressing-down are now beginning to attack another company.

Will the reaction to a dressing-down always be so destructive? Maybe not always, but probably more often than it might seem. So what should a superior do if he or she cannot cope with a person under their care who remains defiant? First of all, they should remember the following maxim:

*If your action does not have the desired effect,
do not expect that continuing it will change the situation.*

If you tried something a thousand times and it didn’t work, it won’t work just because you will try it one more time. Moreover, if a comment has been made a thousand times, then it was probably made in rather accidental circumstances: during work, in the corridor, on the run. Moreover, if it has been ignored a thousand times without any consequences, the person under our care knows by now that such a behavior is acceptable. And so our course of action must be changed radically.

Instead of talking on the run once again, we should make an appointment with the person under our care. We announce the topic of the meeting and set a date within two or three days, so that our charge has time for reflection, but also to become convinced that we have carefully planned and prepared the conversation. We also determine the duration of the meeting ahead of time, e.g. 30 minutes.

During the meeting we use the I-message, explaining the consequences of the charge’s behavior which we want to correct. Together we think about the consequences of that behavior for the customer (perhaps an internal one – see section 12.3) the team, and the company. Then,

⁴³ These costs were brought to my attention by Helmut Gläser.

together we analyze the causes of the unwanted behaviors and together we plan the ways to eliminate them. Finally, we set a relatively close date for the next meeting in order to assess together what has been achieved.

Will this always help? Maybe not always, but it often will. And if it does not help, it is necessary to think about changing the given team member's position, because maybe the problem lies in the wrong choice of predisposition to duties (section 5.5). As a last resort, dismissal should be considered. What we cannot accept by any means is that someone behaves in a way that violates the company's standards.

3.5 Difficult conversations

This section is largely based on the book by Douglas Stone, Bruce Patton and Sheila Heen *Difficult conversations. How to Discuss What Matters Most*, [74]. In the introduction to the book, the authors write:

There is no such thing as a diplomatic hand grenade. Desperate for a way out of the dilemma, we wonder if it is possible to be so tactful, so overwhelmingly pleasant that everything ends up fine.

Tact is good, but it's not the answer to difficult conversations. Tact won't make conversations with your father more intimate or take away your client's anger over the increased bill. Nor is there a simple diplomatic way to fire your friend, to let your mother-in-law know that she drives you crazy, or to confront your colleagues' hurtful prejudices.

Delivering a difficult message is like throwing a hand grenade. Coated with sugar, thrown hard or soft, a hand grenade is still going to do damage. Try as you may, there's no way to throw a hand grenade with tact or to outrun the consequences. And keeping it to yourself is no better. Choosing not to deliver a difficult message is like hanging on to a hand grenade once you've pulled the pin.

So we feel stuck. We need advice that is more powerful than "Be diplomatic" or "Try to stay positive". The problems run deeper than that; so must the answers.

Usually we are afraid of difficult conversations, because many of them didn't work out for us. The problem with difficult conversations is not about conducting them in tactful way, but about their subject matter.

3.5.1 Jack and Michael — the outer layer

Jack and Michael are friends. Michael runs a financial advisory company and Jack – a graphic studio preparing presentations and financial brochures. Michael is a regular customer of Jack's. With their example, I will try to explain what difficult conversations are and I will show how to conduct them. I will begin with a dialogue that has become the source of a growing conflict between the two friends.

The dialogue begins when Michael receives a very urgent order from one of his most important clients, who has recently placed several orders with his competitors. Winning this order can restore Michael's recently unstable financial equilibrium. However, the submission of an offer requires the preparation of a neat graphic prospectus. And so Michael calls his friend Jack, hoping that he will do a perfect job within the expected time.

Michael: *Hi, Jack. I need to ask you a big favor. A very important client asked me to prepare an offer for his new investment. He wants to have it tomorrow afternoon. I know that this is a very short notice, but it is really important for me. Will you prepare a financial brochure for me? I can send you the materials right away.*

Jack: *Sure, Michael. This is indeed a very short notice, but I will try to make sure that you have your brochure tomorrow during lunch time.*

The next day in the afternoon:

Jack [upset]: *Hi, Michael, I got your message –*

Michael: *Yeah, look Jack, this thing has to be done over.*

Jack: *Well, wait a second. I agree it's not perfect, but the chart is clearly labeled. Nobody's going to misunderstand –*

Michael [annoyed]: *C'mon, Jack. You know as well as I do that we can't send this thing out like this.*

Jack: *Well, I think that –*

Michael: *There's really nothing to argue about here. Look, we all screw up. Just fix it and let's move on.*

Jack: *Why didn't you say something about it when you looked at it this morning?*

Michael: *I am not the one who's supposed to be proofreading. Jack, I'm under tremendous pressure to get this done and to get it done right. Either you're on the team or you're not. I need a yes or a no. Are you going to redo it?*

Jack [pause]: *Alright, alright, I'll do it.*

As we can see, the atmosphere between the friends is becoming tense. They will need to have a difficult conversation. However, in order to conduct it, it is necessary to get acquainted with the anatomy of difficult conversations and a few more equally important issues.

3.5.2 Anatomy of a difficult conversation

Every difficult conversation should consist of three parts:

1. **About the subject matter** – the way it was. You should be prepared for the fact that there will always be as many versions of the story as the number of parties that took part in the event.
2. **About feelings** – what I/he/she feels. The solution to the problem lies not in establishing the facts, but in understanding each other's feelings.
3. **About the ego** – what it means to our vision of ourselves. Not “what is true”, but “what is important”.

The above scenario of a difficult conversation explains what it means to say that the key to the success of a difficult conversation is not its form – which, of course, should be as friendly as possible – but its content. Talking “about the subject matter” is only an introduction to a difficult conversation. Its essence should focus on feelings and their meaning for us.

3.5.3 Jack and Michael — the internal and historical layers

Let's listen again to the conversation between Jack and Michael, this time hearing also what both of them think, as well as the voice of the narrator. We will begin with what Jack and Michael thought about themselves before the conversation took place. The thoughts of both friends were typeset with a ten-point font.

Michael: *When Jack founded the company, mine had already existed for several years. At first, Jack didn't manage very well, so as a close friend I wanted to help him. I offered him advice and also placed orders with his company. Unfortunately, Jack did not follow my advice too avidly, and there were also problems with the orders. Either they were not ready on time, or not the way I expected. Jack did not recognize the rule that the customer is always right, neither did he understand (like every artist) that the deadline is the most important thing in business.*

Jack: *As soon as I founded the company, Michael immediately started to meddle with my affairs. He thought that after three years of running his own company he knew everything. He also did not see that a financial consulting company is run differently than a graphic studio. However, he placed orders with me and was also a friend of many years, so I swallowed my pride. However, it was particularly annoying that, having no idea about the rules of composing documents, he forced me to follow his own standards. On the other hand, I did not want to let out unprofessionally done works from my studio, because it would destroy the image of my company. In addition, Michael had no idea how much time needed to be spent on the graphic preparation of a document. He also did not take into account the fact that he was not my only customer and always needed everything done yesterday.*

And now let us go back to the conversation.

Michael: *Hi, Jack. I need to ask you for a big favor. A very important client asked me to prepare an offer for his new investment. He wants to have it tomorrow afternoon. I know that this is a very short notice, but it is really important for me. Will you prepare a financial brochure for me? I can send you the materials right away.*

Jack is busy doing urgent work for an important customer. In addition, this evening he and his wife are going to celebrate a candlelight dinner which had they planned long time ago.

Jack (thinking: *Here's a pretty kettle of fish. That's all I needed! But I don't think I can refuse him. He is a close friend of mine and a regular customer*): *Sure, Michael. This is indeed a very short notice, but I will try to make sure that you have your brochure tomorrow during lunch time.*

Jack was working on the brochure almost all night. He also had to cancel dinner with his wife. Early the next morning Michael reviewed the mock-up and gave the go-ahead to have it printed. At noon the brochure landed on Michael's desk. Jack is relieved and goes to lunch. When he returns, he finds the following voice-mail message from Michael.

Well, you really screwed this one up! Look, Jack, I know you were under time pressure on this, but ... [sigh]. The earnings chart isn't presented clearly enough, and it's slightly off. It's just a disaster. This is an important client. I assume you'll fix it right away. Give me a call as soon as you get in.

JACK (How he could say something like that. After I cancelled dinner with my wife and spent all night over his project, that's all I get?) **[upset]:** *Hi, Michael, I've just received a message from you.*

MICHAEL: *Yeah, look Jack, this thing has to be done over.*

JACK (That's over the top! Even an expert accountant would not say that the chart is worthless. Although, on the other hand, I am surprised that I could have made such a stupid mistake): *Well, wait a second. I agree it's not perfect, but the chart is clearly labelled. Nobody's going to misunderstand –*

MICHAEL [annoyed]: *C'mon, Jack. You know as well as I do that we can't send this thing out like this.*

JACK *(Michael humiliates people to make them admit that he is right. But he should not treat me this way. After all, I am his friend. I don't want to let myself be treated like this, but I don't want to argue either. I can't afford to lose Michael either as a customer or as a friend. I feel that I found myself in a trap):* *Well, I think that...*

MICHAEL: *There's really nothing to argue about here. Look, we all screw up. Just fix it and let's move on.*

JACK *(Hell, we have both screwed up!?! After all, only this morning he has approved a draft of the prospectus!):* *Why didn't you say something about it when you looked at it this morning?*

MICHAEL *(Does he imagine that I am a proofreader?):* *I am not the one who's supposed to be proof-reading. Jack, I'm under tremendous pressure to get this done and to get it done right. Either you're on the team or you're not. I need a yes or a no. Are you going to redo it?*

JACK *(I am honestly fed up with it, but I can be above it. So I will be generous and I will do the prospectus from scratch)* **(pause):** *Alright, alright, I'll do it.*

3.5.4 War or peace

After reading the in-depth version of the dialogue between Jack and Michael, we begin to better understand their reactions. We also confirm our belief that the tense atmosphere between them requires a difficult conversation. We can also see that a large part of the emotions of each of them came from the ignorance of the emotional context of the other party. So let us continue our studies on the art of conducting difficult conversations.

Let us begin by observing that a conversation taking place in the context of a growing conflict can be conducted according to two entirely different scenarios: *war* or *peace*. The former corresponds to the win-lose paradigm, while the second – to the win-win paradigm.

WAR win-lose	PEACE win-win
Questions we ask	
Where is the truth? Who is right? Who is to blame?	What are we feeling? How does this affect us? What are our intentions?
Conversation about the subject matter	
To convince (The situation is simple and clear) Assumption: I know everything I need to know to assess the situation. Goal: I have to convince him to my arguments. Assumption: It's all his fault. Goal: He must admit his fault and bear the consequences.	To find out (The situation is more complex than it seems) Assumption: Each of us has important information regarding the problem. Goal: Let's exchange the information. Assumption: Each of us has contributed to the problem. Goal: To understand these contributions and their interactions.
Conversation about feelings	
To prove (It's the facts that matter above all.) Assumption: Feelings do not matter here. Goal: Let's avoid talking about feelings.	To understand (It is necessary to talk about feelings without showing them) Assumption: Feelings are at the heart of our problem and are usually more complex than we

<p>Assumption: I know his intentions. Goal: To explain to him that they were wrong.</p>	<p>think. I need to dig deep to understand my own feelings. Goal: Let's get to know our feelings without judging them. Let's appreciate them before we start solving the problem. Assumption: Each of us knows only his or her own intentions and feelings. Goal: Let's exchange this knowledge.</p>
<p>Conversation about the ego</p>	
<p>To defend oneself (I need to win this war) Assumption: I am perfect. Goal: To preserve my image.</p>	<p>To reconcile (I need to reach an armistice) Assumption: None of us is perfect, but both of us are psychologically very complex creatures. Goal: Let's get to know each other's personalities. Let each of us build a better understanding of ourselves.</p>

Table 3.5-1 Two scenarios of a difficult conversation

In the further part of our study of difficult conversations, we will become acquainted with the principles of conducting them in the spirit of peace.

3.5.5 Conversation ABOUT THE SUBJECT MATTER

The basic recommendations for this part of the conversation are as follows:

1. **Stop fighting.** Your goal is agreement, not victory. Remember that when you fight, you force your interlocutor to fight as well.
2. **Find out.** Your goal is to find out as much as possible about the perspective of events through the eyes of your interlocutor. Without seeing their perspective, you will not be able to understand their feelings. Remember that if your interlocutor gives you their point of view, it will be easier for you to get permission to present your own point of view.
3. **Separate intention from effect.** Remember that entirely different intentions may lead to the same result. It can, therefore, be unreliable to guess intentions based on the knowledge of the effect. Don't speculate about intentions, but ask about them.
4. **Each of us has contributed to the problem.** If you want your interlocutor to recognize their contribution to the problem, tell them first about your own contribution.
5. **Stop accusing.** Accusations are used to declare war, while you are striving to make peace. Of course, the accusations should be dropped by both sides, but for the time being, only you know how to conduct difficult conversations in a peaceful spirit. So be the first to declare the abandonment of the accusations.

*When there is a difference of opinion,
a mutual exchange of arguments may seem natural and rational,
although most often it does not solve our problem.*

3.5.6 Unquestionable truth — father and son

The father and his adult son argue about smoking. The son smokes and his father wants him to quit. Each of them applies his own rule of conduct.

Father's rule: It is necessary to live rationally from the point of view of the needs of our organism. What is unhealthy should be avoided.

Son's rule: We must live rationally from the point of view of our mental needs. You should not interfere in someone's life, especially if they do not want it.

Each of these rules makes sense and probably we could agree with both of them. What is more, both father and son probably agree with these rules, but in the case of a discussion about smoking, they cannot be applied simultaneously. The father thinks that the son neglects the needs of his body, while the son thinks that his father neglects his psychological needs. So what should be done? Should the son convince the father and the father convince the son – each to the superiority of his own rule? Not quite, because it would mean war, especially that both rules seem quite rational. In this case, the following principles regarding the rules should be taken into account:

- Everyone sets some rules for themselves.
- Different people may follow different rules.
- Do not impose your rules, but present them to the other party.
- Learn about the rules of the other party.

The following general principles must also be remembered:

1. **Arguing reduces our ability to understand the perspective of others.** Arguing is a war. We do not try to understand the perspectives of others, but impose our own.
2. **Telling someone to change reduces the chance of making that change.** Humans are capable of changing, but we don't like to do it by order of someone.
3. **If you want to be understood, understand your interlocutor first.** Apply each rule of a peaceful (difficult) conversation to yourself first. You need to show its benefits if you want the other party to accept it.

Let us also remember about a very important maxim:

The fact that you are right is usually not very helpful in resolving the conflict.

3.5.7 Do not assume that this is what he wanted — Leo and Lori

Leo and Lori are married. At a party held by Leo's acquaintances, Lori was reaching for another scoop of ice cream, when Leo said: "Lori, why don't you lay off the ice cream". After returning home, the following conversation took place between them:

LORI: *I really resented it at the party, the way you treated me in front of our friends.*

LEO: *The way I treated. you? What are you talking about?*

LORI: *About the ice cream. You act like you're my father or something. You have this need to control me or put me down.*

LEO: *Lori, I wasn't trying to hurt you. You said you were on a diet, and I'm just trying to help you stick to it. You're so defensive. You hear everything as an attack on you, even when I'm trying to help.*

LORI: *Help!? Humiliating me in front of my friends is your idea of helping?*

LEO: *You know, I just can't win with you. If I say something, you think I'm trying to humiliate you, and if I don't, you ask me why I let you overeat. I am so sick of this. Sometimes I wonder whether you don't start these fights on purpose.*

In the above dialogue, each of the parties made a mistake regarding the intentions (Tab. 3.5-1).

mistake	solution
<p>That's what he wanted</p> <ul style="list-style-type: none"> • we make an assumption about intentions on the basis of the effects • we assume that bad intentions mean bad character • we make our interlocutor feel unjustly judged 	<p>Explain that your view of his intentions is only a hypothesis (a feeling). Use the I-message.</p>
<p>It is enough to explain</p> <p>We believe that clarifying our intentions solves the problem</p>	<p>Listen to the other party talking about their feelings first.</p> <p>Then explain what your real intentions were.</p>

Tab. 3.5-1 Mistakes regarding intentions and their solutions

In addition, Lori, like most women, needs to talk about an issue immediately, while Leo, like most men, on the contrary, needs time to think about it. This leads to a vicious circle of accusations as shown in Fig. 3.5-1.

If Leo and Lori knew the rules of conducting difficult conversations, their conversation would look different:

Lori: *You know, when you said: "Why don't you lay off the ice cream"? Well, I felt hurt by that.*

Leo: *You did?*

Lori: *Yeah!*

Leo: *I was just trying to help you stay on your diet. Why does that make you upset?*

Lori: *I felt embarrassed that you said it front of our friends. Then what I wonder is whether you said it on purpose to embarrass or hurt me. I don't know why you'd want to do that, but that's what I'm thinking when it happens.*

Leo: *Well, I'm certainly not doing it on purpose. I guess I didn't realize that it was so upsetting. I'm confused about what it is you want me to say if I see you going off your diet...*

This is only the beginning of the conversation, but you can already see that it will be conducted in an entirely different atmosphere.

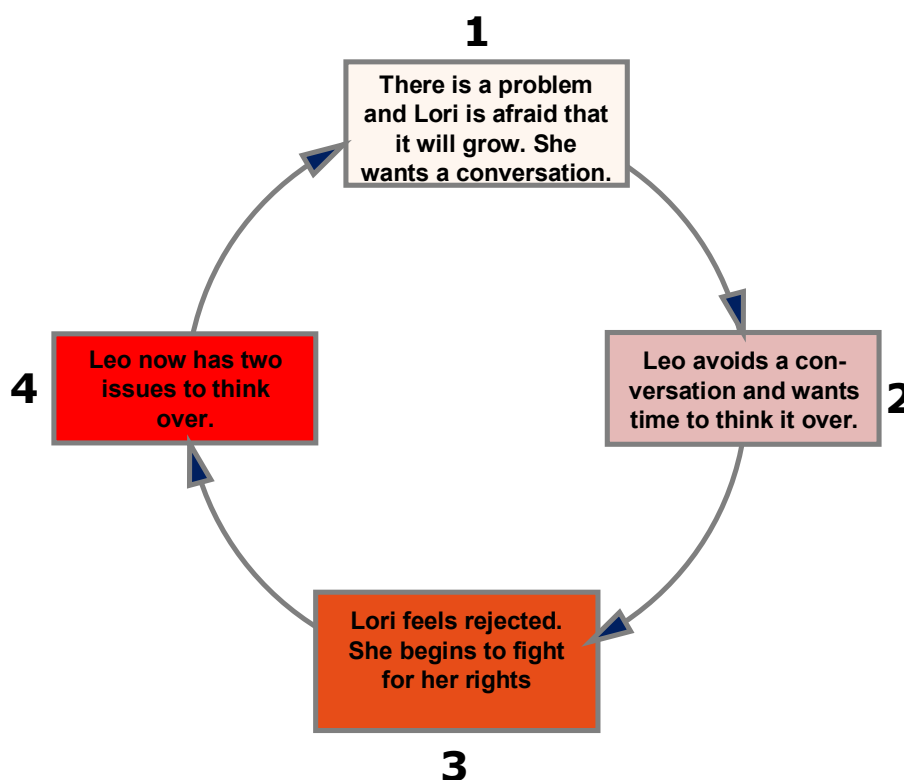


Fig. 3.5-1 A vicious circle of accusations

3.5.8 Let us abandon accusations — you and your assistant

You were sent by your company to a meeting with an important client, to whom you were to present a comprehensive offer of cooperation. Unfortunately, when you arrived, it turned out that your assistant packed the wrong storyboards in your bag. Conducting a presentation without visual material turned out to be not only very difficult, but above all ineffective. You did not win the desired contract. After returning to the company, you decided to interview your assistant.

YOU: I wanted to talk to you about my presentation at Extreme-Sport. You packed the wrong storyboards. The situation was unbelievably awkward, and, made me look terrible. We simply can't work this way.

ASSISTANT: I heard. I'm so sorry. I just, well, you probably don't want to hear my excuses.

YOU: I just don't understand how you could let this happen.

ASSISTANT: I'm really sorry.

YOU: I know you didn't do it on purpose, and I know you feel bad, but I don't want this to happen again. You understand what I'm saying?

ASSISTANT: It won't. I promise you.

What can we say about this conversation? First of all, it focuses on accusations. You accuse your assistant, quite rightly, but, as we already know, being right usually does not help to solve the problem. The accusation is a way to prove guilt and consequently to impose punishment (cf. the prosecutor's perspective in section 3.3.1). This can help you regain emotional balance,

but does not in any way contribute to ensuring that the problem does not happen again. In order to do so, the cause of the problem must be found and eliminated.

It is a good idea to start the search for a cause by analyzing the contributions, but we should remember about three typical mistakes that occur in such a situation:

1. Focusing on the contribution of only one party.
2. Recognizing that rejection of accusations means rejection of talking about feelings.
3. The view that analyzing the contribution means accusation.

When analyzing the contributions, it is also worth remembering that they often belong to one of the three types:

1. No response to early stages of the problem.
2. Repulsive manners (lack of interest, unpredictability, accusing).
3. Differences in views or style of behavior (a vicious circle of accusations).

When preparing to talk about the contributions, it is good to imagine how the other party can see our contribution and how an outside observer can see it. You can ask a friend to help you with the latter task.

So now that you, the Reader, already know the art of conducting difficult conversations, when you need to conduct such a conversation, begin by presenting your contribution. This solution has two important advantages:

1. It will be a signal to the other party that you are abandoning talking about guilt.
2. The other party will not be able to make your contribution their defense.

Finally, let each of you say how a change in the contribution of the other party could influence the change in your contribution to the problem.

If you and your assistant knew the above principles, their conversation might look like this:

YOU: *I wanted to talk to you about my presentation at Extreme-Sport. When I arrived I found the wrong storyboards in my briefcase.*

ASSISTANT: *I heard. I'm so sorry. I feel terrible.*

YOU: *I appreciate that. I'm feeling bad too. Let's retrace our steps and think about how this happened. I suspect we may each have contributed to the problem. From your point of view, did I do anything differently this time?*

ASSISTANT: *I'm not sure. We were working on three accounts at once, and on the one just before this one, when I asked about which boards you wanted packed, you got angry. I know it is my responsibility to know which boards you want, but sometimes when things get hectic, it can get confusing.*

YOU: *If you're unsure, you should always ask. But it sounds like you're saying I don't always make it easy to do that.*

ASSISTANT: *Well, I do feel intimidated sometimes. When you get really busy, it's like you don't want to be bothered. The day you left you were in that kind of mood. I was trying to stay out of your way, because I didn't want to add to your frustration. I had planned to double-check which boards you wanted when you got off the phone, but then I had to run to the copy center. After you left I remembered, but I knew you usually double-checked your briefcase, so I figured it was okay.*

YOU: *Yeah, I do usually double-check; but this time I was so overwhelmed I forgot. I think we'd both better double-check every time. And I do get in those moods. I know it can be hard*

to interact with me when I'm like that. I need to work on being less impatient and abrupt. But if you're unsure, I need you to ask questions no matter what kind of mood I'm in.

ASSISTANT: *So you want me to ask questions even if I think it will annoy you?*

YOU: *Yes, although I'll try to be less irritable. Can you do that?*

ASSISTANT: *Well, talking about it like this makes it easier. I realize it's important.*

YOU: *You can even refer to this conversation. You can say, "I know you're under pressure, but you made me promise I'd ask this ..." Or just say, "Hey, you promised not to be such a jerk!"*

ASSISTANT: [laughs] *Okay, that works for me.*

YOU: *And we might also think about how you could track better which appointments are going to be for which campaigns...*

3.5.9 Peacefully about feelings — mother and son

An unemployed mature man lives with his mother and is her dependent. He had already asked her several times to refrain from urging him to look for a job. Nevertheless, the mother continues to take every opportunity to remind him to do this. This makes him very angry.

Mother: *Son, today I found an advertisement in a newspaper that they are looking for an employee for the distribution department in some company. Would you like to contact them?*

Son (very annoyed): *I asked you so many times to leave this matter to me! You know that I go to ask for work almost every day! You also know that I don't want to work in distribution! You know why! So why are you still telling me to go somewhere? Can you finally stop? Can! You! Finally! Stop!?*

The son's behavior is a result of three emotions:

1. **Shame** – "I depend financially on my mother".
2. **Fear** – "Maybe I will never get a job".
3. **Low self-esteem** – "I have to be worthless if I can't get a job".

These primary emotions evoke a secondary emotion, which is **anger**. The mother is not aware of all this. So it is necessary to explain this to her. A correct conversation between mother and her son should look like this:

Mother: *Son, today I found an advertisement in a newspaper that they are looking for an employee for the distribution department in some company. Would you like to contact them?*

Son: *Mom, I would like to explain something to you. It's not easy for me to talk about it, but you're my beloved mother, so I'll be honest with you. I am ashamed that I depend on you, although I know that your help comes straight from your heart. But I should be the one to help you. However, this is not the case. There is also this constant fear that I may never get a job. I keep thinking that maybe I'm not worth much if nobody wants to hire me. All this, my shame, fear, and low self-esteem, makes me feel angry when you start talking about my job. So I get angry at you, the best of mothers, although I know you didn't want to upset me and although I should understand that you just want to help me.*

Mother: *But son, the last thing I'd like is to upset you. However, if this is how you feel about it, tell me how I can help you. I also feel guilty that I am not doing enough for you. I do not want to be idle in this matter.*

Son: O.K., maybe we could look through job advertisements every morning together, choose the ones that would be acceptable, and then share the tasks? You will call to ask if the job is still available and I will go wherever there is a chance of employment.

Now both sides understand their emotions. The solution proposed by the son reduces the level of toxic emotions felt by him and his mother. Notice that the dialogue between the mother and the son is not only a conversation about emotions, but also about the ego.

Before you start talking about feelings, set yourself the goal of revealing all of them. If this frightens you, think first which feelings are particularly difficult for you to talk about. The latter often include anger, because it means the loss of self-control. To make it easier for you to talk about anger, remember that anger is aggression, and aggression is not a primary feeling, but a secondary one (section 3.1.3). Explain the source of your anger and it will be easier for you and your interlocutor to accept it.

3.5.10 Jack and Michael — a difficult conversation

Having been acquainted with the rules of conducting difficult conversations, we can now see what such a conversation between Jack and Michael could look like. Let's assume that it is carried out on the initiative of Michael, who knows the principles described in this section, and that Jack does not know these principles. This time instead of the narrator there is a trainer who is only heard by Michael. Michael's dialogue with the trainer is framed.

3.5.10.1 Stage 1: we begin with the observer's perspective

JACK: Listen, Michael, say what you will, but the problem on that financial brochure was that after all the work I did, you treated me badly, and you know it!

MICHAEL: The problem on that project was that I had the poor judgment to use you in the first place. I'll never make that mistake again!

JACK: Okay, cut. This isn't going right.

COACH: What went wrong?

JACK: I don't know. He didn't react very well.

COACH: Notice that you began the conversation from inside your story.

JACK: I should have started from the Third Story. That's right. I'll start over.

JACK: Michael, I've been thinking a lot about what happened between us on the financial brochure. I found the experience frustrating, and I suspect you did as well. What's most worrisome to me is that it feels like it has affected our friendship. I wonder whether we could talk about that? I'd like to understand better what was happening for you, and how you felt about working together, and I'd also like to share what I found upsetting.

MICHAEL: Well, Jack, the problem is that you're just not careful enough, and then you can't admit it when you make a mistake. It really made me angry when you started making excuses.

JACK: Okay, he's attacking me. I thought if I started from the Third Story he was supposed to be nicer.

COACH: Well, Michael's reaction wasn't nearly as confrontational as it was in your first try. You're actually off to good start. You did a great job of beginning from the Third Story. Remember, persistence. Michael's not immediately going to understand that you're trying to have a learning conversation. You have to be prepared for him to be somewhat defensive.

JACK: And say what, if he attacks me?

COACH: He's already into his story. The best thing you can do for the conversation is to listen from a stance of real curiosity, to ask questions, and to pay special attention to the feelings behind the words.

3.5.10.2 Stage 2: mutual analysis of both perspectives of X

JACK: You felt I was making excuses? Say more about that.

MICHAEL: The truth is, Jack, you shouldn't have argued with me about the chart. You should have just redone the brochure.

COACH: Now, Michael, use a paraphrase.

JACK: So your thinking was that since the graph was off, it was up to me to correct it and reprint the brochures. And it sounds like when I questioned this, that was frustrating for you.

MICHAEL: Yeah, it was frustrating. I had the client breathing down my neck, already less than happy with us.

JACK: Why

MICHAEL: Because she thought this photograph in one of the other publications was the wrong one. It wasn't, but you just don't argue at times like that. That's what really frustrated me, Jack. You don't seem to understand that the customer is always right.

JACK: So the client was already looking for things to be unhappy about?

MICHAEL: It sure felt that way. And if there was something you were going to screw up, the revenue chart was the first thing she was going to notice. Her investors are already unhappy with some of her recent decisions. Yes, the chart was only off by a small amount, and it's not something we'd always rerun, but in this case, given the situation, it was something that we had to get just right.

JACK: I didn't realize some of this background. It sounds like there was a lot going on for you during all of this.

JACK: Time out.

COACH: You're doing great!

JACK: Yeah, maybe. It's helpful, actually. I'm beginning to get a sense for how he's seeing things. But he's not getting a sense for how I'm seeing things. When do I get to give my side of the story?

COACH: *You've done some good listening. Michael may be in a better place to start to listen to you.*

JACK: *From my point of view, Michael, the problem was that I did this favor for you, and then you mistreated me. You acted badly.*

COACH: *Cut! Yes, you want to move into your perspective, but first you need a transition sentence, something that acknowledges that you're beginning to understand his view on this, and that you want to share yours. And when you do share yours, if you want to share feelings, do so. But what you said above is a judgment about Michael, which is rarely helpful. Better to say how you feel.*

JACK: *I'm beginning to get a sense for how you're seeing things, and that's helpful to me. I also want to try to give you a sense for how I was seeing things, and for how I was feeling.*

MICHAEL: *Okay.*

JACK: *Hmm. I'm not always good at talking about my feelings, but I'll try. I felt hurt by some of the things you said –*

MICHAEL: *Jack, I wasn't trying to hurt you, I just needed the brochure done right! Sometimes I think you're too sensitive.*

JACK: *Okay, after all the listening I did, now he's gone and interrupted me right off the bat. I didn't even get a chance to get the first sentence out. That's just how Michael is. He always interrupts, and I can never get what I think on the table.*

COACH: *This is where you have to be persistent, a little more assertive in getting your story out there. You can interrupt him to create space for what you're trying to say. You need to be very explicit that you are still explaining your view, and you'd like him to listen.*

JACK: *Well, hang on a second. Before we get into how you feel about how I feel, I just want to tell you a little more about how I'm seeing things.*

MICHAEL: *That's fine, but what I'm saying is that you're taking this question of our business interactions too personally –*

JACK: *He did it again. See? That's what he does.*

COACH: *He is good at interrupting. So how are you feeling at this point?*

JACK: *I'm feeling really frustrated.*

COACH: *So you have a few choices here. You could give up, but I think it's way too early for that. You could do some more listening, which is always a good idea. But let's say you don't want to do that at the moment. Instead, you could try two other things. One is, you could simply reassert that you want to get your view on the table, and I suspect that would eventually work. A second is you could share your frustration at being interrupted.*

JACK: *If I do that he'll interrupt to tell me I shouldn't be frustrated. I think I'll try once more to be assertive.*

JACK: *Michael, I understand you think I'm taking things too personally. We can come to that. Before we do, I want to give you a better sense of where I'm at.*

COACH: *Brilliant! You started with listening, and paraphrasing his sense that you take things too personally. For him, that helps take away the need to keep saying it. And now you're in a good place to continue your story.*

JACK: *I'm getting the hang of it.*

JACK: *So bear with me. Um, here's the thing. When you called, here's what I was thinking to myself: "Oh my God, I'm already overloaded at the moment. I need to get the Anders materials out by tomorrow, and I'm supposed to have dinner with Charlotte tonight." And then I thought, "Well, I'm just going to have to call the Anders folks and let them know their stuff will be a day late, and call Charlotte and cancel dinner." Because, Michael, you sounded like it was an emergency, and I really wanted to help you out.*

MICHAEL: *And I appreciated that –*

JACK: *But you never said that. From my point of view, after making these sacrifices, the first feedback I heard was, "Gee, Jack, you really screwed this one up!" Can you see why I would feel upset by that?*

MICHAEL: *I shouldn't have said that, Jack. I meant to say thank you. I guess I was overloaded with my own frustrations at that point. It's interesting. I wasn't thinking that you were doing me a favor, to be honest, although I can see now that you were. What I was thinking, and what I still think, is that I was also doing you a favor. You know, giving you the business. There were other people I could have called, but I thought you'd appreciate the business.*

JACK: *Which I did. I guess on my end, I was so caught up in just trying to get everything done that it wasn't feeling like a favor from you. But obviously, I do appreciate the business.*

JACK: *This is getting almost fun.*

COACH: *You're doing a great job. Keep going.*

MICHAEL: Jack, I still want to talk to you about something else. If we're putting all our cards on the table, I get really upset when you try to deny that you've done something wrong. You know, you say that the graph is fine, when it's not.

JACK: Okay, it's getting less fun again.

COACH: That's how difficult conversations are. They go up and down. You have to keep working at it.

JACK: Michael, I wasn't denying anything. I didn't do anything wrong!

COACH: Okay, let's slow down. You're at a tricky point here, and there's the potential either to get into a big argument or to straighten some things out in a very helpful way.

JACK: I believe you, but I'm not seeing it.

COACH: Look back at what Michael said. He said he gets really upset when you try to deny that you've done something wrong. He's making one of the big mistakes around impact and intentions, and you're making the other one. In Michael's statement, he's assuming he knows what you were trying to do, what your intentions were.

JACK: Which he doesn't.

COACH: Right. So he's making the mistake of assuming he knows what your intentions are when in fact he doesn't. When we do that in conversations, it creates just what happened here. The other person defends himself, and you get into a pointless argument.

JACK: How can I not defend myself?

COACH: The best way to handle confusion around impact and intent isn't to defend yourself. First, you have to acknowledge the other person's feelings, and only then should you try to clarify what your intentions were.

JACK: I hear that my response was frustrating for you.

MICHAEL: It was. I'm not trying to be a bad guy. I'm just trying to get it done right.

JACK: Let me try to explain my response. I wasn't trying to pretend nothing was wrong, or trying to put one over on you. I genuinely felt that the graph was fine the way it was. As we've talked about it, I see that my reaction wasn't based on all the information. I'm not sure what I think about the graph at this point. What I do know is that if I thought it should be redone I'd be the first to admit it.

MICHAEL: I don't know about that. I still get a sense that you are sometimes defensive about making mistakes.

JACK: That's not true.

COACH: *You did a great job of sorting through the intentions question. It's not easy. Now we're getting into another tricky area. Is it true, in your heart of hearts, that you have no problem with mistakes?*

JACK: *Of course not! I hate making mistakes. I can't stand it. It makes me crazy when I make a mistake, especially a stupid one.*

COACH: *So why did you say you have no problem with them?*

JACK: *I guess I didn't want to admit that I do have a little bit of trouble around owning up to mistakes.*

COACH: *Here's the thing. Michael, for one reason or another, senses that you have issues around making mistakes. You might do better by sharing some of your Identity Conversation with him. It's a risk, but in this case, not a very big one since he seems to already know it.*

JACK: *Actually, Michael, as I think about it, admitting mistakes is something I do sometimes have trouble with. Even that is hard for me to say.*

MICHAEL: *Well, I appreciate your saying that. I wish you'd just admit them and then we can get on to the work of correcting them.*

JACK: *Well, I don't want to confuse two issues. I did make a mistake with the graph, and it was my strong judgment, at least at the time we were talking, that the problem was so inconsequential that it didn't need to be redone.*

COACH: *Fabulous. You owned up to a real issue you have, and you also did a great job of using the And Stance to clarify that in this case you felt like you were using good judgment.*

JACK: *So what's next for me? Are we almost done?*

COACH: *You're getting there. What else feels important for you to say? What else feels important for you to learn?*

JACK: *We've talked about what I did wrong on the brochure, but we haven't talked at all about what Michael did wrong. After all, he reviewed it and gave me the go-ahead.*

COACH: *That's an important issue. See if you can bring it up as an issue of joint contribution rather than blame.*

JACK: *Michael, there's another issue I want to raise. I get the sense that you're thinking the fact that the brochure was off was entirely my doing.*

MICHAEL: *Jack, we don't need to get into that again. I'm not trying to beat you over the head with it. I understand that you worked hard on the brochure and I appreciate that.*

JACK: *I know. I just want to offer a different angle on this blame question. Your [sic!] reaction was that since I did the work, the graph problem was my fault. And my initial reaction was that since you looked it over and gave the go-ahead it was also your fault –*

MICHAEL: *No, I never said I proofread it. That was your job. What I indicated was that assuming there were no mistakes, it was okay for you to print.*

JACK: *That's just my point. I'm saying that we both had a hand in the problem. We misunderstood each other. I'm not saying there's a right or wrong. If we had each understood the other more clearly, we would have been less likely to have gotten into the mess we did.*

MICHAEL: *That's certainly true. But so what?*

JACK: *The point is, we are more likely to avoid this kind of problem in the future if we are more careful to communicate clearly. I should have asked you point-blank whether you had read the brochure carefully, and you might have said more clearly that you had not. Either one of those would have been useful, and would be useful next time.*

MICHAEL: *I think that makes sense.*

JACK: *Wow. That was much easier to discuss than blame, and much more helpful.*

COACH: *And notice that talking about contribution focuses naturally on problem-solving. Let's work a bit more on whether the brochure should have been redone. Do a little problem solving on that issue.*

3.5.10.3 Stage 3: problem-solving

JACK: *Michael, let's think about how we should handle a difference of judgment if it happens again in the future. For example, whether the brochure needs to be redone.*

MICHAEL: *I think as the client in this situation, we should just do it my way. I don't see it as some sort of joint decision.*

JACK: *I agree, in terms of the final decision. You should make it in that case. I guess I'm wondering how to give you the benefit of my judgment before the decision is made. I can imagine there will be times when you have a certain view, and then we talk about it, and you change your mind.*

MICHAEL: *That's true. So maybe if we're more clear about what the purpose of the conversation is, then instead of thinking you're trying to make the final decision, I'll know that you're just giving me your opinion.*

JACK: *That makes sense.*

MICHAEL: *But sometimes I don't have time to have a long conversation about it*

JACK: *I understand that. It would help me if you would tell me that. Otherwise I don't understand why you're getting so frustrated in the conversation.*

MICHAEL: *So I can just say, "I don't have time to talk about it"?*

JACK: *Yes, and also tell me why. That you've got to get something out by noon, or that this revenue issue is a touchy one, or that we can talk about it later. It'll only take five seconds, and it'll save me from getting frustrated with you for not listening.*

MICHAEL: *I can see why that would be frustrating.*

COACH: Jack, you and Michael are on your way. Nice job!

JACK: As long as I'm on a roll, I want to bring up with Michael the thing that in some ways is the most difficult, and that's the question of our friendship. I want to make sure that none of this hurts our friendship.

COACH: Check your purposes on that. "Making sure that none of this hurt our friendship" sounds like you're going to put words in his mouth. It's a little controlling. If you're going to ask a question, make sure it's an open question. Just ask him how he's feeling about your friendship. If the problem did hurt your friendship, you want him to be open about saying so.

JACK: I'm glad we're working through these issues. I think it's hard to work with friends. I guess I wonder whether you think this has affected our friendship.

MICHAEL: Well, what's your answer to that question?

JACK: Honestly? Now that we've talked it through I feel much better about things. Before we talked I was pretty angry. And probably a little hurt, too. If we hadn't discussed this at some point, it would have been easy for me to figure we were not going to stay friends.

MICHAEL: I'm surprised by that. You and I certainly react differently to this kind of thing. I was not happy with our working relationship, but I thought our friendship was fine. I view them as separate. But since you obviously think about it differently, I'm glad we talked about it.

JACK: Looks like we're friends again!

COACH: You handled it skillfully.

JACK: Thanks. I suspect we won't have these sorts of problems in the future.

COACH: I don't know about that. In fact, I think you are better off assuming that you will. Now, though, you know that it's okay to talk about them, so the misunderstandings may not be as emotionally draining and are less likely to threaten the relationship. But is this the last difficult conversation you'll have with Michael? I doubt it.

4 Fear of telling the truth

So I scare Green, and Green scares White, and White scares Black, and Black scares Brown and Green, and Brown scares me and Green and Andy Kagle, and all of this is absolutely true, because Horace White really is afraid of conversation with Jack Green, and Johnny Brown, who bulldozes everyone around him with his strong shoulders, practical mind, and tough, outspoken mouth, is afraid of Lester Black, who protects him.

Joseph Heller, *Something Happened*, Alfred A. Knopf, 1974

By and large, fear is the body's natural defense mechanism protecting us from actions that may lead to lose health or life, or damage our social position, or the economic basis of our existence. Fear, that protects us from something bad, is both natural and necessary.

But fear may also be artificially provoked by someone and then it prevents us from telling the necessary truth, from sharing our fears, from displaying necessary behaviors. That kind of fear will be addressed in this section, mainly based on a monograph [66] being a report on a research, in which 260 employees from 22 production and service companies, as well as governmental organizations in the USA took part. The interviews included people at all levels of employment. Wherever I do not mention otherwise, the data comes from that source.

The main problem of U.S. companies is the fear of employees of talking about their work-related issues.

— Edwards Deming

4.1 Analysis of the phenomenon

4.1.1 Types of fear

There are three basic types of fear, which differ in the sources that cause them.

The first one is *biological fear* caused by the threat (or sense of threat) to our life or health. This fear is a natural defense mechanism and should in principle be regarded as necessary and constructive, although if it is too strong, it may have a 'paralyzing' effect and thus impede the defense.

The second type is *internal psychological fear*, the source of which comes from the fear of natural consequences of a social, emotional, or administrative-legal nature, i.e. threats to our psychological or economic rather than biological existence. These may be:

- natural tension resulting from the work performed and related to the need to meet deadlines, mastering new technologies, holding difficult meetings with customers, etc.;
- fear of negative market reactions to our products or services, which may endanger our existence;
- fear of justified disciplinary consequences resulting from the regulations, Labor Code, etc., the violation of which may result in negative administrative and legal consequences;
- fear of certain tasks, e.g. public appearances;
- fear of what could happen;
- stress caused by unrealistic expectations towards oneself.

This kind of fear must also be viewed as natural and necessary, although it can also, when it is too strong, hinder our actions or make them less effective.

Finally, the third type is *external psychological fear*, the source of which was created by someone to influence our behavior. I am discussing one type of such sources, related to the phenomenon of external motivation, in section 8.1. Here, I will deal with another specific and important situation, namely the fear of telling the truth about the problems we encounter at work. As it turns out, this fear is usually caused by one of the following four elements:

1. One's own experience.
2. Heard experiences of others.
3. Self-interpretation of other people's behavior.
4. Negative stereotypes about people in power.

4.1.2 The cost of fear

The cost of fear of telling the truth can be very high for organizations. Here are two such examples, which I quote after [62].

- **Aircraft disaster in Virginia** (1982). While taxiing on the runway, the second pilot saw a growing accumulation of ice on the wings, but because the first pilot did not pay attention to it, the second pilot did not dare to share his fears directly. He expressed them only in an indirect way, e.g. by saying "Oh, quite a lot of ice" or: "Hell, it will be hard to melt this ice...".
- **Challenger disaster** (1986). The Commission investigating the causes of the accident stated that the direct cause of the accident was a failure in the O-rings sealing a joint on the right solid rocket booster. A group of engineers was aware of this problem and, a few months before the launch, they expressed fears that the gaskets could fail if their temperature fell below a certain level. However, they did not dig into the topic because they were afraid they would be accused that their resistance could delay the launch of the shuttle.

In both cases, fear had a dramatic impact on the quality of the organization's work. However, these are not the only costs of fear. For a more complete list, see Table 4.1-1.

Cost	% of responses
Negative feelings towards the company	29%
Destructive impact on quality and productivity	27%
Negative self-assessment	19%
Negative emotions	12%
Other negative effects	11%
Positive effects	2%

Table 4.1-1 Costs of fear of telling the truth

It also turns out that people who, faced with the fear of telling the truth, have lost faith in the company's loyalty, are looking for alternative ways to ensure their safety and success. The safest alternative is a certain "connection" expressed with loyalty to one's own group of common interests combined with cynicism towards all outsiders, and so towards the company in particular. It is one of the most destructive attitudes, causing a lot of damage to the organization, and in particular:

- "Why should I care?" syndrome
- Fewer errors revealed, while more actually committed;
- False priorities, e.g. bureaucracy is more important than customer service;
- Local optimization, e.g.: "We reduce our costs, even if it increases the costs for the entire company".

Such phenomena can also lead to employee anomie, as they provide arguments for social agreements on ignobility (section 7.6).

4.1.3 Causes of fear

Why are we reluctant to talk about problems? Is it always fear? As it turns out, not always, although it is most often the reason (see Table 4.1-2).

Reason	% of responses
Fear of consequences	44%
Nothing will change anyway	17%
Avoidance of conflict	7%
We do not want to expose others to the consequences	5%
Other	27%

Table 4.1-2 Why are we reluctant to talk about problems

So what consequences are we afraid of? The ones related to our functioning in business or serving in office? Not necessarily, but those too. Table 4.1-3 shows what the Americans fear the most. I believe the situation in Poland can be similar.

Consequence	% of responses
Loss of credibility and reputation	27%

Threat to career and financial promotion	16%
Possibility of ruining the relationship with the boss	13%
Loss of job	11%
Destroying the relationships with colleagues	9%
Loss of position (role) at work	6%
Public humiliation	5%
Transfer to another post	4%
Other	9%

Table 4.1-3 Consequences we fear

4.1.4 Circumstances causing fear

Generally speaking, fear of telling the truth occurs based on the corporate culture of the organization. If an organization views employees predominantly as “human resources” rather than partners and its main goal is to generate profit at all costs, and if it pursues its goals using the method of central management and control, then fear in such organizations will most often be caused by the behavior of superiors, which fall into three multi-factor groups:

1. **Unpleasant (offensive) manners** (you never know what to expect):
 - a. silence;
 - b. a paralyzing look;
 - c. roughness and laconism;
 - d. scolding or ignoring;
 - e. humiliating;
 - f. accusing, discrediting, failing to believe;
 - g. aggressive, supervisory manners;
 - h. screaming, losing self-control.
2. **Ambiguous behavior** (you never know “what’s going on”):
 - a. lack of information on decisions and the reasons for taking them;
 - b. lack of response to suggestions from subordinates (confirming the belief that nothing can be changed anyway);
 - c. inconsistent decision-making rules.
3. **Incorrect corporate culture of the company** (toxic norms and policies):
 - a. competition between departments and managers;
 - b. connections, interest groups;
 - c. rewarding aggressiveness;
 - d. control, rewards and punishments (carrot and stick);
 - e. unethical rules, e.g. ordering to hide the truth from the client.

All these behaviors lead to a phenomenon called the *vicious circle of suspicion*, which is illustrated in Fig. 4.1-1.

Here is how this phenomenon arises and functions:

Superior's negative assumptions. The superior accepts a negative stereotype of the subordinate's ill will⁴⁵, their tendency to create organizational problems and act to the detriment of the company. Therefore, superiors assume that subordinates:

- feel no responsibility;
- do not care about work and are only interested in “cash”;
- are not interested in the broader perspective of the company's development;
- look for excuses;
- try to avoid following the rules;
- will not work effectively if not coerced to do so;
- do not want to understand the real situation of the company, e.g. its budget assumptions;
- are mainly interested in their rights, privileges, remuneration, and bonuses;
- are capable of dishonesty and sabotage.

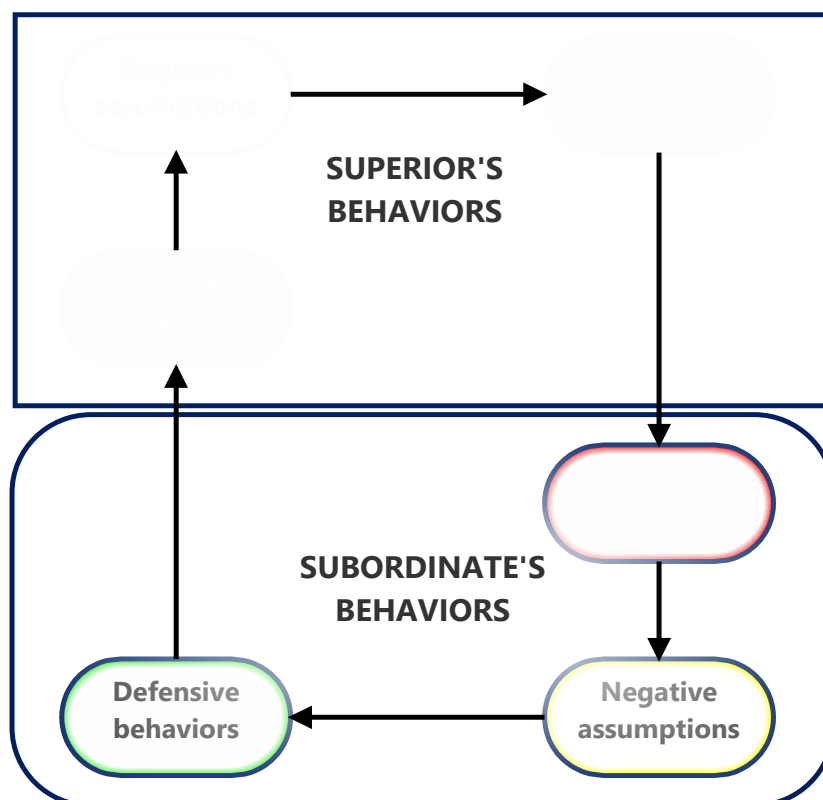


Fig. 4.1-1 Vicious circle of suspicion

Superior's defensive behavior. As a consequence of their negative assumptions, superiors adopt a defensive attitude towards the alleged intentions of their subordinates, and so they:

- introduce “manual” control of the work of their subordinates based on orders, prohibitions and controls;
- limit the participation of their subordinates in decision-making;
- introduce a formalized route for complaints and suggestions;
- introduce restrictive work regulations;

⁴⁵ Although in the further part of the book I recommend eliminating the word “subordinate” in favor of “protégé”, in the present section I consistently use the term “subordinate”, because I write about situations in which the employee is treated as such by his superiors.

- restrict the access of their subordinates to information;
- conduct disciplinary actions;
- restrict the presence at meetings and discussions to senior management;
- throttle any opposition;
- rule heavy-handedly to teach others a lesson;
- criticize and ridicule their subordinates publicly;
- focus on the “rights of the superior”.

Aggression observed by the subordinates. A subordinate interprets their superior’s defensive behavior as aggressive and thus offensive behavior (attack). In the eyes of the subordinate, their supervisor’s behavior looks as follows:

- the rules are different for the management and for the subordinates;
- workers can be transferred or made redundant for no reason;
- one never knows what to expect – rumors are spread about planned reorganization changes;
- the management conspires against the employees;
- the management does not follow the rules of fair play, e.g. it accepts ridicule, harassment, and punishment of subordinates;
- there is a ban on passing on critical remarks and complaints, as well as remedial suggestions above the level of the immediate superior.

Subordinates’ negative assumptions. Subordinates adopt a negative stereotype of their superiors’ ill will and their tendency to manipulate human behavior and to act to the detriment of the subordinates. They assume that superiors:

- are insensitive to life problems, needs, and rights of their subordinates;
- carry out secret activities behind their subordinates’ backs;
- are mainly interested in power and their own interest;
- act as an exclusive club for the privileged elite (caste);
- constantly add more duties to the subordinates without appropriate compensation;
- are engaged in “internal political games”;
- are biased and act to the benefit of those they favor;
- are hostile to ideas other than their own;
- treat consultations with subordinates as a political measure, but they are not interested in the opinions of their subordinates;
- feel threatened by competent subordinates;
- are dishonest and capable of covert revenge.

Subordinates’ defensive behavior. Subordinates defend themselves against the ill will of their superiors, and as a result:

- openly suggest their superiors are incompetent;
- hinder the flow of information;
- trap their superiors to make mistakes in front of other superiors, also at a higher level;
- put the blame for low productivity on others or circumstances;
- demand more money or better working conditions without offering a better work in return;
- laugh at their superiors in the presence of their colleagues;
- call all decisions of their superiors into question;
- complain to suppliers and competitors about relations within the company;

- do not contribute anything at organizational meetings, and privately continue complaining;
- refuse to do any additional work in emergency situations;
- do not want to accept their co-responsibility for the problems.

Aggression observed by the superiors. Superiors interpret the defensive behavior of their subordinates as aggressive, which confirms their earlier assumptions of the subordinates' ill will. In the eyes of the superiors, subordinates:

- refuse to cooperate in corrective actions;
- look for excuses instead of taking action where improvement is needed; they do not offer the company a chance to improve and develop;
- evade work and are interested only in their own profits;
- spend a lot of time complaining among themselves;
- have no constructive ideas;
- present minor problems of their own as serious organizational issues;
- do not work at the level of their abilities;
- are aggressive;
- try to use the company as much as possible to achieve their own goals.

After the completion of each cycle, all parties are strengthened in their beliefs that their negative assumptions are justified and, therefore, intensify their defensive actions. Negative assumptions and defensive actions are intensified. As a consequence of this:

Negative assumptions become reality.

This is how much damage can be caused by the fear of talking about work-related problems. In many companies and institutions, these damages are well known to employees; alas, most often each party can see only its own part of the vicious circle.

The vicious circle of suspicion is also associated with a phenomenon called the *vicious circle of bureaucracy*: managers derive satisfaction from the fact that they can give orders and evoke fear, while subordinates accept this situation, because in return they are released of any responsibility. Therefore, they behave passively and react only to repression, which confirms their superiors' belief that repression is the only effective way to control their subordinates.

Finally, here is a list of topics that subordinates are afraid to talk about openly and publicly. These are so-called *non-disputable problems*, i.e. problems that are often discussed, but only in private.

Category	% of responses
Methods used by managers	49%
Work efficiency of co-workers	10%
Remuneration and bonuses	6%
Methods used by the management	6%
Changes implemented	4%
Personnel matters other than remuneration	2%

Personal feelings	2%
What others think about my performance	2%
Bad news	2%
Conflicts	2%
Personal problems	2%
Suggestions for improvement	2%
Other	9%

Table 4.1-4 Non-disputable problems in the USA

The list presented in Table 4.1-4 has been collected in American organizations, but I think that it may apply also to Poland, with a possibly slightly different percentage distribution of responses.

4.1.5 Dismissals

The style and circumstances in which people are dismissed have a huge impact on the sense of security of all employees. It concerns all employees, not just those who have been dismissed, because everyone asks themselves how they would have been treated in a situation like that and to what extent they are already threatened with being dismissed. The style of dismissal becomes particularly important when it is connected with systemic restructuring of the company, i.e. when people are dismissed not for disciplinary reasons, but because there is no place for them any more in the new structure or corporate culture. Here is how the employees of one of the companies that experienced such a situation describe their feelings (cf. [66], p. 81):

1. We had the impression that the reasons for the dismissals were mainly related to short-term profits at the expense of the long-term interest of the company.
2. There was a lack of follow-up activities to support those who remained.
3. The dismissals were carried out in an atmosphere of secrecy.
4. Among the dismissed were many long-standing and reputable employees.
5. The wave of dismissals struck various departments and people did not know when it would reach them or when it would end.
6. The dismissed were not warned in any way, nor were they given any time to adapt to the new situation before they left.
7. No actions were undertaken to find another job in the company for those who were dismissed.
8. The names of the candidates for a dismissal circulated through gossip, before the interested parties were officially informed about it.
9. The way in which people were dismissed made it clear to the rest of us on how the company treats employees. Many employees have come to the conclusion that the company is indifferent to the fate of its staff.

4.2 Exit routes

4.2.1 Where to start

As it has already been stated, the sources of fear of speaking openly about problems are embedded in the corporate culture of the company. This culture must, therefore, be changed from the culture of searching for the one to blame to the culture of searching for the cause (section 8.11). This is, needless to say, not a simple procedure, as it often requires the reconstruction of well-established beliefs and habits. This is a necessary procedure, though, as without it, we will not eliminate fear from the organization, together with all its negative effects.

A good first step towards such a change could be to organize a workshop described in section 15.2 aimed at identifying problems encountered by employees in their daily activities. Asking employees a question: “What bothers you most in your work” is the first signal that the company treats them as partners, that it is interested in their problems, and that it is ready for change.

Naturally, the workshop cannot be the only measure. It merely presents an invitation to discuss what is non-disputable, as well as an incentive to remove the barriers that have been reported. The superiors must give a clear signal that they take the opinions of the people under their care (yes, now “people under their care” and not “subordinates” any more) seriously⁴⁶. And, of course, since actions speak louder than words, after analyzing the barriers, they need to proceed to identifying the causes of these barriers and eliminating them one by one. The tools used by quality incubators, to which the entire section 15 is devoted, are helpful in all these actions.

Proposals for solutions should come from those who have reported barriers, from those for whom the barriers are an obstacle to work. This, however, does not mean that superiors are to remain idle. Firstly, they also reported their barriers, so they should remove them. Secondly, there may be different conditions that do not allow for the removal of every single inconvenience, e.g. formal-legal conditions or ones related to the adopted standards, such as ISO, HACCP, or BRC⁴⁷. These conditions are not always known to line employees, so they need to be clarified, but they also need to be looked at together (by superiors and people under their care), because we know from past experience that many procedures can be improved without compromising the purpose for which they are intended. Finally, there are barriers, the removal of which requires decisions reserved for the management.

A discussion on organizational barriers – which it is the easiest and safest – is a good introduction to talking about deeper, systemic barriers resulting from toxic principles within corporate culture. We can, therefore, begin by simplifying the procedures for recording the movement of goods and treat this as a prelude to the discussion on the problem of trust. Talking about procedures does not require too much emotional involvement, while talking about trust – definitely does. Therefore, the latter type of discussions should be conducted – if the company can afford it – not by the company’s employees anymore, but by outside trainers with appropriate psychological experience.

When the participants of the meetings get comfortable with talking about barriers, it is necessary to propose a discussion about a barrier which is most often not reported for the workshop

⁴⁶ Although in Teal organizations, there are basically no superiors in the traditional sense of the word, I mention them here, because in this part of the book, we have only reached a certain stage on our road to the Teal world.

⁴⁷ HACCP and BRC are food safety standards.

– the fear of talking about problems. Because in order to eliminate the problem of fear, we need to stop being afraid to talk about it. We need to start talking about our hidden emotions.

4.2.2 Let's talk about fear

To encourage others to talk about fear, let's begin with ourselves:

- Let's talk about our fears and give examples;
- Let's show the willingness to speak about difficult and delicate issues;
- Let's identify negative assumptions in our thinking and eliminate them;
- Let's ask questions about the existence and sources of fear;
- Let's accept doubts, skepticism, and other opinions;
- Let's offer time to get used to thinking about the existence of fear.

Next, let's ponder over the phenomena that testify to the existence of fear in the organization. Here are the most common of them:

- Lack of suggestions regarding corrective actions and innovations;
- Workers' struggle for resources and roles;
- "Us and them" syndrome, trade unions;
- Lack of discussion at meetings, but complaining in private;
- Reluctance to take responsibility for one's mistakes;
- A long, bureaucratic way of making decisions;
- Thinking about connections;
- Lack of commitment, cynicism;
- Regular absenteeism and late-coming;
- Unethical behaviors, e.g. selling somebody down the river.

For each of these phenomena, let us ask three questions:

- Does it happen in our organization?
- How can it be related to the phenomenon of fear?
- What are the costs?

Note that fear may be irrational and, therefore, unjustified, but even if it is so, it creates an obstacle to the development of the company. All emotions have an effect, no matter how much they are or are not justified. It is the duty of the superiors to eliminate the destructive fears of the people under their care.

4.2.3 Behavioral standard

According to the research reported in [66], aggressive conduct of superiors is very often a behavior that generates fear. A scale of such conduct has been worked out – called the grey scale of conduct – arranging behaviors from the least toxic to the most toxic ones.

1 Silence

2 Glaring eye contact: „the look”

3 Brevity or abruptness

4	Snubbing or ignoring people
5	Insults and put-downs
6	Blaming, discrediting or discounting
7	An aggressive, controlling manner
8	Threats about the job
9	Yelling and shouting
10	Angry outbursts or loss of control
11	Physical threats

Table 4.2-1 Grey scale of superiors' conduct

The gray scale is primarily used to analyze various types of behavior in our company. Let us consider which of these behaviors can be observed most often, and which of them are the most unpleasant. For example, in American studies, raised voice was given as the most common behavior that creates fear. However, the analysis should not end there. The next step is to consider how things should be, and therefore to create a positive standard. Here is an example of such a standard:

1. Listen and give time to present the problem.
2. Offer the benefit of doubt – when things go wrong, check what exactly is going on before drawing negative conclusions.
3. Keep your commitments and promises.
4. Notice every success, even a small one – do not forget to congratulate.
5. Build bridges instead of walls.
6. Don't sit in your office all the time, mingle with your team members.
7. Help your team members grow and mature.

Remember Marek Kosewski's words (section 7.6) that people are not bad or good – they are all sometimes bad and sometimes good.

4.2.4 When bad news arrives

As we have already said, aggressive behavior, which creates fear, is a defensive behavior. And we defend ourselves when we feel fear. One such situation may be when we receive bad news. This fuels a natural fear, be it fear of the material consequences of an event, such as an accident at work, loss of a customer, waste of the raw material, or disciplinary consequences that may affect us directly. In order to alleviate this anxiety and the resulting tension, we explode with an attack of aggression. The response may be increased fear of our interlocutor and usually even greater aggression.

In order to avoid such situations, it is necessary to prepare for them by adopting certain rules for responding to bad news. Here they are:

1. Remember that bad news usually comes when it is “the least needed”, that it usually surprises you and comes without a warning.

2. Don't expect the one who brings bad news to be polite, relaxed, and constructive. After all, he or she also feels anxiety, a fear of the consequences of a negative event and, in addition, fear of your reaction. So they can be aggressive.
3. Do not assume your interlocutor to be ill-willed. Their aggression most often results from a sense of fear.
4. Don't expect that bad news will be accompanied by suggestion of a solution. This may happen, of course, but it does not have to be the case. The one who brings bad news was probably surprised by it as well.
5. If possible, do not make a decision immediately after receiving bad news. First of all, try to lower your level of stress, as well as that of your interlocutor. Sit down somewhere in a quiet place. Suggest a cup of coffee or tea. The preparation of the drink will be a natural opportunity to cool down. Then calmly ask the interlocutor about the details and circumstances of the event. The first report is usually incomplete, and it may also be exaggerated.
6. Bad news is always unpleasant, sometimes painful, but this does not mean that it is undesirable. So when the messenger brings it, treat them so that they do not hesitate to come again if necessary. Remember that receiving bad news is not the worst thing to happen – it is much worse if it is not delivered at all or delivered too late.
7. Don't wait passively for bad news – look for them. Ask customers for their feedback before they come with a complaint or, what's much worse, before they stop coming at all. Monitor the use of raw materials before you find that you are consuming too much; check the level of work safety before an accident occurs.

In addition to the principles of responding to bad news, you should also learn how to communicate them. After all, each of us can find ourselves in the role of an unwanted messenger. Remember that the response to your message may depend more on HOW you say it and how you behave than on WHAT you say. The stronger your emotions, the stronger the impact they have on the interlocutor. So try to speak with a calm voice, without excessive use of gestures or dramatization. Be constructive, use data and facts, and avoid too many adjectives. Beware of judgments. The time for those will come. For the time being, all that is needed is advice on what to do in a given situation and not an explanation as to why this has happened. Many of the rules for conducting such difficult conversations are described in section 3.

When bringing bad news, take a look at who is standing around to you. It can be difficult for your interlocutor to control emotions and revealing them in front of a third party may be even more difficult and painful. Sometimes it may also mean “losing face”.

4.2.5 Eliminate ambiguous behavior

Ambiguous behavior includes conflicting commands, actions contradicting declarations, and any other types of conduct that may have multiple interpretations. Ambiguous behavior always creates an impression of insincerity and inauthenticity, since in reality it is most often accompanied by such attitudes. Although it is often a defensive type of behavior, it is usually perceived as offensive, announcing an attack, and so it causes similar reactions which sets the vicious circle of suspicion spinning. How should we behave in order to avoid such an impression? Here are some effective tips:

- **Be open and kind, make people feel welcome:**
 - Don't do things “for show”, let others see that you are a human being, too;

- Remember people's names;
- Pay attention to everyday kindness; let it be expressed in the choice of words and intonation⁴⁸;
- If you think that favoritism is a problem in your team, don't be afraid to speak openly about it;
- Take interest in the work of your team members, but don't interfere too much;
- Talk to your team members about the problem of ambiguity, ask them to tell you when you behave in this way;
- If there is a reason for you to give someone credit, do so with no delay, but remember the difference between giving credit and praise (section 9.6).
- **Offer as much clear information as you can:**
 - Limit the information only if this is justified, in which case explain why you are limiting it;
 - Pass information quickly and in accordance with established rules;
 - Identify the information gaps that make your team feel stressed and threatened;
 - Remember that information should not be contradictory and that it should be consistent with your conduct.
 - Don't put people in a situation with no choice:
 - Do not make people act against their views, ethics, customs;
 - Do not press them to say one thing and do another.
- **Listen to and respond to suggestions for action:**
 - Ask for the team's advice on major decisions; even when a decision has been made by your superiors, you can talk to the team about how to carry it out;
 - Set fixed dates for meetings with the team, where you will talk about your plans and intentions and where you will also have time to discuss problematic situations;
 - Ask your team members what barriers they encounter at work and try to eliminate them together; organize a workshop described in section 15.2,
 - Try to set up a quality incubator in your team, and if the team is large, you can set up several such incubators (section 15).
- **Involve people in making decisions:**
 - Clearly define the responsibilities of your team members and the related decision-making competences;
 - Send out clear signals that everyone has the right to make a mistake, but that lessons must be learned from mistakes for the future;

⁴⁸ American general Omar Nelson Bradley, considered to be the main contributor to the victory of the Americans in World War II, preceded each of his commands, regardless of the rank of the soldier to whom he gave them, with the word "please". (cf. [6], p. 163).

- Don't make decisions for your team members and don't interfere with their competences; if you do not like the decisions they make, talk about it openly.

Finally, it is worth noting that the operational simplicity of these recommendations does not reflect the emotional complexity of the task of implementing them. If it is difficult for us to follow all these recommendations right away, let's start by working on ourselves. To begin with, let's try to think about our team members positively. Although they do not always do everything well and although they do not always do things our way, let's remember Marek Kosewski's maxim (section 7.6) that people are not bad or good – they are all sometimes bad and sometimes good.

4.2.6 Discuss the non-disputable

Among very important actions to eliminate fear is getting rid of *non-disputable topics*, i.e. topics about which people are afraid to talk. Naturally, I mean to talk openly, because the more non-disputable something is, the more lively it is discussed in private conversations or on Internet forums.

However, the elimination of non-disputable topics is not about removing them from the consciousness of our employees – this usually cannot be done – but about initiating an open discussion of them. Alas, this is not easy, so let's start with the simplest things and remember that:

*Discussing non-disputable topics resembles peeling onions:
we discover layer after the layer and sometimes it makes us cry.*

The simplest non-disputable topics are, of course, technical issues, because this is not about operational simplicity, but emotional simplicity. Technical issues will be provided by a workshop identifying work-related barriers, described in detail in section 15.2. Examples of such topics include the lack of a procedure, reopening an information channel, organizing regular team meetings or proposing a new organization of work.

Once we have acquired skill and mental resilience in talking about emotionally neutral issues, we can proceed to more difficult topics. This requires the implementation of a four-step plan:

1. Explaining what non-disputable topics are, why they appear, and what the consequences of their presence are.
2. Identification and classification of non-disputable topics.
3. Discussion of possible countermeasures.
4. Adoption of countermeasures.

For the identification and classification of non-disputable topics, it is advisable to use the classification table (Table 4.2-2).

	Topic	Why is it non-disputable	Consequences of non-disputable topics
Non-disputable with the supervisor (You)	Lack of explanation of many decisions	We fear negative responses and their consequences	Decisions that are incomprehensible or considered wrong are not executed willingly and thus inaccurately

Non-disputable with other members of the group	Many employees do not care about reliable performance at work	We do not want to admit this even to ourselves	Ineffective work, many defects, high costs, loss of customer
Non-disputable with the persons under the care of the members of the group	We believe that employees work slowly and reluctantly	We do not know how to talk about it so that people do not feel offended	Same as above
Non-disputable throughout the company	Dividing the staff into "better" and "worse"	We are afraid of negative reactions of both our superiors and those viewed as "better"	A feeling that it is not the work that counts, but the connections; the consequences including reluctance towards the company, careless performance of duties

Table 4.2-2 An example of classification of non-disputable topics

Needless to say, a discussion of such topics can be very difficult. Not everyone can carry it out, so if possible, it is worth trying to commission a professional outside coach. Another benefit of this is that it will be easier for employees to talk openly to an outsider about what has so far been discussed only in private. A coach can also prepare those people (e.g. our superiors or people under our care) with whom we were afraid to discuss non-disputable topics in the past.

However, if we decide to hold the discussion ourselves, let's remember the following rules:

First of all, it is necessary to create a safe atmosphere free of any accusations. Let's explain to the participants that the aim of the discussion is to improve the flow of information, to reopen communication channels, to encourage everyone to talk about barriers. The purpose of the discussion is not to criticize anyone or to rub their noses in their mistakes. Therefore, we talk about what things should be, rather than what they are. Let's also start with the relatively safest topics.

Secondly, let us accept difficult issues, but let us also remember not to enter into anyone's personal space. No one should feel threatened by talking about political, philosophical, or moral views.

Finally, let's remember about the following maxim:

*The more you talk about non-disputable problems,
the less topics you will have to talk about.*

4.2.7 Decision-making

Making decisions involves choosing from a range of options. However, this is only one aspect of this activity. After all, the decision made has to be implemented, and so it is necessary to convince its future executors, which often means struggling with one's own and someone else's emotions. The more cooperation with future executors of a decision before it is made, the easier and more secure its implementation.

From the point of view of the level of cooperation, we may distinguish six decision-making styles discussed in Table 4.2-3:

1. Lack of cooperation	Decision is taken by the supervisor without consulting anyone
2. Accidental cooperation	Decision is taken by the superior after unplanned and informal consultation
3. Scheduled cooperation	Decision is taken by the superior after planned consultation in the form of a meeting, expert opinions, advice, etc.
4. Voting	Decision is taken by the team in a simple majority vote (more votes “for” than “against”, abstentions do not count); with the same number of votes “for” and “against”, the superior has the decisive vote.
5. Consensus	Decision is taken by the team with the participation of the supervisor ⁴⁹
6. Delegation of decision	Decision is taken by the team without the participation of the supervisor

Table 4.2-3 Cooperation in decision making

It should be emphasized that none of these styles is the only right one – each has its own area of application. Although delegating or consulting future decisions is generally desirable, it is not always possible, nor is it always necessary. The following are the characteristics of the different situations from this point of view.

When we take part in negotiations in which we have no contact with the team and we have to make a decision, we take it without consultation. Sometimes the decision is forced by external factors (e.g. the law, customer) or by our supervisor. It may also be that the decision is small, technical, and insignificant from the point of view of its executors. In such cases we confine ourselves to informing the team *ex post* about the decision and its reasons.

Accidental cooperation, i.e. a short ad hoc consultation, may occur e.g. when the decision affects the work of the team, though insignificantly, and the superior needs advice on the industry matter, e.g. when choosing the type of raw material for production.

Scheduled cooperation involves a meeting of the team to assist the superior in making a decision – “I would like to know your specific opinions, but I will make the decision myself and I will take full responsibility for it”. This style is particularly common in extreme situations, when the superior is the commander, e.g. ship’s captain, commander of a military unit, or head of the Himalayan team trying to climb an eight-thousander. It can also happen in the company, when we do not want to burden our team members with some risky decision.

Majority voting is a solution halfway between *scheduled cooperation* and *consensus*. The superior releases himself of responsibility but, if the vote was not unanimous, the team is left with losers, with all the consequences. Therefore, where possible, a consensus should be sought. A discussion of how to deal with these problems in difficult situations can be found in section 3.2.

A consensus is, by and large, a situation where the entire team (including the superior) makes a decision unanimously. In a harmonious team, acting on the paradigm of partnership, and in “everyday” situations, it may prove not to be difficult. After a short discussion, the group opposing the decision agrees to vote in favor and, what is more, their agreement is not only formal, but follows an internal conviction. They agree, because they don’t want the difference of opinion to split the team. This is the so-called *weak consensus*, which has already been mentioned in sections 2.4.2 and 3.2.2. However, sometimes the decisions to be taken are difficult. Then it

⁴⁹ Various methods of reaching a consensus are discussed in section 3.2.2

can take many hours or even days to reach a consensus. If we are to decide on starting a risky project, we should allow enough time to listen to all the arguments in favor and against, to ask for the opinion of outside experts, to prepare a risk analysis. We should provide all team members with maximum information about the circumstances and possible consequences of the decision.

The consensus method is also associated with a typical mistake, which is often made by superiors. Let's say a superior comes to the team meeting with the decision already made. He or she only needs the decision to be confirmed, whether to feign partnership or release themselves of responsibility. This, of course, is a mistake. It is a classic example of ambiguous behavior, which I discussed in section 4.1.4. If we took the decision in advance, we should tell the team. We can also say: "I have basically already made a choice, but I would still like to listen to your opinion. If you convince me otherwise, I am ready to change my decision".

The last situation is to *delegate decisions* to the team: "Make this decision yourselves". On the one hand, this shows a true spirit of partnership, though on the other hand, it can be a trap for the team. It will be a trap if the team is not usually treated as a partner, if employees are punished for wrong decisions, and if the team has not developed the skills and mechanisms of independent decision making. It will also be a trap if there is no good decision, if each choice is a bad one, and if the only thing we choose is the lesser of two evils.

I have seen superiors who, not knowing what to do, shifted the responsibility off to the team. Internally, they were opposed to partnership and only needed proof that the team was not prepared for that. They actually waited for the team to fail!

So before we decide to take advantage of the benefits of delegating decisions, we must know the team is prepared for that. They must be able to hold discussions, analyze the situation, and, in more difficult cases, use the tools provided by the quality incubators described in section 15. Above all, they must be willing to act positively and have trust in their superior.

Sharing the burden of making decisions with the team, especially when it is a new element of corporate culture, may also meet with resistance from both the team members and the superiors. When partnership is introduced after many years of coercive corporate culture, it may be difficult for the team members to believe it is honest and for the superiors to implement the new style. What's more, one person can perform both of these roles at the same time. After all, most superiors have their superiors as well. Even the President of the Board has superiors in the persons of the members of the Supervisory Board or the owners of the company.

I suggest that managers who find themselves in such a dual role answer the following three groups of questions:

As a superior and a team member:

- What style of decision making gives you the greatest sense of mental comfort?
- What style is closest to you – intellectually, emotionally, and practically?
- What are the advantages and disadvantages of each style?
- In which situations would you use different styles?
- Do you think that employees view the current decision-making styles as autocratic and secretive? What evidence do you see for that?

As a team member:

- What do you think about your superior and their ability to make the right decisions?
- When do you fail to believe that the decisions taken are correct and feel overlooked in the decision-making process?

- How does this affect your productivity and the quality of your work?
- Does this affect your willingness to speak out?
- Does this affect your willingness to help implement decisions?
- How often does your manager implement each of the decision making styles (1-6).

As a superior:

- How often do you see yourself making decisions in each style?
- What type of decision would you rather not take and why using styles: 3., 4., 5., and 6.?
- What do you think about your team members and their ability to make the right decisions?
- How would you describe the decision making style currently used in the team you lead?
- How, in your opinion, would your team describe this style?
- How effective is your decision making? Where and when does it work? Where and when does it fail?

Finally, remember an important maxim:

*Once we have made an important decision,
which does not need to be kept secret for strategic reasons,
let us draw up a plan to inform all those that are affected by it.*

4.2.8 Negative thinking

Negative thinking is a tendency to assume that the worst will happen. Negative thinking renders acting impossible, prevents reaching solutions to problems, and makes people very intolerant to ambiguous behavior. It is a typical phenomenon during the period of transition.

Characteristic symptoms of negative thinking present in the following types of statements:

- “I’m not sure if it is going work”.
- “I don’t think we’ve taken all the risks into account”.
- “I start wondering what all this is leading to”.
- “If we do not stop all this, we will have serious problems”.
- “I don’t really understand what it’s all about. What is going on here?”

Although the fears of a period of transition may be completely unfounded, this is of no relevance to their effects. Unjustified concerns may be as paralyzing as the justified ones. They should not be underestimated, e.g. by the following types of responses:

- “Don’t be ridiculous, it cannot happen”.
- “Oh, it’s really very simple. You only need to ...”.
- “Well, you’ve stepped into it yourself. Now you need to get out of it yourself”.

So how can negative thinking be tackled? How can we help those who are paralyzed by it? They are the ones who feel fear and uncertainty. They should be offered a helping hand.

As negative thinking is a source of anxiety, just like in any other such case, we should begin to talk about it carefully. Talking is necessary so that those who are afraid can be released from thinking only about the worst thing that may happen. Here is the scenario according to which you can conduct such a conversation:

1. First, listen, focus on the emotional side of the utterance and show empathic understanding of your interlocutor's problem. Remember that understanding emotions – in this case fear – does not have to be parallel to feeling them. "I know and understand how you feel, although I feel different".
2. Then discuss thoroughly the worst case scenario and try to look at it with the eyes of your interlocutor. Think about the consequences of such a scenario.
3. Next think about what can be done to avoid the worst case scenario and what could be done if it did happen. Set up several alternative plans for different versions of events.
4. Finally, when you have finished with the worst case scenario, consider what the most likely scenario is.

Negative thinking can be the result of a lack of self-esteem. If the symptoms persistently return throughout the discussion, advise the interlocutor to seek the help of a professional psychologist. An amateur psychologist usually does more harm than good.

Individual therapy can be used when the cases of negative thinking are infrequent. It should also be used when each of the people affected sees the problem differently. However, it is often the case that this problem concerns a group of people, e.g. the entire company, and that everyone sees it more or less equally. Then we use group therapy, in which the group is trying to answer the following questions:

1. What scenarios, from the worst to the best, are possible?
2. What can be done to prevent the "worst case" and what should be done when it does happen?
3. What should be done in other cases and how can they be avoided?
4. What events can we influence?
5. What events will we have to accept?
6. How to prepare people to be able to cope if the "worst case" does actually happen?
7. What to do if the "worst case" happens, what to do to reduce the levels of problems, fear, misunderstanding, and frustration as much as possible in the resulting situation?
8. What can we offer to people who cannot cope if the "worst case" happens?

Naturally, we may and should also ask questions that arise during an individual therapy. In general, the idea is to lead the team out of the paralyzing panic zone so that people can feel that even in the worst situation they will have some influence on the course of events.

5 Emotional intelligence

The great organization must not only accommodate the fact that each employee is different, it must capitalize on these differences. It must watch for clues to each employee's natural talents and then position and develop each employee so that his or her talents are transformed into bona fide strengths. By changing the way it selects, measures, develops, and channels the careers of its people, this revolutionary organization must build its entire enterprise around the strengths of each person.

Marcus Buckingham
Donald O. Clifton⁵⁰

This section is largely based on material from sources [8] and [9].

5.1 Two components of intelligence

Many people believe that personal success in life depends – apart from hard work and the so called “good luck” – on our intelligence quotient. However, the truth is completely different. The intelligence quotient, though undoubtedly very important, does not determine success at all. What does matter is the ability to build lasting and positive relations with people, which since relatively recently – the 1990s – has been called *emotional intelligence*. Today it is believed that our intelligence consists of two groups of personality traits: *rational intelligence* and *emotional intelligence*.

Rational intelligence is measured by the ability to think rationally, which includes:

- the ability to analyze the state of affairs;
- the ability to generalize, i.e. to synthesize individual cases into general knowledge;
- the ability to see cause and effect relationships between facts and events;
- the ability to draw conclusions (deduction);
- the ability to define terms;
- problem-solving skills.

On the other hand, emotional intelligence is measured by the ability to build relationships with people, which consists of four types of competences, arranged in two groups:

1. Personal competences:

- a. **self-awareness (understanding oneself)** – recognizing one's emotions and their effects, learning about one's strengths and limitations, self-esteem;
- b. **motivation (building oneself)** – striving for achievements, identifying one's goals with the group's goals, readiness to take advantage of opportunities, perseverance in pursuing the set goal.

2. Social competences:

- a. **empathy (understanding others)** – understanding people: their feelings, emotions and needs (feeling compassionate), improving others, recognizing and

⁵⁰ Source [8]

satisfying the needs of others, drawing on the diversity of people, recognizing the emotional currents of the group;

- b. **social skills (team building)** – effective persuasion, ability to listen, mitigating conflicts, catalyzing changes, creating bonds, cooperation, organizing cooperation.

Rational intelligence can be very helpful in achieving success, but only if we can use our rational skills to build positive bonds with other people. It was aptly described by Doug Lennick, a financial advisor at American Express:

The skills needed to obtain success begin with the intellect's ability, but in order to use all the talents that make up this potential power, you need emotional competence.

If emotional intelligence is so important, can we develop it within ourselves? Can we learn it, or do we have to be born with it? Fortunately, the first thesis is true. Although not all people are born with exceptional predispositions to emotional talents, in principle everyone can develop them to the extent necessary for effective action. And that's what this part of my book, entitled BUILDING RELATIONS, is about.

5.2 Our key emotional talents

In section 6.6 I refer to the results of the Gallup Institute's studies, the aim of which was to identify common features of companies with long-term market success. As a result of these studies, it was found that, statistically speaking, the companies whose employees responded with "YES" to twelve questions today called the Q12 test are "doomed to succeed". One of these questions is:

Do I have the opportunity to do what I do best at work every day?

As it turns out [8], only 20% of the 1.7 million employees of 101 companies from 36 countries answer "YES". This astonishing result shows the colossal and untapped potential of companies around the world.

In addition to the studies already mentioned, the Gallup Institute has carried out another one to discover the characteristics shared by the world's best managers. This research, described in [8], spanned over 30 years and involved two million managers throughout the world. Researchers found that:

1. There are 34 talents that are important for building interpersonal relationships.
2. Each of us has only five of these talents.⁵¹
3. Within the scope of our talents, anyone can achieve perfection.
4. Within the scope of the remaining 29 talents, nobody can achieve perfection.
5. Every five talents are enough to succeed regardless of the chosen profession.

Talents are understood as *recurrent patterns of thinking or feeling, or types of behavior for which useful applications can be found*. They are thus individual attributes of the brain of every person, and their surprising properties are the result of changes that take place in the brain from the moment of conception until the end of our life. Here is what the history of these changes looks like.

⁵¹ As a result, there are as many managerial profiles as there are five-part sub-collections in the 34 talent pool, i.e. 278 256.

42 days after the conception, the brain of the fetus begins to develop neurons and connections between them called *synapses*. On that day the first neuron is created, and 120 days later there are already 100 billion of them. As it can be easily calculated, every second 9,500 new neurons are created. This number of neurons is usually preserved until the end of middle age.

Sixty days before birth, connections between neurons, i.e. synapses, begin to form in the brain. At the age of three, we already have 15 thousand synaptic connections for each neuron. They are the result of learning and remembering. But then the “great retreat” begins. Less frequently used paths disappear and at the age of 16, their number drops by half. At the same time, many paths are reinforced, along with the signals running through them. This is a process of organizing our knowledge, a transition from the stage of remembering to the stage of understanding and the development of talents. Super-fast lines are created, which Buckingham and Clifton [8] call *T1 lines*, which is what high-speed information transmission lines are called in telecommunications. From a child overwhelmed with a huge amount of unstructured information, we become adults with a smaller, but much better structured pool of knowledge. After that period of development of our personality and talents is complete, new T1 lines are no longer created, and those that for some reason get destroyed are not regenerated.

Not all T1 lines are responsible for our talents, but each talent is one such line. We can develop and strengthen each of them in order to achieve perfection, but we are not capable of building new ones.

The conclusions drawn from these studies destroy two quite common myths, namely:

1. By learning, everyone can become competent in almost any field.
2. The largest space for development of each person is the area of his or her weakness.

These seemingly rational beliefs result in the fact that the vast majority of parents around the world (75% in the USA alone) are primarily interested in those areas of their children’s school performance in which they score weakly. In doing so they follow an assumption that priority should be given to the areas that need improvement. Martin Seligman, former president of the American Psychological Society, puts it in the following way:

In schools and workplaces around the world, each of us has been encouraged to identify, analyze and correct our weaknesses in order to be strong. But in order to achieve perfection in your field and derive constant satisfaction from it, you need to get to know your individual collection of talents⁵². You should become an expert in identifying and developing your strengths.

Each of an individual’s strengths consists of three elements:

1. **Talents (inborn)** – recurrent positive patterns of thinking, feeling or behaving.
2. **Knowledge** – information, truths, and algorithms.
3. **Skills** – the ability to act using knowledge and talents.

I will now present short descriptions of 34 talents, the full versions of which can be found in [8]. As emphasized by the authors of these definitions, they are in a sense abstract, because they do not describe the characteristics of any particular person, but present only a certain synthesis

⁵² The Gallup Institute has developed a test called StrengthsFinder, which is available on the Internet at <http://www.strengthsfinder.com> and which allows everyone to identify his or her individual talents. However, in order to complete the test, you need to buy one of the books published by The Gallup Institute, containing a one-time entry key to the test.

and generalization of the characteristics observed in the surveyed persons. The names of talents and their order are quoted after [8].

1. **Achiever.** To be satisfied with yourself, you need to feel every day – whether it’s a working day or not – that you’ve achieved something concrete.
2. **Activator.** In your opinion, what counts first of all is action. Although you acknowledge the importance of analysis, you prefer to act rather than analyze.
3. **Adaptability.** The future is not a predetermined destiny, but something you can create day by day. You are happy to react on the spur of the moment.
4. **Analytical.** You expect every view or theory to be well justified. You often say, “Prove it”.
5. **Arranger.** You do very well in dynamic situations. Faced with complex challenges, you love to make plans and find optimal solutions.
6. **Belief.** You live and act according to fixed and established values. Most often you are a family-focused, altruistic, and spiritual person. You value a high level of morality and responsibility.
7. **Command.** You take your own matters, as well as those concerning others in your own hands. You are not embarrassed by imposing your point of view on others.
8. **Communication.** You like to explain, to speak publically, to be the master of ceremony. You turn events into stories and are happy to share them with others.
9. **Competition.** If others did better than you, it doesn’t matter how hard you tried. You feel that your achievement is not complete. You need other people to compare yourself with them.
10. **Connectedness.** Although humans differ from one another, above all, each of us is a part of a certain whole. And if so, we have responsibilities to each other. We must not harm others, because that would mean that we are harming ourselves.
11. **Context.** Everything happens in a certain historical context. You look back to understand why you behave the way you do. This gives you a sense of confidence.
12. **Deliberative.** You are prudent and vigilant, because the world is unpredictable. You always try to identify and reduce existing risks.
13. **Developer.** You see potential in people, but you also think that nobody is fully formed. People are looking for encouragement and support from you.
14. **Discipline.** Your world must be well-ordered, planned, and predictable. You set up schedules and expect precision in action.
15. **Empathy.** You can sense and understand the emotions of others. You hear unspoken questions. All this makes you attract people to yourself.
16. **Fairness.** You treat people in the same way regardless of their position and you expect the same from others. In your opinion, a person functions best in a situation where the rules are clear and equally binding for everyone.
17. **Focus.** To act, you need a clearly defined goal. You eliminate activities that don’t lead to your goal. When others begin to deviate from their path, you help them get back on it.

18. **Futuristic.** You like to look beyond the horizon. You are fascinated by the future. You are a dreamer who has a vision of future events.
19. **Harmony.** You think that “united we stand, divided we fall”. So you keep looking for a consensus. Instead of arguing about principles and theories, you prefer to talk about practical things.
20. **Ideation.** You are interested in general ideas explaining the essence of phenomena. You like to find new perspectives for known phenomena. Whenever you come up with a new idea, you get an energy boost.
21. **Inclusiveness.** You feel good in groups that are open to others and so are not exclusive. You are tolerant because you think that we are all perfect, though in different ways.
22. **Individualization.** You are intrigued by the uniqueness of each person. You take a close look at the differences between people. You organize a team, carefully selecting people and assigning roles according to the individual predispositions of its members.
23. **Input.** You collect various material things, but also ideas, concepts, information. Everything is interesting to you. You read a lot because it increases your collection of ideas that may prove useful in the future.
24. **Intellection.** You like to exercise your brain. Mental activity is a constant part of your life. In such activities you are a very good companion of yourself.
25. **Learner.** You are attracted by the learning process. Even more attracted by the process itself than its result. Discovering new facts gives you a thrill. You like short-term tasks which require new knowledge and which allow you to shine with this eloquence.
26. **Maximizer.** You are not interested in mediocrity. The only goal worthy of pursuing is perfection. You are fascinated by the strengths of yourself and others. You choose people who can appreciate your talents.
27. **Positivity.** You are happy to deal out praises and smiles. In every situation you try to see something funny. Life is beautiful, work is fun, and one should never lose their sense of humor.
28. **Relator.** It’s important for you to have lasting relationships with people, so you are attracted by those you already know well. You like to spend time with long-standing friends. When you get interested in a new person, you try to deepen this acquaintance.
29. **Responsibility.** You feel an obligation to keep your word and bring every case to an end. If you fail to do so, you are looking for ways to compensate for the failure. Sometimes you take on more responsibilities than you can bear.
30. **Restorative.** It is in your nature to solve problems and fix what doesn’t work.
31. **Self-Assurance.** You believe in your skills and the ability to meet many challenges. You also believe in the accuracy of your assessments. You are the master of your life.
32. **Significance.** You want to stand out, be listened to, and admired. You are looking for a company of reliable professionals similar to you. You want your work to be a way of life for you.
33. **Strategic.** You can find the right way among disorder, you can see regularity where others see only chaos. As you plan your action, you become acquainted with alternative ways to proceed, asking yourself questions about the consequences of each choice. Once the choice is made, you move on to the action.

34. **Woo.** You love meeting new people and gaining their sympathy. Such activities give you energy. With your new friends, you try to find common interests.

5.3 How to cope with a lack of talent?

As we already know, we can only achieve perfection with our five individual talents. However, this does not mean that nothing can be done about the remaining talents. Although we cannot develop them to perfection, we can alleviate the lack of some talent by:

- acquiring knowledge related to a given talent;
- development of standard rules of conduct (procedures);
- acquiring experience in applying knowledge and procedures.

For example, when we lack the talent for empathy, that is, the talent for a deep understanding of one's own feelings as well as the feelings of another person, we can proceed as follows:

1. **Make a little progress** – gain the knowledge of assertiveness, communication, and negotiation.
2. **Establish a support system** – prepare a few ready-made action plans, e.g. conducting a conversation in a conflict situation.
3. **Use one of your talents to dominate weakness** – for example, if you have the talent to learn, learn as much as possible about building relationships with people.
4. **Find a partner** – find someone who will conduct difficult conversations for you.
5. **Communicate your lack of talent** – tell your team: “I lack empathy, so do not expect much from me in this area”.

The above recommendations for a case of lack of empathy can also be applied for the lack of all other talents.

5.4 Individual treatment of talents

Each organization (team) not only has to accept that every employee is different, but should also benefit from this fact. For this to happen, each member of the team, depending on his or her personal talents, needs to be approached individually. Buckingham and Clifton [8] describe in detail the rules of cooperation applicable to each of the 34 talents. I will restrict myself to one example – the talent that has been described above as an achiever.

Persons with a talent of an *achiever* can be characterized as follows:

You feel as if every day was a new beginning. In order to be satisfied with yourself at the end of the day, you need to feel that you have achieved something concrete. By “every day” you mean working days, as well as weekends and holidays. No matter how much you deserve to rest, if a day passes without any achievement, you will feel dissatisfied.

If you have such a person in your team, apply the following rules to him/her:

1. If you need additional work done, contact this person.
2. Show that you notice that this person likes to be busy.
3. Help this person assess what he or she has done.
4. Get in touch with this person by working together.

5. Once this person has completed his or her job, give them recognition and set a new ambitious goal.
6. Keep less productive people away from this person. He or she finds lazybones very annoying.
7. This person probably needs less sleep and gets up earlier than others. Pay attention to this if that is what this person's work requires.
8. It would be a mistake to promote this person to a senior (managerial) position, if it were to draw him or her away from what she likes the most. Get to know this person's other talents and give him or her the opportunity to excel in the field he or she knows best.

All of these rules are centered on the boss. If you want to be a true leader, make sure your team learns to benefit from the diversity of talents.

5.5 Strategy of human capital development in the company

The further we move away from the model of a reproductive society towards a knowledge society (section 12.2), the more important is the assignment of jobs in accordance with individual predispositions of employees. Such an assignment should begin by describing the jobs and defining:

- the products that are made by people at these positions;
- quality standards for these products;
- the scope of activities;
- the required competences;
- the scope of decisions taken.

Now we can effectively search for people with characteristics corresponding to the different positions. We can plan training programs and promotion models for them, though not necessarily within the organizational hierarchy of the company. Various alternative career models are discussed in section 9, while products and their quality standards at different positions – in section 21.2.

It is also a good idea to follow the following principles when appointing people to different positions:

1. Help each team member to find a role in which he or she will do more and more of what he or she can do best.
2. Regardless of what the team member wants, it is your duty to direct them to the role in which they are most likely to succeed.
3. Keeping an employee in a role he cannot cope with is a manifestation of “active lack of concern”.

5.6 When you are a superior

You may think that as a superior you have more control over your team's activities than others. But that's an illusion! In fact, you have less control than your employees, because each of them can decide what they will do and what they will not do. They are the ones with agency or causative power. What you can do is to influence, motivate, encourage, and advise others, which is quite a lot, providing you act adequately and do not reach for the carrot and stick

(section 8.1). Buckingham and Clifton formulate it a bit differently, writing about the “hard love of the superior”:

1. Do not tolerate bad results.
2. Do not make people do the impossible.
3. Match tasks to talents.
4. Choose a career path according to talents.
5. Do not accuse the team member because of the lack of talent.

It should be remembered, however, that the lack of tolerance for bad results does not mean resorting to punishment and repression. If the results are bad, the reasons for this must be addressed: first identify them and then remove them (section 8.1). This is the only way to act effectively. Many ways of identifying and removing causes are described in section 15, devoted to quality incubators.

Finally, three more important maxims:

1. A person’s enthusiasm and what motivates him or her are unique talents that are hard to replace. When you advise someone to “change their approach”, you may be recommending something unattainable to them.
2. If you notice that you devote most of your time to solving problems of only one employee, you can be almost certain that you have made a staffing error. Permanent bad performance of people under your care is not the result of weakness, stupidity, disobedience or disrespect for you. It’s just a problem of a wrong assignment of posts!
3. People do not change easily. Don’t waste time putting together a broken vase. Rather, try to use what’s left. This is difficult enough.

Part III: BUILDING MOTIVATIONS

6 Leadership dilemma – violence or partnership?

6.1 New knowledge

*All truly great ideas seem somewhat absurd
when first proposed.*

— Alfie Kohn⁵³

The knowledge contained in Part III is not only the key to the effective organization of teamwork, but also – I dare say it – the way to achieve deep and lasting satisfaction from work by ourselves and members of our team. Unfortunately, this knowledge is not easy to accept and apply, not because of its intellectual complexity, but because it sometimes contradicts our everyday observations, just as the heliocentric theory of Nicolaus Copernicus contradicts them.

We learn physics at school for several years, so after graduating from high-school we are aware of how little of this vast field of knowledge has become part of us. However, we do know – and this is one of the most important elements of our school education – that physical phenomena are governed by complex laws which, at first glance, are not obvious at all. For example, there are fields of forces – gravitational, magnetic, and electrical – invisible to the eye, but which make some bodies attract and others repel each other, even though when we look at them there seems to be no reason for it.

We do not learn social psychology at all, so we leave school believing that we know as much as necessary about the phenomena occurring in the mutual interactions of people. After all, these phenomena can be explained very simply, can't they? We stereotype that if people work reluctantly, it is because they are lazy, and if they deceive us, it is because they are dishonest. Of course, we always view ourselves as belonging to a group of hard-working and honest people, but others... well, everybody knows what they are. They can only be driven to work by force, and can only be prevented from cheating by intimidation. And if we don't succeed, we also know why – because some people are simply hard-headed. They need to be fired and replaced by better ones. So we firmly resist all those clever psychologists who split hairs, not suspecting that fields of forces exist not just between physical bodies, but also between people, making some people attract others and others repel them, and that knowing these forces is essential to build a team of individuals who see work not only as a source of income, but also a source of realization of their ambitions, dignity, and spiritual needs.

I need to admit that when I started working in my family business in 1990, I viewed social phenomena in a much simplified way. Good fortune⁵⁴, however, allowed me to meet Jim Murray, who gave me his first instructions and pointed out two very important sources of them: Edwards Deming [15] and [17] and Alfie Kohn [46][47] and [48]. Later I met Helmut Gläser, a company coach who strengthened my emerging views, and a decade later I met Marek Kosewski, whose book [50] and numerous discussions we held enriched and arranged my knowledge about the mechanisms that determine actions and attitudes of people. Although they were not the only authors that I studied and who contributed to shaping my views on psychosocial phenomena, it is to them that I owe special gratitude for the knowledge that changed my

⁵³ Kohn Alfie, *Punished by Rewards*, Houghton Mifflin Company, Boston 1993.

⁵⁴ I was helped by Jadzia Płodowska, at the time the head of my company's sales department.

understanding of the world of emotions, motivations, and relations between people. It is their teachings that make up most of the material in this section on leadership. Because leadership is the ability to shape emotions and relationships.

6.2 Trust and responsibility

If being a leader turns out to be a bad experience, it is almost always caused by our ineffectiveness.

— Daniel Goleman

When I visited Kiev in June 2014, I heard from one of the members of the civilian management of Maidan (Independence Square) that Ukraine lacked only three things:

1. Security for the protection of sovereignty.
2. Justice ensured by an independent judiciary and an incorruptible police force.
3. Trust, without which building a modern society is doomed to fail.

Surveys on the level of public trust in various countries, including Poland, clearly indicate that a high level of trust equals a high level of prosperity and a friendly state. The relationship between trust and prosperity concerns not just countries, but also cities, companies, and organizations. That's why Teal companies built on trust surpass those which lack trust.

Alas, trust cannot be decreed, ordered, or even shown when the conditions do not allow for it. Where trust does not exist, it must be established by laborious efforts, focusing primarily on building responsibility. There can be no trust without responsibility, but it is also difficult to build responsibility when there is no trust. Paradoxically, someone's lack of trust in us relieves us from any sense of responsibility towards them, which in turn increases their lack of trust. The noose is getting tighter (see *vicious circle of suspicion* in section 4.1.4).

It would be difficult to find a more socially and economically destructive phenomenon than a lack of trust and the associated lack of responsibility. However, the word "responsibility" must be understood in the proper way. In principle, we have two types of responsibility:

1. Repressive responsibility.
2. Dignified responsibility.

In the first case, inadequate fulfilment of the obligation is threatened with repression, i.e. punishment. Polish Nobel-prize winning novelist Henryk Sienkiewicz often puts a threat in the mouth of his characters: "Thou shall vouch for this with your head". But we can also hear: "Give me your word of honor". Because when we are dealing with a "man of honor", i.e. one who respects his word, their word of honor is worth more than the threat of losing their head. And this is precisely the second type of responsibility.

Dignified responsibility involves the feeling that a failure to meet one's commitments entails a loss of honor, leading to a feeling of shame. To put it in simple terms, repressive responsibility is a threat of punishment while dignified responsibility – a threat of infamy.

However, in the latter case, shame will appear only if we either act in an openly unethical way or – as lawyers say – "we do not make an effort" in order to keep our commitment.

Yet, regardless of whether or not shame occurs, dignified responsibility also implies a commitment to take two consecutive actions:

1. Establishing and removing (if possible) the causes of failure.
2. Establishing and removing (if possible) the consequences of failure.

In companies managed with the carrot and stick method, “responsibility” means the inevitability of being punished if a mistake is made. “Who is responsible for this?” – asks the boss when something wrong happens and he or she means the person who will instantaneously lose half or the entire monthly bonus. Needless to say, such an understanding of responsibility contributes to employees, especially the rank and file, avoiding making decisions. In a properly managed company, “responsibility” should mean “being ready to answer questions”⁵⁵ about what to do when something unwanted has happened. Under no circumstances should the responsible person be treated as a scape goat.

Responsibility is also a certain social attitude. I feel responsible for something when I know that it is my duty to take care of it and that others trust me in this matter.

President of British Toyota

The President of the British Toyota car factory once told me about an event that happened to him one year after he joined the company. It was in the initial period, when all the senior positions were still held by the Japanese. The president-to-be proposed a certain change in the applied technology, which, in his opinion, was supposed to improve production. He asked his superiors for permission to implement the modification. They expressed the opinion that such a change would not have been introduced in Japan, but emphasized that the final decision belonged to him and not to them, because it concerned the department of which he was in charge. And so the decision was made; unfortunately, as a result of it, the company made a loss of more than one million pounds within the following year.

“If it had happened in a British company,” recalled the president, “I would have been sacked, and with no references”. The Japanese, however, assumed that it would be a waste to dispose of an employee for whose education they had just paid a million pounds. So my interlocutor stayed in the company, and then he reached the highest position.

A proper understanding of the concept of “responsibility” is the key to management in the partnership model, for it determines whether we will have a creative and active team or passive executors of commands. It should also be remembered that giving the team members freedom of decision does not mean in the hierarchical structure that the superior is relieved of his or her duty to manage. However, it does mean a fundamental change in the understanding of what management is.

Lack of responsibility and trust generates many costs. Apart from emotional costs – which should not be underestimated – the most important cost is that of supervision and all the further costs that result from it.

Supervision itself generates costs, because someone has to supervise, and if there are many supervisors, someone has to keep an eye on them, too. This generates a pyramid of supervisors, often with many floors. Each floor “reports” to the upper floor and the upper floor to the supervisory board or the meeting of shareholders. Reports flow from the bottom to the top, while a lack of trust “cascades” from the top to the bottom. The Council has no trust in the President, the President does not trust the Directors, the Directors do not trust the Managers, etc. So everyone writes reports and then everyone reads them, although some only pretend that they read

⁵⁵ This understanding of the word “responsibility” can be seen particularly well in English. After all, responsibility is the “ability to respond” – to answer the question about what happened and what to do so that it does not happen again.

them. However, this is not the end of the costs. Since N does not trust N+1⁵⁶, he or she cannot leave the choice of tasks in his or her hands. He or she must indicate these tasks to him or her. Even if he or she negotiates the tasks, they are still the dominant party, which tries to bargain as much as possible, giving as little as possible in return. He or she does not trust that the tasks will be executed properly, so they demand periodic reports, which they will then merge into reports for their N-1.

Naturally, all this costs a lot of money. For example, in 1973, Ford Motor Co. spent \$1.2 billion (yes, a billion!) on preparing the annual budget (section 10.1). And the cost of preparing the budget is not the end of the line. In addition, there are the costs of writing reports by Ns and reading reports by N-1s, as well as the costs of checking by the latter whether the reports are reliable.

However, the most serious source of costs associated with the lack of trust is the leader's loneliness. Because when we are surrounded by people whom we do not trust, we become lonely. Lonely in a large crowd. And this is the most painful kind of loneliness.

6.3 Costs of violence

Many managers have been lured by the illusion that management with the use of violence is easy. As if it were enough to order something done to guarantee that it will be done. Unfortunately, this is usually not the case. Contrary to appearances, the use of violence by the leader leads to a situation in which his subordinates, but also the leader himself, are forced to many actions and behaviors.

Leaders who have chosen violence must attend to everything themselves. It is difficult to rely on people who were ordered to do something. They will only do (and not always!) what they have been ordered to do and not an inch more. The leader of violence comes to work first and leaves last, is permanently fatigued, works on weekends, neglects their family, and when they go on holiday, they call their deputy every day to check if nothing wrong has happened. After all, they believe, without them the company cannot function well.

Thus, a lack of trust leads to violent actions, and these give rise to defensive behavior, which intensifies the lack of trust. The vicious circle of violence and distrust is being formed.

The leader of violence must also be suspicious. For whenever we coerce someone to do something that they wouldn't do on their own, they will develop a syndrome of "I'll get you, you jerk" and they will patiently wait for our first stumble. If we happen to make a wrong decision, they will execute it with attention to every minute detail, looking forward to the expected result. They will not tell us: "Think it over", or: "I would do it differently", because he is now awaiting our misfortune.

And last but not least, the leader of violence has to deal with toxic behaviors of the team members, because as response to violence, spontaneous though often unconscious defensive attitudes are generated, including struggle, escape, or resignation. Table 6.3-1 contains typical examples of such behaviors (see [31]).

⁵⁶ To those not familiar with this corporate lingo, let me explain that N means management level and N+1 – a level lower by one. The President is number 1, members of the Management Board – number 2, etc. The levels may sometimes also be counted from the bottom to the top.

Struggle	Escape	Resignation
<ul style="list-style-type: none"> • resistance, rebellion, retaliation, aggression • arguing, complaining • desire of revenge, forming alliances • lying, breaking the rules 	<ul style="list-style-type: none"> • illness, alcohol, drugs • bulimia, anorexia • fear, timidity • ignorance, silence 	<ul style="list-style-type: none"> • submissiveness, helplessness, crying • endearing oneself, toadyism • giving up work • resignation

Table 6.3-1 Toxic attitudes and defensive behaviors in response to violence

A leader who has chosen violence additionally deprives themselves of the four most important sources of support they could expect from their team:

1. Information about what goes wrong, and so what could be improved in the work of the team.
2. Collective knowledge.
3. Initiatives of team members.
4. Support from team members.

The leader who uses violence will not receive feedback on what does not go well enough in the team, because people who use violence are not told that something is failing, that things could be better. We will not advise them what to do to make the team work more efficiently. Rulers do not like such advice and their subordinates are well aware of it. Rulers want to hear that everything is perfect and that it is thanks to them. Naturally, everyone likes to hear that things are going very well. Everyone deserves such an encouragement and every work involves elements worthy of a positive assessment. But one also needs to know the weaknesses and mistakes, because otherwise it is impossible to deal with them. A lack of solid, constructive analysis makes progress impossible.

Collective knowledge (section 23) is the sum of knowledge, experience, and skills of team members, as well as the ability to generate new knowledge. It is present in every team, but most often it is not availed of properly. The reason is that everyone uses only that part of it which they have at their disposal. In other words: no member of the team knows what all members know together. A good leader is capable of putting this knowledge together and making it available to everyone. But first they have to confess to themselves and their team that they are not omniscient. Which is what rulers most often hate to admit. And so collective knowledge is, therefore, inaccessible to a ruler and, as a consequence, it is not accessible to their team either.

Why can't it work?

In 2008 I took part in the international HR congress in Warsaw. One of the lectures was entitled *Management of knowledge – why it cannot work*. The speaker outlined in detail the phenomenon of competition between employees, indicating that it prevents any cooperation and thus the transfer of knowledge and experience. What surprised me greatly, however, was that he considered such a situation to be completely natural, or even inevitable. He concluded that any attempt to manage knowledge must fail. Somehow it did not occur to him that competition may be replaced with cooperation.

The leader of violence cannot count on the team's own initiative, on innovation. An innovation initiative each time carries the risk of failure, and subordinates of a leader of violence know that failure will always be their fault, while success will belong to the leader. Meanwhile, obeying orders is always safe. So why take risks?

Nor can a leader of violence count on the support of the team when he or she needs it, and on their understanding of his or her mistakes. He is lonely or at best surrounded by flatterers. The loneliness of a leader of violence is one of the most painful aspects of this choice.

The leader of violence can force people to do many things, except the most important ones – to get to like their own work, to perform it out of their inner need, to draw energy from their inner commitment, and finally to voluntarily follow the path the leader has shown them. Nobody can ever be forced to do something voluntarily.

6.4 Partnership costs

Violence is born out of mistrust, while trust is the source of partnership. Here, too, we are dealing with a spiral, though a constructive one: trust is conducive to partnership and responsibility, and they in turn are conducive to trust. However, building trust and partnership also entails various costs.

The leader of partnership and trust must work hard to win both. He or she must be able to convince others of their vision of the world, they must sometimes be able to say: "I don't know", "I'm afraid", "Help me", they must build their position in a team based on ultimate empathy, participation, openness, and honesty. They must be able to listen actively, assertively, and empathically, to achieve consensus and settle conflicts using the win-win method. Such leaders also have a lot to do, but they do not ever need to keep an eye on anybody at work and get anybody to work in the first place. They do not need to write and read reports, supervise and evaluate, punish and reward. That is not their job. Their role is to support their team.

Emmanuel Gobillot, author of the book *The Connected Leader* [28], claims that the most important duty of a leader is to provide the team with energy. But in order to do so, you need to have the trust of the team, which unfortunately cannot be simply declared. The trust of the team has to be won, and in order to win it, one needs to show it first. This is a serious cost. Both emotional and, perhaps, also material, because not everyone will immediately respond with responsibility. We may have to face disappointment. After all, human vicissitudes can vary. They are often dramatic and toxic, leading to hostile and egocentric attitudes. It is not easy to gain the trust of people with bitter life experiences. But has anyone ever promised us that it would be easy? The important thing is that it is feasible, or at least that it is feasible much more often than we think.

If we are dealing with a team with highly toxic experiences, the path to trust must begin with building a sense of responsibility of team members, both the individual responsibility for one another and the responsibility of everyone for all (section 6.2). It is a good idea to start with a communication workshop devoted to the methods described in Part II, which we then implement in our daily work practice. At the same time, we try to eliminate toxic behaviors, such as a YOU-message or resolving conflicts with the use of the win-lose method.

Once we have reached a level of communication skills that allows us to talk about difficult things, we may begin to identify and eliminate the barriers we encounter in our work (section 15.2). This is an effective way of building commitment and responsibility, because everyone is willing to take care of eliminating what is an obstacle in their daily work. Usually, it also turns out that so-called motivation systems are the source of many of these barriers. Therefore, we

eliminate them in favor of dignified motivation systems. And this, too, is what Part III is devoted to.

6.5 What are violence and partnership

In this book, the term “violence” will mean causing the actions of others and gaining psychological domination with the tools of coercion – carrot and stick (section 8.1).

Needless to say, the world is not black-and-white, so most often we are dealing with intermediate situations. It is also worth noting that, over time, the balance between violence and partnership is steadily shifting in favor of the latter. In the 19th century Prussian army, the model of violence was prevailing, but even in that model the chief commander would take advice from his generals on the choice of strategy and tactics of fighting. Over the years, the level of command, at which the commander would take advice from their subordinates has decreased more and more, so that today the principle of team problem-solving is used at the level of subunits. However, orders and strict discipline still prevail in combat operations. The situation is similar in civil organizations. The leader of partnership discusses with his team the choice of strategy, methods, directions, and division of tasks, but in “combat” situations, when speed and consistency of action become more important than the accuracy of decisions, the leader gives orders and expects their immediate and flawless execution. I wrote about it in section 2.3.4, pointing out the differences between a task force and an action team.

The trend towards a shift from the violence to partnership model of management, as well as the increasing substitution of hierarchical management with self-organization, is linked, on the one hand, to the growing knowledge of leaders on teamwork management and, on the other hand, to the increasing level of education – both general and professional – in developed societies. According to Peter Drucker [18], today in developed countries virtually all workers are white-collar workers, who should be managed like volunteers. This applies equally to employees of economic organizations and public administration, as well as the army, police, and other uniformed services. This trend even goes back to the prison system, where relations between prisoners and guards are increasingly less based on fear and violence.

Prison guards

A Polish daily “Gazeta Wyborcza” of 22 January 2009 published an interview with a sociologist and former head of the Prison Service in 1992-1994. The interview was related to a well-known suicide of a prisoner convicted of kidnapping and murder. The journalist wanted to know why the guards were unable to protect the prisoner from making an attempt on his own life. The conversation steered in the direction of the prisoner’s contact with the guard and the prestige or lack of prestige in the eyes of the convict. And then these significant words were uttered:

“When the screws have no esteem in the eyes of the prisoners, what remains is violence. And when the system resorts to violence, no technique can be successful”.

It should be remembered, however, that partnership does not mean being a buddy understood in such a way that we turn a blind eye to our mate’s bad work, to their disregard for duties or violation of work regulations. And this is exactly how it is sometimes perceived, which may put it dangerously close to the wrong conclusion that partnership leads to a lack of responsibility. On the contrary, partnership means feeling obliged to support the partner in their actions, support them when things get hard, and to share the joy of success. If our partner makes a

mistake, we do not hide it, but we support them in eliminating or alleviating the effects of the mistake, and then in identifying and eliminating the reasons why the mistake was made.

Partnership is first and foremost about the duties of the partners towards each other. Partnership that is not equal to being buddies is discussed more extensively in section 9.10.1.

6.6 Why some companies succeed and others do not

For more than 25 years, the Gallup Institute has been conducting research to answer the question of which companies are able to attract and retain the best employees. As a result of this survey, during which more than one million interviews with employees of various companies were conducted, it turned out that they are companies whose employees responded “YES” to the questions listed below ([9]):

What do I get from this?

1. Do I know what they expect from me at work?
2. Do I have the tools I need to do the job well?
3. Do I have the opportunity to do what I do best at work every day?⁵⁷
4. Have I felt appreciated at least once in the last seven days?
5. Does anyone at work encourage me to develop further?

Do I have a sense of belonging?

6. Does my boss or someone else at work care about me?
7. Does my opinion count at work?
8. Does my company’s mission give me a sense that the work I do is important?
9. Do my co-workers care to work as well as possible?
10. Did I find my best friend at work?

How can we develop together?

11. In the last six months, have I talked to someone about the progress I have made?
12. Have I had the opportunity to learn and develop at work over the past year?

It was also found that questions 1. to 4. and 6. additionally correlated with the low level of staff rotation, i.e. in the companies where employees answer “YES” to these five questions, people rarely leave work voluntarily. This also confirmed the already known thesis that if employees leave work, they leave not so much their companies as their bosses.

The above 12 questions are called the *Q12 test*. Further research has shown that companies that meet this test are statistically doomed to succeed. This result may be surprising, as the Q12 test does not refer to those features of the company that are commonly considered essential for its success: a good product, modern technologies, professional sales, and a few others. Does the Gallup Institute’s research show that these attributes are not important? Not in the least! They are very important, but Q12-compliant companies achieve them much faster and at a lower cost than other companies and they are also able to maintain them in a sustainable way. For a company that has well-staffed employees in positions equipped with good tools, who want to work as well as possible, who feel good at work, who can influence what is happening in the company, and who can satisfy the need for personal development will also have a good innovative product, modern technologies, good marketing, and professional sales.

⁵⁷ As it turns out (cf. [8]), among the employees of companies from 36 countries around the world, only 20% answered this question “YES”. I write about it in section 6.

This is what Emmanuel Gobillot writes about the role of self-development in his excellent book ([28], p. 17):

The need to grow and find meaning is the driver of engagement. Although deficiency needs are still of importance, most Western societies have developed past the point at which these are primary concerns. This is the important distinction; self-actualization remains the primary goal, even when food and water are critical needs.

As psychiatrist Viktor E Frankl shows in his book Man's Search for Meaning⁵⁸, even during intense periods of deprivation (Frankl's first-hand experience of concentration camps) it is not fulfilling their deficiency needs that keeps people alive but their search for meaning. The affluent societies most of us live in have created a self-actualization vacuum that people are looking to fill whilst the less affluent societies are creating a self-actualization desire that people are struggling, yet strive, to meet.

Further on (p. 21) we read:

Individuals' concern for self-actualization is accompanied by a level of demand for engagement in organizational and institutional life that has never been experienced before.

And one more quote (p. 67):

If employees are to release their discretionary effort they will do so if they are rewarded with further personal growth.

So what should be done, how should we run a company so that it can pass the Q12 test? I will address this question in section 9. First, we will take a look at the basic mechanisms that guide human behavior (section 7) and answer the question of what commonly observed behaviors of leaders should be eliminated first and foremost (section 8).

⁵⁸ V.E. Frankl, *Man's Search for Meaning*, Simon & Schuster, New York 1986.

7 Types and sources of motivation

As a general rule, people, even the wicked, are much more naïve and simple-hearted than we suppose. And we ourselves are, too.

— Fyodor Dostoyevsky⁵⁹

7.1 Benefits and values

Knowledge about motivational mechanisms that affect human actions is built on the assumption that everything we do, we do it to satisfy some of our needs.

Every action of man serves to satisfy his needs.

If we can agree with the above assumption, the realization of what needs we have and which of them we can satisfy at work becomes the key to understanding motivational mechanisms. In this section I will quote a simple classification of needs compiled by Marek Kosewski [50], which seems particularly well suited for our deliberations. This is by no means the only possible classification, but it will allow a better understanding of the archetypes of violence and partnership.

First of all, we will divide the needs into two groups: the *needs for profits* and the *needs for values*. The former are satisfied by the acquisition and consumption of goods, which I shall call *profits*, and the latter – by the implementation of behaviors consistent with certain patterns, which Kosewski calls *values*. Each of these groups is further subdivided into two types (Fig. 7.1-1):

1. Needs for profits

- a. We satisfy our needs for material profits by consuming material goods (e.g. food, housing) and achieving certain conditions (e.g. health) that meet basic biological requirements, but also by consuming luxury goods that are not biologically essential, but the possession of which gives us pleasure. Acquiring bread satisfies the need for food, while acquiring the Porsche Cayenne satisfies the need for luxury. In simple terms, we satisfy material needs by consuming what we can buy. As a result, the remuneration we receive for our work satisfies only one of the four groups of needs.
- b. We satisfy our ambitions, also called the needs of self-love, by being promoted to positions, achieving successes, acquiring honors or titles, winning awards, etc. The leader of violence often satisfies the ambitions of their team members in a *relational* way, that is, by comparing people with each other – he does not say: “You’re doing great”, but: “You are doing it better than he or she is”. (see section 7.4 for more details).

⁵⁹ Dostoyevsky Fyodor, *The Brothers Karamazov*, The Project Gutenberg Ebook 2009, p. 5-6

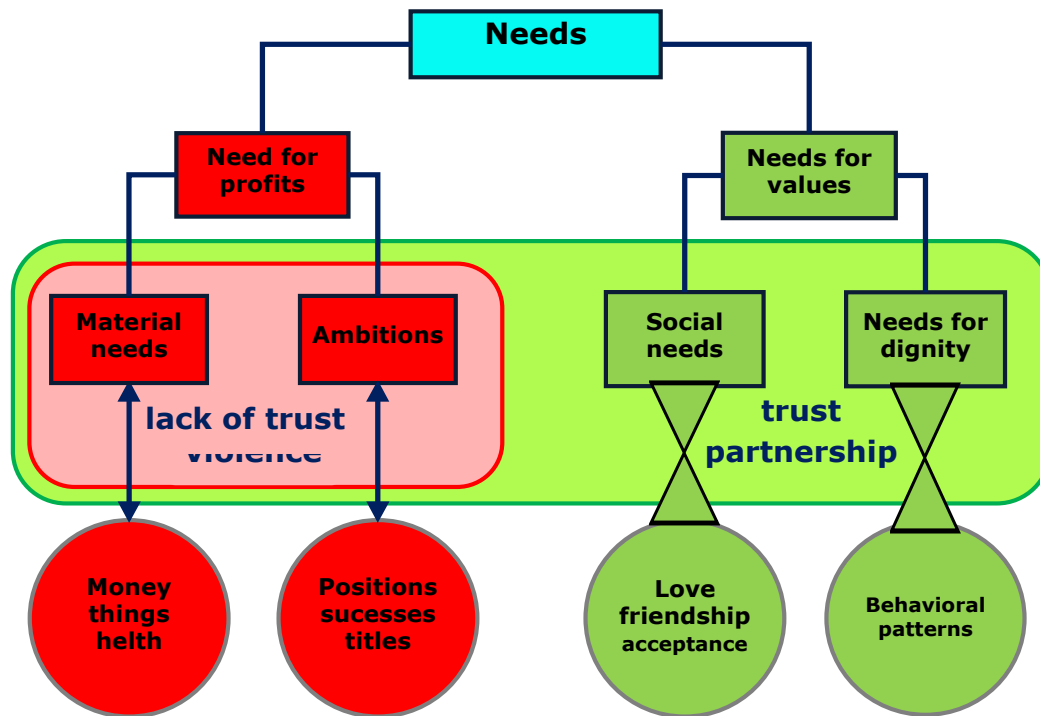


Fig. 7.1-1 Classification of needs

2. Needs for values

- a. Social needs are connected with our functioning in a social group, so they are the needs to feel a sense of belonging to a team (or community), acceptance, friendship, love, etc. We satisfy them by building positive relations with the people around us.
- b. The needs for dignity are the needs for self-esteem, the sense that we develop, that we can be proud of ourselves.

The need for profits is satisfied by the actual acquisition of a certain desirable good and its “consumption” or by the achievement of a certain material status, for example, health. Satisfying these needs usually translates into hedonistic happiness, which I discussed in section 1.4. On the other hand, satisfying the needs for values gives us gratifying happiness.

If a need is satisfied as a result of some kind of action, e.g. work, we can say that we are dealing with the “payout” of a certain prize.

Rewards in the form of profits are usually received from someone who disposes of them in order to give them to us. And if they dispose of them, they usually expect something in return. For example, we provide work in return for remuneration. This exchange is symbolized by double-sided arrows in Fig. 7.1-1⁶⁰.

Rewards related to values are obtained in a different way. There is no exchange here. By building a relationship of friendship with someone, we offer them our friendship, but we do not

⁶⁰ The less obvious situation is when the reward is meant to satisfy our ambitions. However, even in this case, we can talk about some kind of exchange. For example, when we receive a higher position in our company, i.e. we get promoted, the company eliminates this position from the group of vacancies. It loses the possibility to offer this position to someone else.

“give it away”. They do not “give away” their friendship, either, although they usually bestow it on us. In the picture this situation is symbolized by hourglasses instead of arrows. We can say that to some extent we pay out the rewards related to values to ourselves, although others may help us or make it more difficult for us.

Social rewards are achieved through a sense of emotional belonging to a group of people who respect us and on whom we can rely. Despite appearances, the needs for these rewards are much stronger than the needs for profits, although many leaders are not aware of this. I sometimes hear: “My employees are interested in nothing but money”. Then I ask: “And what do you have to offer them besides money?”, only to learn that there is quite a lot: a smartphone, a laptop, and a company car, and even tickets to the swimming pool and fitness club. Those, however, are still material profits, i.e. other forms of money. But what about social needs? And here the answer is that this is not what the company is for – the employees should satisfy their needs after work. Sure. That’s your choice. But since you offer them nothing but money, it’s not surprising that money is the only thing they are interested in. They expect nothing else from you. Besides, they are often not even aware of the fact that one may expect anything other than money at work.

Notwithstanding, social needs are extremely strong. Note that suicides committed by children subjected to classroom bullying are triggered by the feeling that their social needs will not be satisfied within their peer group. These children may be loved at home and respected among friends they meet outside school, but at school they are doomed to be rejected. And weaker individuals take their own lives. Because satisfying social needs is necessary for people to live. Children and adults alike.

The last of the four groups of needs, the need for dignity, is satisfied by the feeling that we follow the patterns of behavior which we have chosen ourselves. It turns out, however, that all humans accept roughly the same patterns, including ([50], p.14):

<ul style="list-style-type: none"> • honesty, • reliability, • justice, • courage, • loyalty, • solidarity, • kindness, • responsibility 	<ul style="list-style-type: none"> • truthfulness, • magnanimity, • patriotism, • tolerance, • impartiality, • professionalism, • independence, • personal freedom
--	--

The fact that most people value the same patterns does not mean that everyone applies them to everyone else. For example, in criminal groups, honesty and reliability apply only to members of the group, nationalists limit them to their own nation, and racists – to their own race. On the other hand, most people believe that they do not owe loyalty to criminals.

The need for dignity is the basic need for the *I*-structure, also known as the ego. Its satisfaction – in the form of receiving *dignity rewards* – is necessary for the smooth functioning of the *self*, and thus for man to maintain proper contact with the surrounding reality. An individual needs to live, in the same way he or she needs food and water. Here is an example in support of this thesis ([64], p.21).

Korean POW camps

In Korean camps for American prisoners of war, prisoners were not beaten, they did not work too hard, and were not starved. Yet, the mortality rate was 38%, the highest in the history of wars fought by Americans. When the Red Cross offered them the opportunity to contact their loved ones immediately after the liberation, many refused. It was the result of psychological brainwashing to which prisoners were subjected. It consisted of the following routines:

- encouraging denunciation in order to break human ties – small prizes were offered to the informants;
- self-criticism in order to destroy the sense of self-esteem and dignity – everyone had to confess to the entire group what they had done wrong in life and what they had failed to do well, even though they had the opportunities;
- destroying loyalty to commanders and homeland;
- removal of all psychological support – prisoners were only allowed letters from families containing bad news.
- a frequent cause of death of soldiers was a new mental illness, which consisted in giving up one's life. Those who fell ill were called give-up-ties. The affected person would sit in a corner, cover his head with a blanket, and die within two days.

Note that the need for dignity is the only need for which people are ready to die. If it hadn't been for it, the Warsaw Uprising or the Maidan in Kiev would never have taken place. Even a soldier of the mercenary army serving in a foreign country does not risk his life for the pay he receives, but for the "honor of the uniform".

Let us also remember that satisfying the need for dignity does not have to lead to positive actions at all. All terrorist activities – including the most recent ones – derive from dignity motives.

However, satisfying the need for dignity does not necessarily require heroic circumstances. We can satisfy it every day with the feeling that what we do does not violate our values, that someone needs it, and that it gives meaning to our lives.

At this point, it is worth quoting the results of the study mentioned by Russel E. Palmer (510, p. 100). The study investigated what American managers consider to be a success in life and was conducted by Korn/Ferry International, a research company, together with UCLA Graduate School of Management. The results were as follows:

- 35% of the respondents said that success was linked to the ability to inspire and bring about change
- 28% considered achieving the joy of work a success.
- 13% said that success equals status.
- 12% said that success equals the sense of control over the environment.
- 10% said that success equals the authority.
- 2% reported other reasons.

Other studies ([40], p. 58) have led their authors to the following conclusion:

*Pay may be enough to get people in the door,
but it's not enough to keep them,
let alone to create true brand ambassadors.*

Another study ([40], p. 85) identified three factors that were more important than financial rewards in motivating employees:

1. Recognition/appreciation
2. Independence
3. Contribution to the company

Bruce Nordstrom ([40], p. 104) lists four reasons why people go to work:

1. Opportunity for growth.
2. Freedom.
3. The feeling that you are part of something meaningful.
4. Feeling valued as a person.

Enjoy working with Google

Google – one of the fastest growing companies in the world, as well as the winner of the Best Company to Work For competition by Fortune magazine – focuses primarily on the ability to inspire and the joy of work ([21]). Staff liquidity in this company remains at 2%, with the employment of 5000 employees and over 500 thousand people applying every year for very few vacancies! Here are some of the ways in which employees are motivated:

- Google Ideas website, where employees can present their new ideas and discuss them.
- Financing the professional development of employees through individual funds in the amount of \$8,000 per employee.
- Training leave, which can last up to five years, and up to \$150,000 of training costs can be reimbursed.
- Each employee can devote 20% of his or her working time (one day a week) to projects that go beyond their current duties. The company does not set any limits as to the subject matter of these projects.
- Social activity of the company consisting in the promotion of studying technical subjects by women and ethnic minorities. The value of this aid amounts to 90 million dollars.
- Office interior design including psychedelic lamps, pink sofas, hanging bicycles, huge sets of Lego bricks, exercise balls, high quality coffee machines.
- A corporate culture called googleyness, based on the ability to work in small teams and in a rapidly changing environment, developing non-standard interests and abilities, encouraging continuous improvement of the world. Google's mission statement is: "Don't be evil".

We choose profits – besides the most basic ones, such as food, shelter, clothing, etc. – individually. Some will choose money, while others – titles and honors.

It is different with both social and dignity needs. As I have written earlier, they are common to a collective social culture that goes beyond a single country or even a single continent. We also rarely select values. Most often they are the historical and cultural heritage of the community in which we happen to live. For this community, they are commonly accepted criteria for assessing whether someone is a social or antisocial person, a worthy or unworthy individual. They are extremely important, because they provide a benchmark for assessment by others, and also by ourselves. And no human being – except in cases of clinical pathology – wants to feel antisocial and unworthy, nor do they want to be perceived as such.

The pursuit of profits is associated with the state of deficiency. When we lack food, shelter, or clothing, we go to work to earn money to buy these things. When we lack fame and popularity, we take actions that help us acquire them. When the profit we lack is gained, we move into a stage of saturation lasting for some time, which in psychology is called a latent state. The gained profit ceases to be desirable, so it does not provoke us to act.

Striving for a profit usually means giving up on another one, because we rarely obtain profits for free; we rather get them through an exchange. Buying profits with money is one example of such an exchange. Performing work for money is another one. A “profit for profit” exchange always involves calculating profitability. One exchange is profitable for us, while another one may not be.

It may also happen that gaining a profit will require us violate a value, e.g. by appropriating something that belongs to someone else, as a result of which we reduce the sense of self-dignity. In this case, however, we are not dealing with an exchange – the victim does not feel better because we feel worse. What we are dealing with is the so-called dignity dissonance, which is discussed in more detail in section 7.6.

Things are different with the needs for dignity. The aspiration to satisfy them is related to the unquenchable need to build up our self-esteem and dignity, a need related to our ego. Once a sense of dignity has been achieved, there is no saturation. If we value truthfulness, the realization of this pattern does not mean that we are ready to start lying for some time. Decent conduct offers an intrinsic reward in the form of inner satisfaction (or gratification – cf. section 1.4), which, as I said, never leads to a state of saturation. When we behave with dignity, we experience a strong feeling of joy – called a dignity consonance – which we would like to experience again as soon as possible. In this sense, the needs for dignity are impossible to satisfy ultimately.

A typical example of a dignified action is a liberation or defensive war, during which soldiers die in the name of superior values such as freedom, justice, and independence. Note that in all armies of the world – including those acting aggressively – since the dawn of time, a great importance has been attached to the ethos associated with the honor of the uniform and the banner, to the readiness to die with honor.

As I have already written, motivations related to values are associated not only with heroic situations. In times of peace, they are the driving force behind all social activities, be it when Janina Ochojska’s volunteers build wells in Sudan, or when crowds of nameless computer scientists return home from work to sit down and develop a free operating system Linux. Peter Drucker recommended to the leaders that they should treat people under their care as volunteers. The reason is that volunteers work in the most efficient way, while slaves – in the least efficient way. All Teal organizations are built on this ethos (section 2).

A very special example of dignity motivation is provided by the account of a contemporary German police agent Martin Leo [56], who recruited co-workers in mafia structures. He never used bribes in his work because he believed that this method was highly ineffective. He referred only to dignity motivation.

Let’s now summarize the differences between motivation based on the need for profits and autonomous motivation responsible for the realization of values.

Profits	Values
They define what I have.	They define what I am.
I acquire them by taking.	I acquire them by giving.
I acquire them as a result of exchange.	I build them within myself.
They are subject to the assessment: “Is it profitable to me?”	They are not subject to the assessment of profitability.

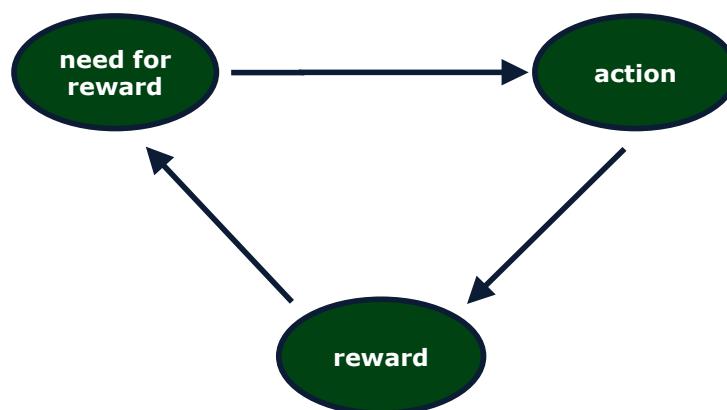
They are related to the overcoming of deficiencies.	They are related to the pursuit of something.
Gaining them results in a state of saturation, thus weakening the motivation to act.	Gaining them strongly motivates us to act.
Violation of values in order to gain profits results in a dignified dissonance (see section 7.6), which is an “internal punishment” and requires a reduction.	The abandonment of profits in order to pursue values results in a dignified consonance, which is an “internal reward” and stimulates us to repeat this action.

Table 7.1-1 Differences between benefits and values

7.2 Motivational feedback

As we already know, in order for us to take any form of action, we need to know that we will receive a reward in the form of profits or values. Thus the need for a reward triggers an action, and this results in the payment of the reward. A state of saturation follows for some time (unless we are dealing with a dignity reward), but then the expectation of the reward reappears (Tab. 7.2-1). However, the repetitive impact of a reward decreases its intensity. Therefore, in order to maintain the response to the reward at a constant level, we need to escalate it.

If mum offers her child ice cream for doing their homework, soon she will have to offer ice cream and cinema tickets, then ice cream, cinema tickets, and a discotheque, then a mountain bike, a computer, a motorcycle... There will be no end to their expectations. However, since it is not possible to make the reward of profits ever more attractive all the time, encouraging people to act by offering such rewards inevitably leads to a situation in which, in the face of stimulus anesthesia, first a weakening occurs and then a total disappearance of the willingness to act.



Tab. 7.2-1 Motivational feedback

The same applies to penalties. Here, too, a process of anesthesia takes place, so it is necessary to escalate penalties. This causes aversion to those who punish and a tendency not to perform the task as a form of revenge. One starts looking for ways of not performing the tasks (so-called “bypasses”; see section 8.3) while avoiding punishment, leading to sabotage. Productivity and quality of work reports are falsified. “If the company behaves hostile to us, we do not feel loyalty to it” – say the employees. This is a typical example when the company itself, though

quite unconsciously, provides sources of social justifications reducing the dignity dissonance (cf. section 7.6).

The same mechanism of anesthesia to a reward occurs in the case of dignity rewards, but then it encourages more and more ambitious actions. A freshman of mathematics is fascinated in solving a task in the area of elements of differential calculus, while for a graduate of mathematics it will not be a worthwhile challenge. The latter's efforts will be encouraged only by a problem from the area of Banach's space.

7.3 Teal workstation

I never did a day's work in my life. It was all fun.

— Thomas Edison

In order for the work to result in the payment of a dignity reward, the person who does the work must be convinced that what they do is beneficial for others, does not violate their code of values, poses a challenge, or simply – that they can be proud of themselves in connection with the work they perform.

At this point, it is worth noting that, unlike social rewards, we actually pay out dignity rewards to ourselves. While the sense of being accepted by others requires an active attitude towards us, the sense of pride in oneself depends to a greater extent only on us. It is the result of our own assessment of what we do and how we act.

Dignity awards are the strongest motivators to take action and thus to perform work. However, in order for the work to be carried out, our workstation must be equipped with three components (Fig. 7.3-1):

1. Workshop – all tangible (buildings, machinery, equipment, raw materials, etc.) and intangible (manuals, standards, procedures, regulations, etc.) tools necessary to perform work.
2. Remuneration – so that we do not have to look for work elsewhere; this component also includes various fringe benefits such as meals at the workplace, integration activities, personal development opportunities, etc., provided they are available to all employees and not as rewards to individuals.
3. Friendly social environment – an atmosphere of partnership, trust, freedom of decision making, and taking responsibility for them.

The first two workstation accessories are indispensable for work to be carried out, while the third component is necessary for work to be carried out effectively. By and large, all three are the necessary conditions to perform work well.

However, the creation of these conditions does not in itself mean that the work will be done well. Monotonous, routinized work, which does not offer space for creativity is generally not appreciated. Only the emergence of challenges builds up the commitment necessary for the work to give meaning to our lives and, therefore, to be performed wholeheartedly. What is more, whenever the challenge is met, there needs be another one, because the challenge that was met is no longer working (section 7.2). Challenges must, therefore, be constantly escalated, and since the dignity reward for successfully responding to them is “paid out” by the performers themselves, it is also them who need to search for new challenges.

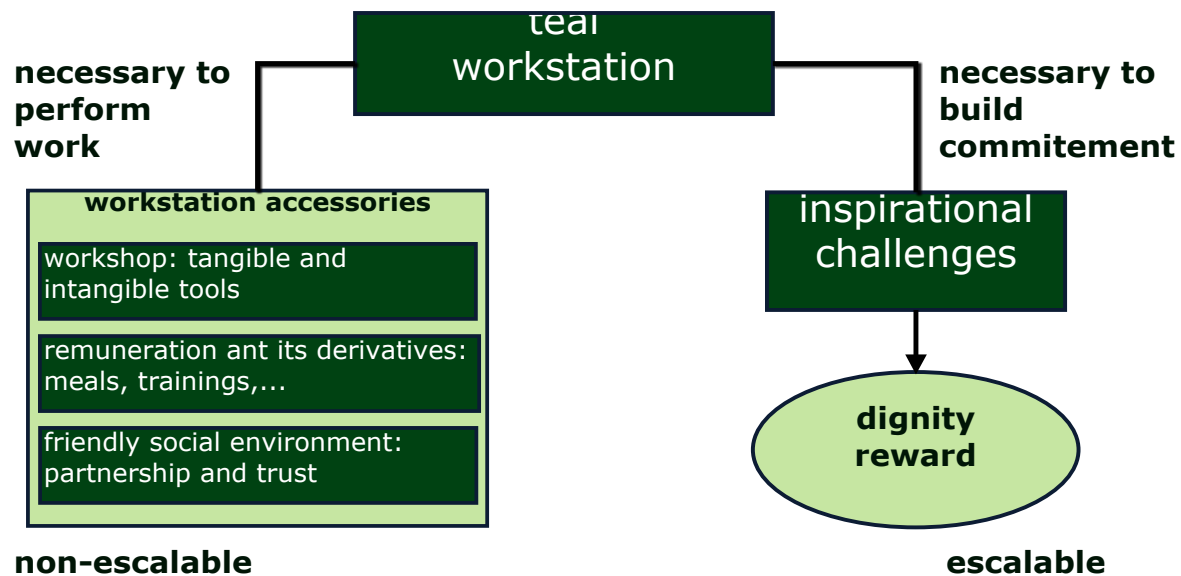


Fig. 7.3-1 Teal workstation

Naturally, there are professions where challenges abound, but there are other professions where one needs to look for them. Scientific research work, designing new solutions, implementing ambitious projects are examples of tasks where there is no need to look for challenges. However, what if work is routine and not very exciting, such as cleaning office space? Where are we to look for inspiring challenges?

It turns out that a universal source of challenges in every type of work is to assign the task of improving what we do, i.e. improving the quality of our product or service. The search for new solutions in work organization, new tools and ways creates unlimited scope for creativity and innovation. This is one of the reasons for the effectiveness of total quality management (TQM). Of course, in order to improve our work, we need to know how to do it, and this is what the fourth part of the book entitled "The road to quality" is devoted to.⁶¹

Other very strong sources of challenges are provided by B Corps, of which I wrote in section 1.5. This source is even stronger than the previous one, because it builds the feeling that we are changing for the better not only our company, institution, or organization, but the whole world.

As we can see, in order for the work to be done well and with full commitment, our working environment must on the one hand provide challenges generating the willingness to do the work and on the other hand be adequately equipped for the work to be carried out.

From this point of view, remuneration is not a "reward" for work, but an element of work environment equipment to the same extent as any other tool needed to carry out our activities: a building, a production line, a car, or a computer. The same is true of a friendly social environment. In order to be able to work effectively, we must feel good at work, be surrounded by

⁶¹ I am inclined to believe that the main strength of TQM lies not in the tools but in building commitment by setting ambitious targets for continuous quality improvement. Companies covered by a "committed TQM" are not successful because they use 5S, fish bone, or the seven-step method (section 15), but because their employees are committed to the improvement of the company. A frequent source of failures in the implementation of TQM – as I have written before – is the belief that it is enough to "train the staff" in the use of tools to achieve success.

friendly partners, rather than enviable competitors, and not waste time on skirmishes or guerilla warfare. This is, therefore, another element of the working environment.

The fact that social benefits and values should be provided in advance and not treated as rewards is expressed by some authors by saying that they are not motivators in themselves, but that their absence is demotivating. For that reason they do not require escalation, although, of course, better working conditions help to meet the challenges and thus contribute to winning dignity rewards.

Needless to say, improving working conditions is not reprehensible or harmful, but it should not be treated as a reward (carrot) for good work; in particular, it should not replace a dignity reward. My didactic experience includes an example of a company whose owners tried to satisfy various whims of the employees in advance, while at the same time forgetting to create challenges for them. As a result, the employees behaved like spoiled brats. A new toy pleased them for some time, but they quickly got bored of it and awaited another one. The owners thought that by giving gifts to the employees, they would gain their gratitude, which would translate into good work. But this never happened.⁶²

The concept described here of a motivational model based solely on the dignity reward is, of course, an ideal model, which does not mean that it is utopian, as it is already often implemented in Teal organizations. In my opinion, it is also the most effective and safest model for organizations, because the dignity reward does not require the introduction of measurable objectives, and so it does not provide space for “bypasses” (section 8.3) or even more so for the war games (section 8.12.2).

7.4 Subjective and objective management

On the basis of the motivation theory outlined above, one can try to define two paradigms of leadership, which we call *subjective management* (partnership) and *objective management* (violence) respectively. The idea of these paradigms also comes from Marek Kosewski, although it was not described by him in any publication. I owe my knowledge of it to numerous conversations I had with Marek in the years 2012-2015.

The name of a subjective management leader is worthy of a boss, who creates conditions within the team allowing to build relations that respect the dignity of another human being, when he treats each team member in a subjective, rather than objective way, i.e. as a partner rather than a “human resource”. Such a boss:

1. Controls the behavior of team members by referring primarily to their needs for values, satisfied in an autonomous way by linking the performed work with the values they cherish.
2. Is not an arbitrary dispatcher of material profits, but creates rules for their use and assists team members in obtaining them.
3. Tries to satisfy the material needs of the team members “in advance”, e.g. by setting their remuneration, which he does not treat as a reward for their good work, but as fulfillment of the conditions of the contract and his duty.

⁶² This managerial mistake of the owners resembles the behavior of parents who believe that the love their children can be bought with expensive gifts.

4. Tries to prevent the rat race, emphasizing that people are not worse or better, that each person has a different set of unique talents.

The leader of subjective management *manages in a dignified way*, because in this paradigm, team members are subjects pursuing common goals, and not human resources – tools – to carry out the company's targets.

The leader of objective management exercises, first and foremost, the power to punish and reward vested in him:

1. He/she controls the behavior of team members by referring primarily to their needs for profits.
2. He/she is an arbitrary dispatcher of profits, so it is up to him/her to decide whether the profit is due or not.
3. He/she initiates a relational pattern of fulfilling ambitions within the team he/she manages, compares team members, divides them into better and worse ones (e.g. by organizing rankings and competitions), holds some of them as a model for others, thus triggering a "rat race".

Fulfilling ambitions in a relational way means comparing oneself with those who surround us and gaining satisfaction not so much from being good as from being better than someone else, and so from the fact that others are worse. This is what Marek Kosewski writes about it⁶³:

An immature way of satisfying the need for dignity (relativity) consists in comparing oneself with others on certain scales "measuring" the dignity of a person – a higher position satisfies the need for dignity, while a lower position threatens it. In the management of task forces, relativity is of great importance and we will discuss it in greater detail below.

A young child satisfies their need for dignity and obtains the sense of self-esteem by comparing himself/herself with another child (or children) on some selected grading scale and determining his/her own position as better (higher). The child is unable to discover his or her value in a way other than by making these comparisons. Let us call this way of satisfying the need for dignity a relational one. Wise parents or educators are familiar with this mechanism and, for competing siblings or groups of children, they try to find a wide variety of scales for comparisons in which each child is placed at a higher position than others often enough and thus satisfies their need for dignity. Children's comparisons with others are usually under parental control, so that the child is not free to choose shortcuts to achieve a higher or better position in their relationship with others. It is forbidden to belittle others, pushing them down on the scale of relational comparisons, instead of trying to raise one's position through one's own achievements. It is enough to condemn, ridicule, beat or humiliate someone in order to be "better" at such a small expense.

We usually grow out of the relational stage. In adult and mature people, relativity generally ceases to be the most important way of satisfying the need for values and dignity. If they still compare themselves (their social position, skills) with others, they use the conclusions of these comparisons in a different way. They need them to reaffirm their self-assessment and autonomously acquired self-dignity. For reasons that should be identified in future research, a certain number of people stop at the relational stage of development and are not able to satisfy the need for dignity in an autonomous way. Reliability in an adult person causes two undesirable phenomena:

⁶³ Unpublished manuscript.

1. **Dependence on the opinion of the environment.** *The scales used for relational comparisons are simple only for small children (I run faster, I have an older brother, etc.). Later on, values and similar general behavioral patterns become important. What places an individual higher or lower on such a scale is not the specific result, but the opinion of the environment, peer group, people with esteem. The relational satisfaction of the need for dignity by adults creates a way of functioning, which according to common knowledge can be called “importance”. Relational people differ from “dignified” people in their dependence on others in satisfying the need for dignity. They are characterized by their “ambition” to pursue a higher position, a larger office at work, a more luxurious car, etc.*
2. **Aggressive depreciation of the dignity of another person.** *It is more difficult to submit an adult to such strict control than a child and to prevent his or her reaching a sense of self-dignity with the use of aggressive shortcuts. To belittle and humiliate another person, they may use sophisticated techniques of intrigue, hide an attack under the pretense of critical analysis of a problem that someone is dealing with, etc. Such aggression is an instrument for satisfying the need for dignity in a relational way – we often observe it in everyday events and call it “jealousy”. Relational people are jealous individuals who focus their activity on diminishing the achievements of others, rather than building up a list of their own achievements.*

Relational adults are not uncommon at all. For example, the second league of politicians consists mostly of “important” people who want to please everyone and vigorously seek their social and media image. In everyday life, relational people are “ambitious” individuals who want to distinguish themselves from others. A politician who is autonomously guided by dignity differs from an “ambitious” politician in that, at the crucial moments, he or she is able to make decisions based on their own convictions, and not the convictions of others, about what is right and fair.

Let us now summarize the differences between subjective and objective management (Table 7.4-1).

Subjective management	Objective management
<ol style="list-style-type: none"> 1. A person is worth as much as he or she earns for the company; human resources. 2. Enemies in the struggle to gain an advantage. 3. I give employees as little as possible in advance; I apply penalties and rewards, always something for something; I think that people are lazy and dishonest. 4. I maintain the credibility of excuses in my attitude towards the employee. 5. The anomie of the employees grows and becomes permanent. 	<ol style="list-style-type: none"> 1. Man is a value in itself; partners. 2. Cooperating partners who pursue common goals of the team. 3. I agree with the employee for a fixed salary, I also give him a certain credit of trust, and I expect him to work reliably. 4. In my relationship with an employee, I deprive him/her of the arguments for a social negotiation of excuses and provide reasons for him/her to feel pride in being part of my team. 5. The workforce ethos grows and becomes permanent.

Table 7.4-1 Subjective and objective management

7.5 Committed organization

Emmanuel Gobillot discusses the sources of motivation in a slightly different way (cf. [28]). He points out that modern economists mention three types of incentives:

1. **Economic incentives** – related to the personal profits of each of us.
2. **Social incentives** – related to society's expectations towards us.
3. **Moral incentives** – resulting from the feeling of moral duty.

In Gobillot's opinion, social and moral stimuli – in other words, the realization of values – are the most important potential for action by people and organizations in today's societies. Furthermore, he claims that (p. 41):

*... economic incentives actively destroy
moral and social obligation.*

A modern organization can no longer build its communities on gaining economic profits, but on a sense of participation, co-creation, self-fulfillment, and reciprocity⁶⁴. This rule applies not only to the working community, but also to all stakeholders who use the goods produced by the organization. It is also very close to the Teal organization model as defined by Frederic Laloux ([52] and section 2.2).

The most important binding agent of each community is the possibility of self-fulfillment of its members. Today economic profits – which were the principal motivators until the first half of the twentieth century – give way to the need to engage in co-creating social and moral benefits. In order for a leader to have a chance to manage an organization effectively, he should have the ability to:

- set the goals together with the members of the team,
- build a positive commitment of team members to pursue the established goals,
- arouse the willingness of others to take up challenges and provide support.

All this, of course, requires a moral authority. A leader who lacks such authority can at best set the goals, but will not be able to generate the commitment necessary to achieve them.

It's all very beautiful – someone might say – but not very real. Where do we find these highly moral leaders, these committed (Teal) organizations?

It turns out that there are quite a few of them, and – what is more important – their number is constantly growing, because the phenomena described by Gobillot are already global in nature. It is impossible to build a permanently effective and successful organization without the principles outlined here. This is confirmed, among other things, by the results of the Gallup Institute study described in section 6.6.

An Italian doctor in Kabul

On August 15, 2009, CNN broadcast a report from the Red Cross clinic in Kabul, where artificial limbs for disabled people are created and put on, and the disabled are rehabilitated and taught how to move using them. The key figure was an Italian (judging by accent) doctor referred to by the patients as "Mr Alberto". He had been in Kabul for 20 years and, as he said, he would not be able to leave his workplace because it gave him daily happiness. Here are his words, as I remembered them: "It never happened to me that I didn't want to go to work in the morning. I do not know such a feeling. I always

⁶⁴ The same idea, though in different words, is expressed by Peter Drucker, who believes that the most effective management style today is volunteer management (cf. section 9.1).

go to work with joy. I will not leave this place not only because I am needed here, but also because I feel good here. I am learning something new from my patients all the time. They are wonderful people.” The camera was focused on the interior of a very modest outpatient clinic, and then on the ruins of the city that died.

7.6 Dignity dissonance

One of the most fascinating features of ourselves as social beings is our touching need to consider ourselves good and sensible people and how often this need leads us to actions that are neither good nor sensible.

— E. Aronson and G. Wieczorkowska⁶⁵

In a nutshell, we can say that the profits serve biological survival, while the role of the values is to provide sense to our life, make it worth living, help us live in an atmosphere of friendship and respect, and make us respect ourselves. However, in order to gain the profits and achieve the values, we sometimes face a *temptation* of having to choose between the two. Here are two examples of such situations.

In the watchmaker’s shop, we are looking at a beautiful watch and the seller has just moved to the backroom. However, we are not going to steal that watch, because the loss in values would be greater than the gain in profits. The situation of temptation that has just arisen – a profit or a value – has been resolved in favor of the value without hesitation. We do not have a watch, but we still have respect for ourselves.

Now, let’s assume that the same watch is lying in the sand on a wild and empty beach. It does, of course, belong to someone else, but where is the owner? We could place an ad in a local newspaper, but who will look for news in a newspaper about a watch lost on a wild beach? So we take that watch, although, naturally, only for “the time being”. After all, we can’t leave it in the sand on the beach; if someone else found it, they would surely appropriate it unscrupulously. The way the story continues depends on the extent to which the dignity dissonance will be reduced by way of social negotiation of excuses⁶⁶. If the community with which we are culturally connected says: “Forget about searching for the owner; a person who wears such a watch will lose more through a hole in his pocket than you’ll earn in a year”, we may think that the cost of losing dignity will not exceed the profit. But if they say, “You cannot take possession of someone else’s property; look for the owner by all available means, and if you don’t find one, give the watch for charity”, that is probably what we will do.

Here is what Marek Kosewski says about this phenomenon in his book ([50], p. 13):

The private theory created by each of us for everyday use divides people into honest and dishonest, decent and scumbags, and claims that those who appreciate commonly recognized moral values can be recognized by their actions. This is a mistake. Man is not inherently decent, but sometimes acts decently: they sometimes are a good or a bad father, they sometimes lie and sometimes tell the truth, believers and practitioners sin from time to time. The social world is

⁶⁵ Source [4], p. 98

⁶⁶ This concept, as well as many other ideas related to motivational phenomena mentioned in my book, comes from the excellent book by Marek Kosewski entitled *Wartości, godność i władza* [Values, dignity, and power] [50].

made up solely of people who are sometimes “decent” and sometimes not. They cherish values, externalize them as attributes of their own ego, are regarded by the social environment as “people of values”, and sometimes they violate these values. Let us leave the margin of pathology consisting entirely of “indecent people”, who do not meet the above definition, to psychiatrists, policemen, and prosecutors.

Let us remember this thesis whenever we want to define someone as a person devoid of values and dignity because, besides pathologies, there are no such people. Everyone has a biologically built in sense of dignity based on values. Anyone who renounces values must somehow justify it. If we rob someone, it is because we want to make up for our losses; if we betray someone, it is because they betrayed us first; if we tell a lie, it is because everyone lies. There is no man who would admit to themselves that they are evil and unworthy (see the motto for the present section).

The phenomenon of dignity dissonance indicates another very important difference between profits and values. Choosing profits by violating values always results in a feeling of mental discomfort, which we try to alleviate through social negotiation of excuses in order to regain some of the lost value. The choice of values at the expense of profits does not lead to such a situation. On the contrary, we are proud to have made the right choice. We are in a spiritual state – which I have already discussed – called dignity consonance. If we prioritize values over profits, we are a sovereign, because we do not need to negotiate such a choice with anyone.

Finally, one more comment on dignity dissonance. If situations of temptation recur in the team of employees, while at the same time the company provides pretexts for social negotiations – e.g. by unworthy, unfriendly, dishonest attitude towards employees, contractors, or customers – a situation called by Marek Kosewski *employee anomie* may occur. This is a very dangerous disease for the company, consisting in the employees’ general agreement on the repertoire of acceptable ignobility. Individuals who do not accept such an agreement are treated as alien, disloyal, or as suckers, and are usually subjected to social ostracism. The company’s anomie can be compared to the state of sepsis (widespread infection) affecting a biological organism. In both cases a cure is possible, but certainly not with the use of home remedies. The treatment process must be carried out by specialists, it is long-lasting, and expensive.

8 Violence

People enter business as bright, well-educated, high-energy people, full of energy and desire to make a difference. "By the time they are 30, a few are on the "fast track" and the rest 'put in their time' to do what matters to them on the weekend. They lose the commitment, the sense of mission, and the excitement with which they started their careers. We get damn little of their energy and almost none of their spirit.

— William (Bill) O'Brien [60]
(quoted after Peter Senge [70])

8.1 The carrot and stick archetype

Many managers deeply believe that in order for people to work well, they must be adequately rewarded and punished. This is due to the conviction that people are lazy and dishonest by nature. Of course, not us. We are different, but other people... everyone knows. And since they are what they are, you have to drive them to work with a carrot and stick. Managers who consider themselves to be more enlightened sometimes say that a carrot is enough. But without a carrot, no one will work for sure. Why would they? Of their own free will? And so they introduce a carrot, which is soon silently but inevitably followed by introducing a stick.

To analyze both of these “motivational tools”, I will begin by giving their definitions. Although they sound a bit humorous, they are important for further consideration, because later they will allow us to formulate a thesis that not every reward is a carrot and not every punishment is a stick.⁶⁷

A carrot is any kind of pleasant action that is announced in advance and undertaken by someone more powerful than us in order to change our behavior. The essence of the carrot is the fact that the person more powerful than us has it at their disposal and can give it to us or not.

On the other hand, a stick is any kind of unpleasant action that is announced in advance and undertaken by someone more powerful than us in order to change our behavior. The essence of the stick is the fact that the person more powerful than us has it at their disposal and can use it on us or not.

Note the similarity of both definitions. In fact, they differ in only one detail: the carrot is pleasant, while the stick is unpleasant. The rest is the same. Both tools are used to coerce actions by means of external motivation. In Tab. 8.1-1 we see typical examples of carrots and sticks.

As we can see, each of these carrots is associated with a stick in the form of carrot denial, and each stick is associated with a carrot in the form of stick avoidance. These are quite typical situations.

⁶⁷ In the next part of the book I will try to distinguish carrots and sticks from the broadly understood rewards and punishments, but occasionally I will use the word “punishment”, meaning a stick, or “reward”, meaning a carrot. I will do so especially when referring to the theses put forward by other authors who do not make the same distinction.

Carrots	Sticks
payment of the bonus reward for the teacher promotion to a higher position release from compulsory work	denial of bonus no reward for the teacher denial of promotion compulsory work

Tab. 8.1-1 Examples of typical carrots and sticks

For example, in many Polish schools, outstanding teachers receive awards at the end of the school year. Those who do not receive them feel stigmatized. This is all the more painful for them as the awards are presented in public during the end-of-the-school-year celebrations, and so in the presence of pupils and parents. As a result, those who receive awards also feel uncomfortable. This carrot works primarily as a stick.

A reverse situation is possible, too. I once watched closely a president of a company, who on the first day of his work told his subordinates that they were worthless, and he would have to lay off have of them (he expressed it more bluntly). And he began to fire first of all, of course, the disobedient ones, and nobody knew when he would finish. Every week of survival functioned like a carrot. Within six months, this man completely destroyed the company and was eventually fired himself, but the company never rose again, because the next presidents acted in a similar way.

Another example of a carrot made from a stick is provided by the history of Soviet labor camps in Kolyma, described by Varlam Shalamov in the book *Kolyma Tales* [77]. The guards in the camps used a reward in the form of a shortened sentence. Prisoners sentenced to serve 25 years who decided to blow the whistle on their fellow prisoners could receive a ... three-day shortening of their sentence.

The above examples, as well as many others allow for the formulation of the following statement:

The law of the carrot

The sole purpose of each carrot is to make a stick out of it.

The evidence of the above law is extremely simple. After all, the essence and power of a carrot is precisely the fact that we may deny it to someone. A carrot that cannot be denied, which must always be given, regardless of the circumstances, would no longer be a carrot. It would be an expression of recognition, sympathy, friendship, or solidarity, but not a carrot!

A carrot is a reward that we show to someone weaker than us, while delivering the following carrot message:

See, there is a carrot here. I have it and I could promise it to you in advance, but then you wouldn't do your job. And why wouldn't you do it even though you've made a commitment to do it in your employment contract? Because you are lazy and dishonest. So I will only give it to you when you do your best.

Naturally, the message is sometimes delivered in a slightly different way, but this is exactly what we mean when we talk about "motivational tools".

Since a carrot and a stick are basically one and the same tool, only each time named differently, in the further part of the book I will sometimes use the term “carrotstick” to describe both forms of the same tool.

A carrotstick is a typical “motivational tool” used by many companies, institutions and – unfortunately – also in the family⁶⁸. One often hears the opinion that the skillful use of punishments and rewards (i.e. a carrotstick) is the key to effectively motivating people. It’s completely wrong. American social psychologist Alfie Kohn shows that [47]:

*Both punishments and rewards (carrotsticks)
provide in all situations
a strong disincentive to take action.*

When defining a carrot and stick it is very important to say that both are unilaterally imposed actions, about which the rewarded (or punished) person knows that they are supposed to lead to a change in their behavior. The very awareness of the person we want to influence with a carrotstick is an important factor (though not the only one) that causes our actions to have the opposite effect to the expected one.

I won't work my hands to the bone

My audiences often ask me whether someone rewarded for doing something that they like to do anyway will stop enjoying it. It seems that such a conclusion would be absurd. And yet....

In the 1980s I witnessed a conversation between teenage boys in Zakopane.

– On Sunday there is a slalom for youngsters on Nosal. Are you taking part?

– Are you kidding? I won't work my hands to the bone. The first prize is a TV set again. I already have two.

At the same time their peers would get up at five in the morning to queue up at six in Kuźnice to buy a ticket for a cable railway to Kasprowy, while the more ambitious ones would climb to the lift on Hala Goryczkowa on foot.

Bullying at school

Another example comes from the United States, but today can also be found in Polish schools. This is a method of protecting children from classroom bullying. If a child is ridiculed by colleagues, e.g. because of their obesity, it is recommended that they should always carry in their pocket candies or something else that children might like. Whenever one is bullied by derision, they should immediately offer the bully a small gift. It turns out that it works. After a short time the bullying stops.

What is characteristic of the carrot and stick is the fact that they are punishments and rewards without any substantive connection with the action for which they are to be a consequence⁶⁹. If

⁶⁸ I urge the parents to read Alfie Kohn's book *Unconditional Parenting: Moving from Rewards and Punishment to Love and Reason*, (Atria Books, 2005) (Tantor Audio, 2016) [48]

⁶⁹ I owe this observation to Dorota Jakubowska.

a student who has worked conscientiously on the French language for a year is able to go on a grape harvest in the Rhône valley and buy a bicycle for the money thus earned, this award – even if it was announced in advance – will be a substantive consequence of his efforts. This pupil will not cheat during tests, because it would not make any sense to him. He simply wants to learn.

However, if the same boy learns the language, because he is to get a bike as a reward, then every way to achieve the award, including cheating during tests, will have a practical sense for him. In the former case, the bicycle is a natural consequence, in the latter – a carrot.

Learning French

Teenage Johnny is doing his homework in French and definitely not coping well. Mom sees it, so she comes up and says: “If you do your French homework well, you’ll get some ice cream”. “Well” – says Johnny to himself – “finally a reasonable proposal from Mom”. So he does his homework and gets his ice cream, and mom is convinced that the carrot is working.

The following week Johnny sits down to do his French homework and watches his mother to see if there is going to be ice cream again. Last time his mother clearly admitted that doing French is not a pleasant job, because obviously one doesn’t get ice cream for pleasure. And indeed mom promises ice cream and even adds that every time Johnny does his French, he will get ice cream. The poor woman imagines that if Johnny likes ice cream and he will associate his French homework with it, he will get to like French.

To Mom’s satisfaction, the method works for a few weeks, until one day Johnny announces that even though he needs to do his French, he does not want ice cream.

— So you’ll do your homework without ice cream – Mom is extremely happy!

— No, dear mother, you didn’t understand. I do not expect ice cream, because today ice cream is not worth my time on French. I have more interesting proposals. However, since I respect the agreement, I accept the fact that I do not deserve ice cream today.

— How about ice cream plus cinema? – Mom is trying

— Well, possibly....

But after some time, ice cream plus cinema stop being worthwhile. Yet Mom does not give up.

— Let’s talk about a new skateboard.

— Well, I could do with a new skateboard, but how many French homeworks will I have to do? It surely won’t be until the end of school...

— A good skateboard is a serious expense, so at least three months.

— Well, in that case I have to give up in advance. I am not interested.

— What would you propose?

— Maximum one month.

The final deal was six weeks.

However, six weeks have passed quickly and Mom has a problem again. So she escalates: a mountain bike, a computer, home theater, motorbike, and finally Mom gets hot under the collar:

— You are not getting anything else! What are you thinking? How much more should I give you?

— OK, so finally I can leave this damn French aside – concludes Johnny.

It also turns out that the carrot usually obscures all the natural rewards, becoming the only incentive for action. Someone who learns to get a bicycle and is deprived of this perspective will immediately put the book aside. This is because an artificially created reward suggests that it is the principal, if not the only justification for making an effort. If the reward was promised,

there must have been no other justifications. And so the carrot replaces all other incentives, and when it is not available any more, the motivation drops to zero.

Similar paradoxes also apply to stick type punishments. Those who have read *The Adventures of Tom Sawyer* by Mark Twain probably remember what kind of stratagem was used by Tom to encourage his friends to take for him the punishment imposed on him by his aunt in the form of painting a fence. Instead of offering them remuneration (a carrot), he ordered them to pay for the “privilege” of painting. Tom did not want to paint the fence, because he was supposed to do it as a punishment. His colleagues were ready to pay for it, even though it was the same thing.

Here is a similar anecdote quoted by Alfie Kohn ([47] p. 71)

The Old Man’s Plan

It is the story of an elderly man who endured the insults of a crowd of ten-year-olds each day as they passed his house on their way home from school. One afternoon, after listening to another round of jeers about how stupid and ugly and bald he was, the man came up with a plan. He met the children on his lawn the following Monday and announced that anyone who came back the next day and yelled rude comments about him would receive a dollar. Amazed and excited, they showed up even earlier on Tuesday, hollering epithets for all they were worth. True to his word, the old man ambled out and paid everyone. “Do the same tomorrow”, he told them, “and you’ll get twenty-five cents for your trouble.” The kids thought that was still pretty good and turned out again on Wednesday to taunt him. At the first catcall, he walked over with a roll of quarters and again paid off his hecklers. “From now on,” he announced, “I can give you only a penny for doing this.” The kids looked at each other in disbelief. “A penny?” they repeated scornfully. “Forget it!” And they never came back again.

From the point of view of management, upbringing, and shaping interpersonal relations, a carrotstick offers no benefits, but has many disadvantages. Those include:

1. It destroys interpersonal relationships:

- a. it is perceived as a supervisory mechanism that limits autonomy (and, in fact, that’s exactly what it is);
- b. it emphasizes the non-partnership relationship between the parties;
- c. it destroys cooperation;
- d. it is accompanied by the feeling that getting a carrot or avoiding a stick depends mainly on non-substantive reasons: great men’s favors are uncertain (working to maintain indices, the need to ingratiate oneself, etc.);
- e. subordinates do not ask their superiors for advice and help;
- f. it establishes obedience, not independence;
- g. it promotes toadyism.

2. It leads to ignoring the causes:

- a. because it is usually treated as a universal way of solving problems, superiors most often do not penetrate into the causes of the latter;
- b. it eliminates the need for rational action on the part of the superior: “If something goes wrong, I will use a stick and settle the matter, thus fulfilling my duties as superior and supervisor”.

3. It discourages making an effort and taking a risk:

- a. those who believe that they have no chance of getting a carrot, give up their efforts entirely;
- b. making a mistake equals a risk of not getting a carrot;
- c. when working for a carrot, we limit our activity to what conditions obtaining it.

4. It destroys direct internal motivation:

- a. the carrot rather than the success of the task is the ultimate goal; rewards merely motivate people to pursue obtaining them;
- b. rewards contribute to the conviction that the task is not worth doing of one's own free will.
- c. It encourages "bypasses" (section 8.3) and war games (section 8.12.3)

It is not true that a carrotstick used in moderation, in certain circumstances, towards certain people, etc. can play a useful role. It is not true that if it does not help, it will certainly not hurt. Finally, it is not true that using only carrots, without a stick (as if it were possible at all!) can be effective. I will quote here again the opinion of Alfie Kohn [47]:

*Punishments and rewards shall always, and in all circumstances
have a destructive impact on humans,
because they deprive them of their natural motivation to act positively.*

Kohn quotes in his book a wealth of scientific literature with descriptions of experiments on the use of carrot-type rewards. In all the cases described, regardless of age, gender, race, and education of the respondents, regardless of their working or scientific environment, carrot rewards have always been a highly demotivating factor. The same author also formulates the following conclusion (p. 95):

*... extrinsically motivated people, presumably as a result of having been
subjected to extrinsic environments, tend to be more depressed and to feel more
helpless than intrinsically oriented people.*

If the carrot and stick are so destructive, why are they used so often? The answer to this question is simple. The use of a carrotstick is easy, does not require any knowledge, and relieves one from the need to analyze the causes. It also makes it possible to quickly achieve simple operational goals according to the principle that almost everyone can be forced to do almost anything by means of rewards and punishments. Unfortunately, you can't coerce people to what is most important in the work of a leader with the team – that someone get to like their work and does it out of an internal need. So that it is not only a source of profits for them, but also a way of pursuing their values. The fact is, you can never force anyone to like something!

*With the help of a carrotstick, you can force almost anyone
to do almost anything,
with the exception of one thing –
that they get to like something, and in particular that they get to like their work.*

Here's what one of my readers wrote to me about her own carrot experience:

Bitter carrot

The company I used to work for is a market leader which has been implementing high quality standards for a long time. TQM has been used in this company for many years and has focused mainly on products, services, and long-term customer relationships. Although the company is considered one of the best employers, there were times when large numbers of employees were leaving the local branch. In that branch, carrots were used intensively within the sales teams in the form of competitions for the best seller of the month/year/region, etc.

My case concerns the period when, after a few years of working with big customers, I started to reap harvest in the form of big contracts and, as a result, the abovementioned rewards. I have to admit, at the beginning it was motivating: when for two months in a row I won the title of "seller of the month" and the president's challenge cup, I tried hard to win it for the third time so that I could take it as my property. Then there were exotic excursions within the "Achievers Club", etc. However, the carrot quickly turned out to be bitter: my colleagues turned away from me, and so when I received subsequent awards and bonuses publicly at the company forum, I was slightly embarrassed, knowing the reward was individual, but the success was owed to the work of the entire group of people, whom I could only thank warmly for their commitment and good cooperation.

Anyway, each of us simply did his or her job well, received a decent salary for it, and these additional rewards by and large ceased to have a motivating effect.

Another example of such a "carrot" was the reward in the form of a luxurious trip to the F1 race in Monte Carlo, including VIP box seats just above the track, accommodation in expensive hotels, dinners in exquisite restaurants – all in the company of regional winners – meaning: leave for a couple of days the loved ones, the people you neglect daily, working so hard for the corporation, and have fun with the corporate leaders, because this is now your family.

It was then that I started looking for a different job. One in which I could find balance in each area of my life. I changed the department and position. I became motivated by new, more responsible tasks and the possibility of pursuing new, different experiences, learning new skills.

Here's the account of another reader:

When bonuses drop

I would like to raise the issue of bonuses. Such a system functions in my company. As the bonus was directly linked to the margin, during the pre-Christmas sales it exceeded the amount of remuneration. Unfortunately, the steadily increasing bonuses (up to such a level) got employees accustomed to a substantial monthly income. At the same time, the amount of bonus was an argument against any discussions about possible pay raises.

Unfortunately, at the beginning of 2008 the company started serious, numerous, and not entirely rational investments. This led to a 75% drop in bonuses and was a shock to everyone. The staff hears that a new bonus system is being created, based on various indices and coefficients, a different one for the sales staff, the sales manager, and yet a different one for office staff. (...)

I must admit frankly that there was a period of deep crisis in the company due to teamwork, and we felt like we were in a cage with lions. Mistakes were dragged out publicly, so everyone wanted

to find the guilty one, but obviously not themselves, and so to prove their competence. Since most of the mistakes show up only in the logistics department, I decided to take advantage of this. Today, I try to discuss mistakes with the perpetrator, privately, and to understand the source and think about the solution. Although we are still far from being a harmonious team, we have certainly made some progress....

8.2 Attitude and behavior

Why are so many companies using aggressive bonus and commission methods, why do parents “encourage” their children to behave properly with the promise of gifts (carrots) or sanctions (sticks)? This is because, as I have already pointed out, carrots and sticks sometimes, though not always, change human behavior, which is what is visible to the outside observer. Unfortunately, they also change their attitude, but in the opposite direction to the expected one (Fig. 8.2-1). It should be emphasized, though, that not every reward (a pleasant consequence) is a carrot and not every punishment (an unpleasant consequence) is a stick. This issue is discussed in more detail in section 9.5.

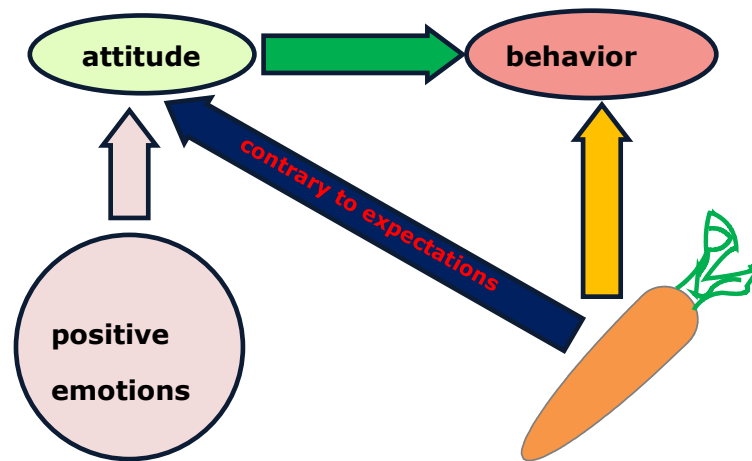


Fig. 8.2-1 Attitude and behavior

A person’s behavior is most often the result of their attitude. An honest person does not steal, a truthful person does not lie, a good and courageous person is not aggressive, a trustful person shows people his respect. On the other hand, a dishonest man steals and deceives, a person who feels superior to others shows them contempt, a person who considers others as enemies is aggressive and suspicious.

What we see in a human being at first glance is his behavior. If we do not like it, we try to change it. For that we often use carrotsticks. We put thieves to prison, we respond to aggression with more aggression or we try to bribe the aggressor. And this sometimes is effective. A thief who is afraid of punishment will not steal, a person who is aggressive will behave gently in front of more powerful than them, a bribed aggressor will leave us alone for the time being. Unfortunately, the change of behavior coerced in the above way is not permanent. On the contrary. Elliot Aronson and Grażyna Wiczorkowska write in their excellent book ([4], p.73):

If we want to achieve a lasting change in attitudes, then the greater the reward, the less likely it is that there will be any change in the attitude.

American work psychologist Alfie Kohn ([47], p.50) expresses the same thing differently:

The troubling truth is that rewards and punishments are not opposites at all; they are two sides of the same coin. And it is a coin that does not buy very much.

and further on (p.67):

Do rewards motivate people? Absolutely. They motivate people to get rewards.

He also says (p.42), although in slightly different words, that:

... rewards, like punishments, are absolutely useless. In fact, as we are beginning to see, they are worse than useless – they are actually counterproductive.

The carrot and stick can be effective in an ad hoc action – they change the behavior, though not always, in the desired way (section 8.3). Unfortunately, maintaining the changed behavior requires not only the constant presence of the carrotstick, but also its escalation, which is a result of stimulus anesthesia described in section 7.2. In addition, the carrotstick changes the attitude in the direction opposite to the change of behavior. What is forbidden under the punishment of a stick becomes attractive. What is coerced by a carrot becomes unpleasant.

A student punished for making mobile phone calls during a class or rewarded for refraining from making such calls will not use the phone only if he or she believes that the risk of punishment or the loss of reward is too high. At the same time their urge for making these calls is going to increase. They will use their phone at the first opportunity. They will use it not only because they want to, but also to prove their independence to themselves and others. They will talk on the phone not only in order to achieve the profits of replacing the boring lesson with an interesting conversation, but also in order to build their ego as a free and independent person. This need to build a sense of independence is particularly strong in teenagers and is the fault of parents and teachers who often manifest their superiority.

Madrid is targeting schools

In the Polish daily "Rzeczpospolita" of 17/18 February, 2007, we find the following information:

"Madrid is targeting schools: ... for using a mobile phone in the classroom, there is a risk of an extra homework to do after class".

In my school days, similar methods were used. If the class misbehaved, the teacher would announce that instead of a gym class there would be an extra history class.

The idea of the Spanish educational authorities is an excellent example of achieving two goals in one: the attractiveness of using the phone has been increased and the value of doing homework has been negated. If the school itself treats homework as a punishment, it openly admits that it is not a desirable activity.

So how is the teacher to deal with a class that keeps making phone calls during the lesson? There is probably only one way. They need to make the lesson more attractive than telephone calls, and for this purpose they first need to develop a hunger for knowledge in the students. Developing hunger for knowledge is today the teacher's most important task. The teacher is no longer the only or even the most important source of knowledge for the student, which used to be the case. Today there are more such sources than the student is able to consume. In fact, many more. The only thing the teacher needs to do is to encourage students to use them and show them how to do it.

The mathematics class usually starts with a lecture on some theory, followed by tasks exemplifying its application. And yet, one could start with those tasks and let the pupils try to come up with a solution, and only then point to the appropriate theory. One can take the pupils on the path taken earlier by the creators of the theory. They also started with tasks which they could not solve. Searching for solutions is always much more attractive than “an extra homework to do after class”.

A traditional biology class begins with a presentation of the earthworm and a lecture on its structure, customs, and importance for agriculture. Today it can be done differently. One can show the earthworm and ask what students already know about it. Pupils say what they know and the teacher writes it down on large sheets of paper. The sheets are hung on the classroom walls. After some time it turns out that the collective knowledge of the class about earthworms is quite considerable. And by writing it down and hanging it on the walls, it becomes the knowledge of every pupil. Such a creative workshop will surely offer everyone more to remember more than a traditional class. But of course it is not yet full knowledge. Now the teacher may ask what else the pupils would like to know. A list of questions is created. And this is a homework. Children should try to find answers by the next class. They should look for them anywhere they can. It could be the course book, but not only. The Internet can provide a good source. The same Internet from which, after all, “you cannot copy things”! In the next class the knowledge about earthworms will be completed and the notes will be placed on the walls again so that everyone can see.

In September 2008 I took part in a conference entitled “Educational Siege of Malbork”. Some of the discussions concerned an experimental school of the future operating in England. The traditional promotion from class to class takes place every three years there and all the knowledge is acquired by students through very specific projects, such as designing and constructing a bicycle. Students joining a project usually do not have the knowledge necessary for its completion. They acquire it during the course of the project, being aware of its practical meaning. The teacher’s role is above all to indicate the sources of knowledge⁷⁰.

Let me add that pupils and teachers at this school do not use chairs. There are no chairs in this school at all. Everyone sits on large balls. It turns out that this has two important advantages: first, you always sit straight on the ball, which is good for both pupils and teachers. Secondly, kinesthetic children, i.e. those who are not able to concentrate when sitting still in the chair, can do so perfectly well on the balls. On top of all, jumping on the balls is great fun. And so they sit on balls not only in England, but also in Malbork. I immediately bought myself one.

A carrot and stick can be effective tools for ad hoc police actions. The threat of punishment can prevent a criminal from committing a robbery when the police are nearby. A promised reward may encourage the same criminal to cooperate with the police, e.g. as a key witness. None of these actions, however, will turn the criminal into an honest man. There is probably no doubt about that.

This is why a carrot and stick is not a good tool in the hands of parents, teachers, and superiors. They may only – and not always – change someone’s behavior at the price of permanent erosion of their attitude. If we want to change the attitude, we must forget about sticks and

⁷⁰ When I talked about this school in my lecture in February 2011, one of the listeners spoke about the school (in Poland!) attended by her son. In that school, projects are implemented from the first grade of primary school. The first project completed by her son was the preparation of a presentation of static electricity, i.e. the operation of electrostatic and electromagnetic fields. The first-grader assisted by the teacher was able to conduct simple experiments with metal filings and magnet and then prepared a PowerPoint presentation (yes!), which he presented in class.

carrots and start thinking about intrinsic motivations. About feelings and emotions that we experience ourselves, as well as those we intend to arouse in another person.

In confrontational situations, we must first of all offer trust, then empathy, that is, readiness to listen to and to feel the problems of the other party, and finally positive communication. We don't have to accept everything, but we have to be ready to listen and understand. We must be able to tell the other person about our expectations of his or her attitude, and to say it in such a way that he or she does not feel offended, manipulated, or disrespected. We need to know something about assertive statements, solving conflicts, behavior in confrontational situations, dealing with our own and our interlocutor's aggression. I discuss it in detail in sections 3, 4 and 5.

If we want to encourage someone to do something, e.g. a student to learn, then instead of punishing them for lack of attention, we need to win his attention with an interesting presentation of the subject. First you have to show the problem and encourage your students to solve it, and only then you can indicate the tools, because the student has to feel the joy of gaining the knowledge they need on their own.

Naturally, all this is not easy. It doesn't work right away. It may entail emotional costs. So if we were not taught this, we prefer to use a carrot and stick, because it is easier.

Misbehaving footballers

On 12 January 2009 I heard in the sports news that one of the leading goalkeepers of the Polish national team was punished (!) with an extra portion of training for inappropriate behavior on and off the pitch.

As you can see, the Polish coaches were thinking along the same lines as the educators in Spain. And then we saw the results...

8.3 The main objective and the bypass

An important methodological error in the construction of so-called incentive systems is the failure to understand that the relationship between cause and effect is not symmetrical.

For example, if the education system in some country ensures a high level of education of its citizens (cause), then the secondary school final exam results are probably also good (effect). The cause has an effect, but such a result does not have to occur in the opposite direction. Good secondary school final exam results can be achieved by lowering the requirements or by not allowing weaker students to take the exam. And sometimes this is exactly what happens.

Similarly, if a company develops in a sustainable way, it will generate profit, but generating profit may not coincide with sustainable development. Painful examples were provided in abundance by the recent global financial crisis.

When the causes and effects used in the examples are treated as targets, we may talk about a stronger goal (education of citizens, development of the company) and a weaker goal (results on secondary school final exams, increase in profit). Every path to reach a stronger goal is one of the paths to reach a weaker goal. Let's emphasize this – just one of many! In other words: there are many ways to achieve the weaker goal while avoiding the stronger one.

When building “motivational systems” based on a carrot and stick, we often replace the goal that we really want to achieve – the main goal – with a weaker auxiliary goal. This happens

whenever it is difficult to verify the achievement of the main goal. The high level of education of citizens can somehow be measured, but no such measurement will make it possible to assess which schools are to receive a bonus for “excellent teaching” in a given year, not to mention the fact that the results of excellent teaching can be seen only after a dozen or so years. And so a measurable replacement target is used, i.e. the results of secondary school final exam results, ignoring the fact that it is not a sufficient condition for achieving the main objective.

Many supervisory boards act in a similar way and for the same reasons by rewarding management for the year-end or quarter-end financial results. And they get exactly what they asked for. Profits are increasing, while the chances of the company’s survival are decreasing.

Glassware factory

In a commercial glass factory, a distinction was made between two product quality classes: class one and class two. Class two products, somewhat inferior, were sold cheaper. In order to encourage employees to improve quality when the volume of production of class two products exceeded a certain level, bonuses were reduced. In response to this management policy, employees began destroying class two products when there were too many of them. This allowed them to keep their bonuses, because cullet and raw material consumption did not affect them. The sabotage surfaced when the company was contacted by a customer who wanted to buy only class two products, because class one products were too expensive for him.

In both cases, those using the carrot are naïve in assuming that the only way to achieve a measurable goal is to achieve the main goal. However, in reality, it is not only one of many ways, but also the most difficult one. These other ways – most often available in abundance – I refer to as “bypasses”. In the case of schools, this may be to prevent weaker students from taking the secondary school final exam so that the statistics remain at a high level, and in the case of boards working for profit – to give up working on new products.

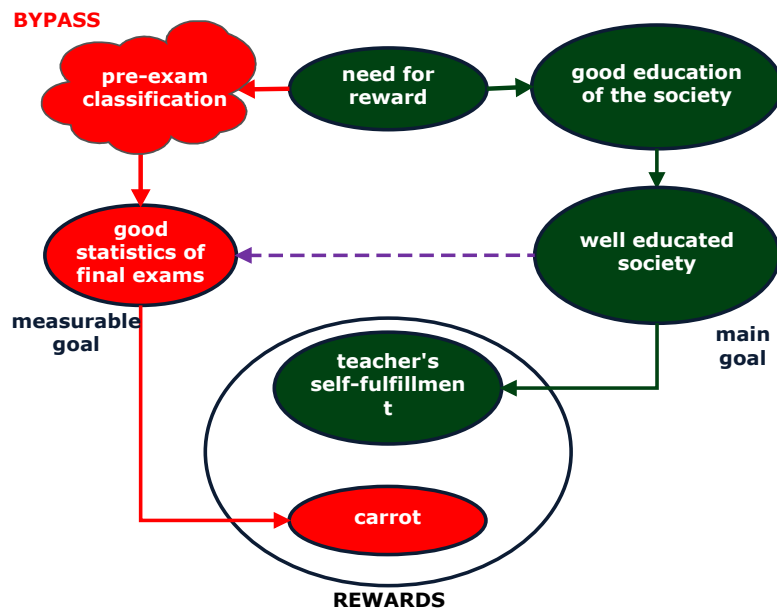


Fig. 8.3-1 Carrot for schools

Fig. 8.3-1 shows the mechanism of carrot action in schools and two ways to achieve a reward, which may be a bonus, i.e. a carrot, or a sense of fulfillment at work, i.e. a dignity reward (section 7.1). Achieving the carrot requires a bypass, which involves acting against the intention of the owner of the carrot. The path to obtain the dignity reward leads through the conscientious work of the teacher. This reward cannot be achieved by deception, i.e. in any other way than by providing good education. There are no shortcuts leading to this reward!

It is not always the case that teachers give up their professional mission in order to achieve a reward. However, if they make such a choice, they do so out of a sense of duty and decency, and, therefore, not for bonuses, but in order to obtain a dignity reward. The “motivational system” is not helpful here and actually makes it more difficult for them.

In both situations quoted above, we are dealing with a certain standard procedure resulting from a *structural lack of trust*.

1. The lack of trust that somebody can achieve the main goal on their own makes us offer them a carrot.
2. In order to determine the conditions of its payment, we introduce a simplified method of measuring the quality of work: besides the main goal there is now a measurable goal weaker than the main one. It can be achieved by achieving the main goal, but it is not the only way. The intermittent arrow in Fig. 8.3-1 indicates the result: if the society is well educated, the results on the secondary school final exams are good.
3. Linking the measurable goal to the carrot causes it to supersede the main goal. It becomes a goal in itself.
4. Since the achievement of a measurable goal does not force the achievement of the main goal, it is easy to find bypasses.

*The essence of problems with carrots lies in
replacing the main goal with a weaker measurable goal,
which opens the way to bypasses.*

Some organizations so deeply believe in the carrot that they fail to think about the proper goal of their existence, choosing a measurable goal as their main goal: school grade average, profit growth, budget execution or achieving a certain statistics of results. In such organizations nobody thinks (or even knows!) about dignity-based motivation.

Obtaining the main goal – even though it is officially declared – is frequently completely beyond the reach of those who carry out the work. For example, a thorough preparation of young people for adult life would require a profound reform of the education system, but teachers have virtually no influence on this. What is left is the average of grades on the secondary school final exams.

Unfortunately, there are situations in which a carrot is the only solution. If we want to “motivate” the employee to deceive the customer, inveigle them to spend unnecessarily, produce unhealthy food, abuse breeding animals, or poison the air, water, and soil, then a dignity-based motivation cannot be successful – we must reach for the carrot with all the consequences of that choice. In that case, however, we cannot expect the employees to show honesty, responsibility,

and commitment. Our labor camp must be surrounded by barbed wire and armed guards must be placed on the watchtowers. But the prisoners will deceive us anyway.

Teal organizations, which are created in response to carrots and the related bypasses, are based on four foundations:

1. The profits offered at work – salary, car, computer, telephone, canteen, or even gym and theater tickets – are viewed as attributes of the workstation. Some are necessary to do the work (remuneration and tools), others contribute to the work being more efficient and burdened with fewer mistakes (gym and theater tickets).
2. The main incentive to do the job reliably is provided by dignity-based awards, i.e. the personal feeling that what one does is needed, that one can develop at work and feel pride in who one becomes. In such an environment, the scope for bypasses is limited, because it is difficult to deceive oneself. Therefore, nobody has to watch or “motivate” anybody, and this builds a sense of trust and responsibility.
3. The presence of trust and responsibility makes it unnecessary to introduce a hierarchical structure to supervise employees. Managers take on the role of coordinators, leaders of ideas, mentors, and moderators.
4. The lack of a hierarchical management structure means that people do not race to positions, and instead they can build an authentic partnership based on trust. They can support each other, because nobody is a competitor to a position.

In order for all these principles to be implemented, it is necessary for all members of the organization to constantly work on a social work environment in which people do not compete with each other, but support each other, have trust in one another and may trust one another, because along with trust, they build a sense of responsibility. It is also necessary for the main goal to be positive, to build a better world, and not to destroy the one we have.

If employees of a company (organization) feel that their work brings benefits not only to themselves, but to all stakeholders, if they can feel proud of what they do and how they do it, then this pride is a reward for their efforts. In such a situation, it is not necessary to set up a substitute goal, because the main goal is rewarded, and it is rewarded in the most effective way possible. However, in order for such a reward to be provided, employees must think about themselves and their organization in a positive way, while the organization itself must establish positive goals to pursue.

Unfortunately, this is not always the case. Many boards of listed companies remain under strong pressure from shareholders expecting fast profits. The latter do not even try to pretend to be interested in the sustainable growth of the company. The only thing they are interested in is a quick return on investment – preferably within one quarter, as in the case of Enron⁷¹. The effects of such conduct have been witnessed throughout the world.

Finally, it should be emphasized that Teal organizations do not give up measuring the effects of their work (cf. section 9.10.3). We still look at the grades of students or the profits of the

⁷¹ In this company, the shareholders offered annual bonuses of several dozen million USD to the board members on condition that the company's value would grow from quarter to quarter. Whenever such an increase was threatened, the costs of the mother company were passed on to the daughter companies in the hope that they would be reimbursed during the prosperity period. When in 2001 it appeared that there was no chance to cover these costs, a scandal broke out and the company was declared bankrupt. The jury found the Chairman of the Board of Directors, K. Lay, guilty of six charges, but he died of a heart attack in July 2006, before he could serve his sentence. President of Enron J. Skilling was found guilty of 19 charges, for which he was sentenced to 24 years and 4 months in prison (source: Wikipedia).

company. However, achieving measurable effects is not an end in itself. It serves the purpose of selecting or correcting the best way to achieve the main goal.

8.4 Two traps

To sum up our knowledge of the carrot and stick so far, it is worth noting that this method sets two types of traps on the organizations that use it:

1. Psychological traps.
2. Operational traps.

Psychological traps (sections 8.1 and 8.2) include superseding intrinsic dignity-based motivation by profit-related motivation, the escalation of expectations, building the feeling that the main goal is not worth the effort, the destruction of interpersonal relations and the employee's loyalty to the company, and often the company's loyalty to the employee.

Operational traps include bypasses (section 8.3), as well as their systemic form – war games (section 8.12.2).

Note that falling into one of these traps does not protect us against falling into the other. Encouraged by a carrot, we may initially pursue the main goal. However, as we already know, as time goes by, the power of the carrot weakens, so the carrot needs to be escalated. And since every escalation has its limits, there comes a moment when the carrot ceases to be an incentive to act. As it would be a pity to lose it, we search for a bypass. This ultimately destroys our sense of pride in what we do. We also stop feeling fair toward the company, so in order to lower the associated level of dignity dissonance, we start searching for excuses (section 7.6). Naturally, the company is the easiest target of our accusations, particularly in the carrot and stick culture. Companies using aggressive “incentive systems” provide a mass of arguments for social excuses. After all, they are built on the assumption that people are lazy and dishonest, which translates into the attitude of the superiors to their subordinates.

Although this scenario is sufficiently gloomy in itself, it can become even worse, because in carrotstick culture, the stage of realization of the main goal is often entirely omitted. People painfully experienced by life immediately begin inventing bypasses, which is usually not particularly difficult. After some time, the company, having found out what is going on, sets up an appropriate blockade. However, the ingenuity of carrot beneficiaries is unlimited, so a new bypass is invented. The next blockade is set up, which gives rise to bypass number three (section 8.3) and we end up having a war game in its prime (section 8.12.2).

8.5 The weak and the strong — opponents

In the model of violence, the relationship between the superior and the subordinate, the teacher and the pupil, or the parent and the child is shaped by the principle according to which “the weaker obey the stronger”. This principle excludes a priori a partnership between the parties, and thus also a consensus and the actions of the weaker of their own intrinsic motivation. This is because any imposed action is undesirable and rejected internally. Unfortunately, many coaching companies still offer “courses in employee motivation”, which refer to “the weak – the strong paradigm” and, therefore, accept the worst possible solution – the carrot and stick method. Companies implementing this program build complex bonus and commission systems, organize employee rankings, contests for the best seller, etc. This style of management inevitably leads to the emergence of all the phenomena which its supporters would like to prevent: lack of motivation to work, lack of loyalty to the company, cynicism, absenteeism, toadyism,

favoritism, the formation of interest groups and, as a result, lowering of the company's competitiveness on the market.

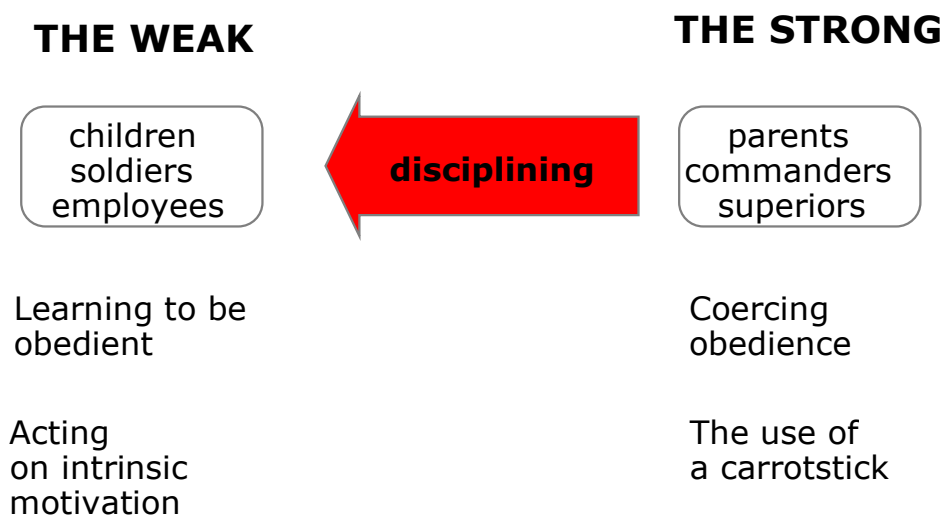


Fig. 8.5-1 Archetype of violence: the weak and the strong

Fig. 8.5-1 shows typical relationships developed between the strong and the weak. They are relationships of subordination. The strong issue commands to the weak, while corporate task completion reports flow in the opposite direction. This system emphasizes the duties of the weak towards the strong, placing obedience above everything else. The weak are taught a lesson of obedience, while the strong – the ways of coercing it. The weak begin to develop a sense of inferiority, subjection, dependence and, as a result, the need to protest. An individual taught by his superiors to be obedient responds in self-defense by developing mechanisms of opposing domination. At family and school level this leads to the rebellion of the youth and at company level – the formation of trade unions.

Here is an account of one of the participants of the Human Resources Congress, which was organized in Warsaw a few years ago:

A mystery shopper

I work in a trading company (clothes, cosmetics, shoes, etc.) with shops all over the country. As a result of strong pressure from the chief operating officer, who directly supervises the work of store managers, a system of special bonuses for this group of staff was implemented. Each of them could receive an additional bonus, provided that in a given month they obtained specific indicators related to the implementation of the sales plan, labor costs, etc. The unconditional requirement was an appropriate level of customer service, measured using the method of a "mystery shopper". Trained interviewers travelled around Poland, pretending to be customers and checking compliance with procedures in particular showrooms. The report prepared at the end of the month contained information on the level of compliance achieved by individual sellers, groups of salespeople, and all employees of a given facility.

The objectives were clear: to motivate managers to achieve indexes consistent with the targets set up company-wide, preventing any decrease in the level of customer service by reducing the operating costs of the store (and at the same time to optimize these expenses) and to reward outstanding employees.

It turned out that the standard of customer service was not always what it should have been, and so the managers started to work with their teams in order to meet the criteria. When validating the payroll, I noticed that among nearly 800 of our sellers in Poland, a few received a reduced monthly bonus on the turnover, and later that number increased to a dozen or so. I travel a lot around the country and I found out what our managers were doing when they failed to get satisfactory results on the “mystery shopper” test. Well, they started to implement a project – without our management] knowledge – which I would call fear management. A frank, direct conversation with an employee boiled down to either following certain procedures or being deprived of part of the bonus. In one case, the director even posted in the social room a list of sellers with a reduced bonus in the given month due to poor results obtained on the basis of the “mystery shopper’s report”.

You can imagine the fear experienced by the staff of our entire sales network. Interestingly, my analysis of the reports indicated that the level of customer service did not increase. So I set up a special group consisting of two of our best store managers and trainers from HR and operational departments. We had to solve the problem of overcoming the enormous fear of the sellers when reporting monthly results. A detailed analysis of the questionnaires showed that some of these employees simply avoided customers and, in fear of a poor evaluation by the “mystery shopper”, would only fiddle with products, restacking, rehangs, labeling, etc. We wanted to maintain the managers’ motivation without withdrawing from the project and so we decided to take corrective action to modify the program: stop penalizing salespeople for poor results, reward the best of them, help department managers to train their subordinates in customer service. The system is still in effect today, but the results are not what we would expect. Namely, those salespeople who had good results before the project improvements and were active are still achieving satisfactory results. On the other hand, those who have been punished are not entirely convinced that no undesirable action will be taken against them again. The activity of sellers has been somewhat slowed down because of this system.

Here is what Petersen and Hillkirk [63] write about it in their book about management in the Ford Company in the 1990s:

You can’t force service staff to smile at customers. If we give such an order, the employee will be making a grin and check whether they are being watched (page 118).

The use of “mystery shoppers”, our “secret inspectors” to check the work quality of sales staff is discouraged (page 119).

Choose a regular group of customers and consult them about mistakes and suggested improvements (page 120).

In order to get the cooperation of employees, it is necessary to trust them and tear down the wall separating the employees from the management (page 31).

The heads of sales departments who have not been convinced by these arguments should imagine a situation when the Chairman of the Board of Directors makes arrangements with their subordinates, so that they observe their boss discreetly and pass on their observations to the Chairman. A rather nasty idea, isn’t it? Could you work with such a chairman? I don’t think so. Why, then, do you expect that watching your subordinates by a “mystery shopper” should be better and more effective than a “mystery employee” observing yourself? Why do you expect it to work in any other way than destructively?

What should a company that wants to improve the work of salesmen do? First of all, it should hold meetings with sellers to identify their knowledge of active customer service and barriers to their work, then organize training and, instead of sending secret agents, set up coaches in stores to demonstrate the right working techniques to sellers. They should continuously evaluate the work of the sellers – “You are doing this well, but you could improve that in such a way”. However, the evaluation of coaches must not in any way affect the remuneration of employees. The management should receive only summary reports on the knowledge and skills of the sales team in order to decide about further stages of the training. Store managers are to be involved

in making these decisions after consultations with the people under their care. Regardless of the training activities, it would also be advisable to implement the sellers' suggestions related to the work barriers indicated by them. Such barriers may include, for example, a delivery of a new line of products to the shop without proper training of the sellers in this area. How can a seller effectively recommend a new cosmetic or kitchen appliance to a customer without knowing anything about its advantages and limitations? The identification and removal of barriers is discussed extensively in section 15.2

By and large, in this and any other situation, company management at all levels – from the board of directors to store managers – should create an atmosphere of trust and partnership in teams, as only partnership ensures the active participation of employees in building the position and competitiveness of the company. This task is not at all easy, however. Frankly speaking, it is very difficult, because it requires knowledge and skills in terms of building interpersonal relations, knowledge that we have not usually been taught at home, at school, or at university. In this respect, most of us represent, through no fault of our own, the lowest possible level of competence: “I don't know that I don't know”. After ten years of learning mathematics at school, many people are aware of their limited knowledge of mathematics and could say: “I know that I don't know”. However, in terms of building relations in a team, which is the domain of social psychology, we do not even know that we do not know. This does not mean that we cannot learn. And this is our chance!

8.6 Quality and Performance Bonus

According to Edwards Deming⁷²:

*Salary dependence
on quality and productivity of work, however understood,
is the most powerful inhibitor for the Western economy.*

Here are some arguments as to why this is the case:

First of all, not more than 15% of quality and effectiveness-related problems can be attributed to employees. The rest is the responsibility of the system, i.e. the organization of work. This truth was proved by Edwards Deming and Joseph Juran in their research conducted first in Japan and later in the USA. Is it, therefore, fair to make an employee's remuneration dependent on what remains in the control of their boss or their boss's boss, but certainly not the employee's? Such dependence gives rise to a sense of injustice, which invariably negatively affects productivity and the quality of work. Besides, the quality of work very often cannot be objectively measured. What remains is subjective evaluation and all the problems it entails: toadyism, the feeling that only connections matter, disappointment, and discouragement.

Second, bonuses relieve superiors from analyzing the causes. A supervisor who may deny a poorly working employee a portion of his bonus – regardless of whether the assessment is based

⁷² Deming's thesis is provided by Alfie Kohn ([47], p. 129), who quotes yet another author (Mullen) as the source. Kohn writes: *W. Edwards Deming, with his characteristic gift for understatement, has called the system by which merit is appraised and rewarded "the most powerful inhibitor to quality and productivity in the Western world"*. Deming formulated similar theses many times in his book [16], e.g. on page 102, as well as in other books.

on objective or subjective criteria – will do so with the feeling that he or she has performed their duties. After all, his/her job is to supervise, control, and motivate to effective work through punishments and rewards. In reality, it is a very primitive and utterly ineffective style of management. Instead of solving the problem of poor work quality, analyzing the causes (which are often far from the obvious), changing the organization, modifying the procedures, or sending the employee for training, we can just deny a bonus and go home. Yet, in this way, we actually solve nothing, although we are convinced that we have done everything that could have been done.

Third, we do not want a worse job even for a lower salary. Sometimes two employees have the same job, but one works better – at least in the opinion of the superior – so he/she has a higher salary and the other one works worse, so his salary is lower. For example, one shop assistant sells more and, therefore, earns more and the other one sells less, so he/she earns less. And everything seems to be fine, according to the principle that if we pay 2 dollars per pound of apples, we should pay 1 dollar per half a pound.

However, one should ask a question: is it worthwhile for a company to have a worse employee even for a lower salary? After all, poor work of a salesman means not only reduced revenues, but also a bad reputation of the company and, as a result, a loss of customers. It is much more reasonable to assume that a given position requires a certain quality of work and so everyone earns the same amount (perhaps only taking into account the length of service; see section 11). Those unable to meet the requirements need to improve their skills or leave.

Naturally, the company should help the employee to adapt to its expectations, e.g. through instruction and training. However, there can always be some people in every position who are simply not suitable for the work they do. It may be a matter of competences or predispositions. Such individuals should be transferred to another position or even dismissed from work. But the dismissal should not be a “disciplinary punishment”⁷³, people should not be just thrown out; it must be done showing full respect to a person’s dignity and their life needs. A good company should help the employee to find another job.

Marines

The lack of consent to poorer work is a particularly important principle in the US Marine Corps. Here is what Jason A. Santamaria ([44], p. 130), the former commander of this formation, says about it:

A Marine unit in battle is only as strong as its weakest link. A poor performer puts lives in danger. The Marines simply cannot afford to let the bottom half languish. Like executives in the corporate world, leaders in the Marine Corps have little time to spare, but they find the time to attend to poor and mediocre performers, even if it means personal sacrifice.

Fourth, mind the bypasses. In the vain hope that objective numerical indicators of quality and effectiveness can be established, companies build systems based on measurable goals, such as: sales, profit, margin, return on capital, etc. By making the employee’s remuneration dependent on such measures, companies immediately put themselves on a hiding to nothing, which I have already discussed in section 8.3 and to which I will return in section 8.9.10.

⁷³ This should not lead to a conclusion, however, that disciplinary dismissals are excluded in a good company. If someone steals, is aggressive, or persistently violates the work regulations, an immediate disciplinary dismissal may be necessary.

In section 8.7, I will describe some further examples in which an employee is clearly acting to the detriment of the company by participating in a bonus game. Here is one example from the same category, except that now the company is acting to the detriment of the employee:

A chef at the hotel

A large hotel in Warsaw offered to A. Blikle Company a permanent cooperation in the supply of wedding cakes. We offered a wholesale price, which included a fairly large discount, similar to the one we offer to other wholesale customers. However, the management of the hotel came to the conclusion that for such a large discount the chef responsible for purchases would receive an excessively large bonus. And so they suggested that we should sell the cakes for a higher price (!) and once a quarter we would return the surplus to the hotel's cashier behind the chef's back. This method of deceiving an employee is smartly called a retrospective discount.

An infringement of the customer's interests may be another effect of paying commission on sales. A salesman using the right techniques and offering numerous gifts can inveigle the customer into buying something that they do not really need. Such action temporarily increases sales, but in the long run it ruins the relationship with the customer, spoils the market, and damages the company's reputation.

A British insurance company

A British insurance company once launched a very aggressive marketing and sales campaign. The ubiquitous advertising was accompanied by high commissions for brokers, who additionally were allowed to offer a wide range of discounts and rewards for clients. At first, the sales skyrocketed. Brokers were earning lots of money, the company increased its revenues by several dozen percent. New branch offices sprang up like weeds. New staff have been recruited. Loans were taken out for the development of the company.

Alas, a year after launching the campaign, customers began to give up their policies. Initially encouraged by advertising and promises of extraordinary discounts and bonuses, they often bought options that they didn't really need. When the initial enthusiasm cooled off and they confronted the costs with the benefits, they decided not to extend their policies. A dramatic drop in sales followed and no marketing or commission incentives for salespeople could slow it down. However, loans had to be paid back and the costs related to the previous year's development had to be incurred. The company tried to survive by reducing staff and wages for those who stayed. It was not enough, though, and after some time it went bankrupt.⁷⁴

During my term of office (1990-2010) at A. Blikle Company, the most important task of a salesperson standing in front of a customer was to make that customer return to us. This objective had to be achieved even at the expense of not selling anything. If a customer wants to buy a cream cake on a hot August day and take it by train to Kraków, they should be strongly advised against it. And if they want to buy doughnuts that we have run out of, instead of persuading them to buy another product, we should – if possible – refer them to one of our other confectioneries where the doughnuts are still available.

In my archives, there is a letter of thanks from a client who was treated in exactly the same way as in the example with doughnuts. The customer was curious how such a behavior was

⁷⁴ I was told about it by Jim Murray (an outstanding British coach) around 1996.

possible from the seller, who instead of trying to sell something else, referred her to another confectionery, where the doughnuts ordered by phone were already waiting for her. “After all, this seller is lowering his bonus in this way! – she said. The secret lies precisely in the fact that the seller’s remuneration was fixed and not commission-based.

Brian Tracy writes [81] that a good seller should above all be an advisor to the customer in obtaining the benefit that the customer expects in connection with the purchase. The customer who comes to get the product actually comes to get the benefit that comes with the purchase of the product. It could be just eating a cake, but it could also be gratitude, affection, or love of someone who will get the cake as a gift. It could be an opportunity to meet with friends, make new acquaintances, obtaining forgiveness. A good seller should build his/her image first of all as a professional advisor to the customer⁷⁵ and not as a person who wants to sell as much as possible.

Mercedes for the best

At the end of the 1990s, a large manufacturer of industrial sweets in Poland decided to clear its warehouses of a product which was to be replaced by a new one. He organized a competition for wholesalers, announcing that whoever sells the most will receive a personal Mercedes-Benz as a gift. The wholesalers have additionally been allowed to offer bonuses for their customers, i.e. shopkeepers and merchants in chains. The sales skyrocketed and soon the company’s warehouses were empty. The best wholesaler was presented with a Mercedes-Benz Mercedes during a special ceremony.

Sometime later, a new product was launched on the market. Alas, to the manufacturer’s surprise, nobody wanted to buy it. Despite advertising in the press, radio, and television, the sales were at a standstill. What happened? Well, what happened was what should actually have been expected. The company’s end customers, i.e. the consumers of the product, saw the announcement of a new product and so they stopped buying the previous one and demanded the new one. However, the sellers wanted to clear their warehouses filled with old products, so they did not buy a new one from the manufacturer. To deal with the situation (and clear the warehouses!), the price of the old product was drastically lowered, which contributed to the loss of both the manufacturer and the sellers.

The advocates for bonuses and commissions will probably say that in the examples given, the indicators measuring the company’s activities have been wrongly selected. But of course they were! The point is, however, that they can never be selected properly, because besides the indicators directly determining the bonus, there will always be many more indicators on which, to the detriment of the company, can be manipulated in such a way as to increase the indicators determining the bonus. This conclusion will be discussed in detail in section 8.9.10 devoted to the MBO method.

Fifth, mind the Pareto principle. If bonuses are dependent on individually achieved indicators, then according to Pareto principle, the same group of 20% of employees will rake up 80% of the bonus each time. This will, naturally, mean that the remaining 80% of employees, earning 20% of the bonus, will be strongly demotivated to work. If we have 100 sellers and the annual bonus pool is 100 thousand dollars, the better ones will get approximately 4000 dollars each, and the worse ones – 250 dollars each.

Sixth, mind the bonus lever. Once the management has installed a “bonus lever” to manipulate employees, it may turn out that it is the employees who use this lever to manipulate the management (sections 8.7 and 8.8).

According to Edwards Deming, performance bonuses have many additional drawbacks:

⁷⁵ As I learned from my lecture for Leroy Merlin employees, there are no salesmen in Leroy Merlin stores. There are only client advisors. And they really are! I was able to verify this myself as a client.

- they encourage setting up short-term goals;
- they discourage setting up long-term goals;
- they arouse anxiety (over withdrawal of bonuses);
- they create rivalry and thus destroy cooperation;
- they destroy the relationships between colleagues (“Why should I help him if we are evaluated and compared in terms of quality of work?”);
- with aggressive bonus systems, they make some people bitter and disappointed, and feeling that they have not been judged fairly; the Pareto principle works here;
- they destroy the relationships between the team members and their superiors (“If he judges me, I will not ask him for advice or help, because this may negatively affect his opinion about me”);
- they divert the supervisor’s attention away from their duties towards the people under their care, such as the organization of the workstation, assistance, teaching, mutual analysis of the problem;
- they discourage risk-taking – people only do what is necessary to get the bonus; they choose the easiest way to achieve it.

Finally, one more important remark. The effectiveness bonus is when we pay more for “better work”, not when we pay more for more work. In principle, therefore, overtime pay is not a carrot. Unfortunately, it can become one if the company is not built on partnership and trust. In a situation of a war game (I discuss this in section 8.12.2) and the resulting lack of loyalty of employees towards the company, the former may consider inefficient work to be beneficial for them, because it will generate overtime. This is one of the reasons why building a partnership is so important.

8.7 Bonus lever – encouragement to put up a show

As we may remember from physics lessons, “a lever is a simple machine consisting of a rigid rod pivoted at a fulcrum”. Usually the rod is supported closer to one end of the lever so that heavy loads suspended on the shorter arm may be lifted by applying little force on the longer arm. The bonus lever is a device which allows for manipulation of a large number of staff by a small number of managers (Fig. 8.7-1). However, the management expecting this effect probably did not do the homework on leverage, because it is not at all clear from the law of the lever who will manipulate whom.

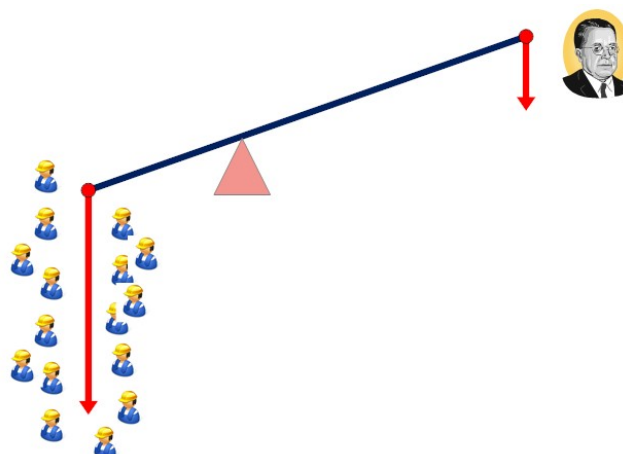


Fig. 8.7-1 Bonus lever

If enough force is applied to the shorter arm, the force on the longer arm may turn out to be too weak. This is usually the case with the bonus lever. Let us illustrate it with the following stories.

Sales pushing

I once took part in an economic seminar devoted to the Polish economy after 2000. Two professors of economics reported on the results of their research, which showed that every year in December sales of all goods grow rapidly and in January they fall. This applies to all goods, not just seasonal goods. A group of economists pondered on this inexplicable phenomenon. Its explanation is, however, simple for anyone who worked in the wholesale trade (I did not, but I have my contacts). It is a result of the so-called “sales pushing”. This is a method of achieving virtual high sales at the end of the bonus period (e.g. year), which is necessary to receive the bonus. It is used by the sales departments and consists in offering customers favorable payment terms for delivery in exchange for accepting a large delivery invoice at the end of the period. “You will pay when it is most convenient for you, just accept our invoice in December”. The point is that the bonus counts on issued invoices and not on cash at the cash desk.

When in December 2010 I talked about sales pushing at one of my lectures, the listeners told me that some companies were already aware of it and started paying the bonus not on invoices, but on cash in hand. To which I replied: “The boys will surely find a way around it”. And then someone raised their hand and said: “They already did – the cash arrives at the cash register, and then, after the bonus is paid, a correction invoice is issued and the money is returned to the customer”.

Sales pushing is not only a salesman’s technique. Buyers also benefit from this effect. As reported by another group of my listeners, the buyers withhold their purchases until the end of the month (or quarter or even year) in order to “soften” the sellers and make it easier to negotiate a good price.

In 2014, I read in the press that there are companies being created with a sole purpose of taking advantage of sales pushing. They are created in November to take large quantities of “pushed” goods with payment for February, but in January they disappear.

Sales pushing is a very effective method of securing an annual bonus, but it has a drawback. In order for it to work, the customer must want to buy the products. If, on the other hand, the customer does not want to buy – e.g. because there is a crisis, such as the one that started in 2008 – we can use another method.

We do not pay any invoices

In December 2008, the headquarters of a large multinational corporation sent an instruction to its Polish branch not to pay any invoices until the end of the year, regardless of the consequences. Neither contractual penalties, nor loss of credibility, nor court proceedings count. “We do not pay and that’s it. This is the only way to secure the annual bonus granted by the board”.

A much more subtle method of manipulating the management with the use of the bonus lever was invented by German dealers of American cars.

Car dealers

A close friend of mine was head of a sales team of an American car brand in West Germany in the 1980s. He told me about the game between the director of the German branch and his salesmen which took place every year:

2nd of January (poor market situation, costs need to be reduced)

Director: We need to cut costs. This year's sales bonus is limited to 5%.

Sellers: Uuuuuu!

Sales drop.

1st of June (everybody knows that on 1st August the "old man" is going to Detroit to report at the headquarters; if he shows poor sales, he will have problems)

Director: O.K., you'll get 7%, but no more than \$1000 per head.

Better sellers (the 20% of sellers, who sell for 80%): Eeeeeeeeeeeeeeeeeee!

Worse sellers (the remaining 80%, who sell for 20%) get down to work. This is the only chance for them. Sales increase slightly.

15th of August (they told "the old man" – we have our contacts in the headquarters – that if he doesn't increase sales, he is out)

Director (applying the same rule to sellers): If you don't increase sales, you'll out. (The director somehow forgot that he can be fired and a successor will always be found. To fire all sellers is another thing...).

Better sellers: !!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!

Worse sellers do the best they can, but still it's only 20% of sales.

Sales unchanged.

15th of September (from the director's point of view, things start to look very bad)

Director: You have 15% with no cap!

Better sellers: Aaaaaaaaaaaaaaaaaaaaaaa! (They get down to work).

The worse sellers keep working, but they feel cheated for working for 7% so far.

Sales grow rapidly.

"It's all fine – I asked my friend – but how is it possible that the better sellers suddenly start to get results? After all, there are still the customers who need to desire to buy". "Of course – my friend replied. – In September, the customers must be on our beck and call. This is why we have the technique called "keeping a customer hot". "For example, Hans rings in February and says: »Hi, Helmut, I would like to buy a new model, because I'm bored with the old one. What do you have to offer?« At this point I say: »Sure, we do have new models, but they have a problem with the brakes. The company hasn't said anything yet, you understand why, but you are an old customer and I have to tell you. But, please, don't tell anyone, because I'll be out of work. Of course, I will call you as soon as the problem is fixed.«"

Another example is the story of a merchant in a hypermarket who met my representative selling raw frozen French pastry with the "A. Blikle" logo.

A merchant in a hypermarket

A merchant in a hypermarket is a hypermarket employee responsible for buying goods from suppliers. Such a buyer also has a commission (because his management obviously believes that he is lazy and dishonest), except that the bonus is not on the value of purchases, but on the discount, which the supplier offers to the network. The discount is calculated from the basic price offered to small customers. The merchant who spoke to my representative received an additional task from his management: he has to get from each supplier a better discount than so far and, in addition, a better discount than the competition has. So he demanded an additional 5% discount. "It's impossible – said my representative – In order to

give such a discount, we would have to raise the price". To which the merchant replied: "So raise it, I'm not interested in the price, but in the discount".

And two more examples out of many, many more that I could quote here:

An insurance agent

I once decided to buy life insurance policies for 15 of my employees. So I invited an agent I knew and offered to buy policies. The agent became disconcerted a bit and said: "I have a kind request for you: I would sell you eleven to start with". "Why? – I said in surprise – You don't have more?" "No, I have plenty, but we operate on a commission". "Well, then a commission on fifteen will be greater than on eleven, will it not?". "Actually not. It used to be the case, but the management has come to the conclusion that some of us sell a great deal because they service a better sales region, while others sell much less because they have a poorer region, and so they introduced a principle that the more you sell, the lower the commission rate. If I sell fifteen policies now, I will fall into a lower commission rate, and since there are only three weeks left until the end of the year (it was the beginning of December), I will no longer be able to compensate for this reduction. So today I would like to sell you eleven and the remaining four right at the beginning of the new year."

Having listened to this story, I said that I would not buy any policies at all. In response I heard: "I'm sorry that it turned out like this, but to tell the truth, it's even better for me, because even if I were to sell eleven policies now, I would have to think hard how not to sell any more by the end of the year".

Eyewear retailer

This situation occurred in a chain company selling glasses in showrooms with customer access to shelves with frames. In each shop there were several sellers, whose commission was based on individual sales. In one showroom, the management noticed one salesman who was clearly distinguished by high sales, but did not want to reveal the secret of his success. So they started to observe him discreetly. It turned out that he would always place himself close to the entrance to the store and intercept customers looking wealthy. Other customers were left to the rest to his colleagues.

Naturally, the seller achieved his bonus goals, but the volume of sales of the showroom did not grow. In fact, it may even have suffered because some customers certainly felt ignored by the seller.

In the example above, the salesman acts to the detriment of his colleagues. He earns as much more as they earn less. This only happens at the beginning. However, it is difficult to expect that what the management has noticed could go unnoticed by his colleagues. At that point the competition for a wealthier customer begins at the expense of the customer, who may not look wealthy, although in fact he or she is. An unwanted customer will be disregarded, which leads straight to risking the company's reputation.

The conclusions that result from the above examples can be formulated as the following statement:

The law of bonus lever

The bonus lever installed by the stronger is most often used against them.

Whoever establishes bonus systems of remuneration, puts themselves in a position of the stronger (section 8.5), who wants to control the behavior of the weaker by offering bonuses. Thus, he imposes on the weaker a certain game in which the prize consists of bonuses, as well as a way of thinking in terms of the exchange of profits which invariably leads to the question: “Is it worthwhile for me?” (section 7.1). Dignity elements such as: “This is not acceptable”, “It would not be fair”, etc. are put aside. All that matters is winning. In this state of affairs, we cannot expect an employee to think about the interest of the company. He or she will play the game we have offered them, and the fact that we have offered it will be an excellent argument for social negotiations on ignobility (section 7.6).

Anyone who resorts to violence should also remember that it only serves to ensure that people do what they would not want to do without being coerced. After all, if they wanted to do it, and therefore acted on intrinsic motivation, there would be no need for coercion. It would be sufficient to enable them to act according to their will and need. Coercion in the form of a stick or carrot is always associated with the loss of sovereignty and the feeling that what one does, one does not do it of their own free will. And if I am coerced to do something, even if I was initially motivated by intrinsic motivation, after some time I expect extrinsic motivation and perhaps I also lose the feeling of joy from a given action. Illustrations of such situations are described in the examples of young skiers and the fight against bullying at school in section 8.1. Another very educative story comes from Emmanuel Gobillot ([28], p. 40-41). This is what he has learned from his several-year-old daughter:

Interesting Charlotte

A few months ago, Charlotte decided that she wanted pocket money. In the eager parenting spirit of treating every opportunity as a learning opportunity, Charlotte, her mother and I discussed and agreed that she could have pocket money if she earned it! An incentive scheme was duly designed.

For brushing her hair and teeth every day Charlotte would earn 10p. For doing her homework, she would earn 40p (why teeth should be cheaper than education was, in itself, a matter of debate). Tidying her bedroom would earn her 10p. For not shouting at her brother (the obligatory stretch target) she would earn 10p, etc.

One Saturday (the evening before payday), I reminded Charlotte of the need to tidy her bedroom. She went upstairs. Fifteen minutes later, silence prevailed. As any parent knows, 15 minutes of silence is never a good sign. I went upstairs to measure progress. I opened the bedroom door only to find as much mess as had been there before Charlotte had gone up. Charlotte was lying on her bed, painting her nails with her finest Barbie nail varnish.

I decided to keep my cool in confronting Charlotte's behaviour and only asked 'When will you tidy the bedroom?' Her reply told me everything I needed to know about the problem with economic incentives. 'You see, Papa, I think that, for 10 pence, tidying just isn't worth it!' If wanting Charlotte to learn the meaning of money had been the objective, then the objective would have been exceeded – I was now bargaining with my own daughter. I half-expected her to refer me to her union representative! (...) Charlotte will not want to carry out any task in the future if it is not on the list covered by the scheme.

(...) Charlotte will no longer conduct a task unless it is stated in the list of accountabilities measured by the remuneration programme.

Gobillot summarizes his conclusions from this and many other examples in a form that we will call the law of reaction to the bonus (see [28], p. 41):

The law of reaction to the bonus

Economic incentives actively destroy moral and social obligation.

And here is another illustration of this thesis:

Court experts

I was told by a well-known Warsaw lawyer specializing in criminal cases that court experts often write incorrect opinions, because they are based on insufficient data. If the data is not enough to evaluate the event, they will not write so in the opinion, because such an expert opinion would be very short, while they are paid per line of text.

Moral and social obligations are, of course, nothing more than the values described in section 7.1, while economic incentives are material profits also described in that section. On the basis of a richer conceptual apparatus and more current knowledge (cf. [50]), we can significantly generalize and strengthen the law of reaction to the bonus:

The law of reaction to the profit

Profit-based incentives suppress the need to realize values.

It turns out that the reverse causality is also true: the more joy one feels from demonstrating values while performing a task, the weaker the motivational role played by profit-based stimuli. Doctors Without Borders in Black Africa would probably welcome being transferred from dripping tents to comfortable pavilions, though this would be of relatively little importance for their commitment to the mission. We can, therefore, formulate the following law of reaction to a value:

The law of reaction to a value

Value-based incentives suppress the need for profits.

And finally, two more significant quotations from James Surowiecki's book [76]:

(...) managerial pay is often based not on how one performs but rather on how one per-forms relative to expectations. Many bonus systems, for instance, offer executives disproportionate rewards only when they surpass a given target. Companies do this in order to push executives and encourage them to meet goals that seem unattainable. But the real effect of these kinds of targets is to encourage people to be deceptive. (page 208)

As Harvard Business School professor Michael C. Jensen points out, tell a manager that he or she will get a bonus when targets are realized and two things are sure to happen. First, managers will attempt to set targets that are easily reachable by lowballing their estimates for the year ahead and poor-mouthing their prospects. Second, once the targets are set, they will do everything they can to meet them, including engaging in the kind of accounting gimmickry that boosts this year's results at the expense of the future. (...) The result, Jensen says, is that companies are "paying people to lie." Companies need good information in order to make plans for the future. But too often corporations are organized in such a way that good information is precisely what they are unlikely to get. (...) Top-down corporations give people an incentive to hide information and dissemble. (p. 208-209).

8.8 Targeted research

In the corporate jargon, the "targeted" ones are those for whom goals have been set, along with rewards for achieving them. A nasty word, but since the idea itself is mediocre, the two fit together.

Some time ago I took part in a scientific conference at one of the universities in Poland. The conference was basically national, but there was a group of overseas speakers who knew only their mother tongue, and – since it was not English – their lectures were translated live. That did not do them any good, because, as it turned out, they had nothing to say. So why were they invited? Most probably because thanks to them the conference gained an international qualification, which translates into appropriate scores for the texts published in the conference materials. I think that in the future the overseas guests will organize an "international" conference in their country, so that today's hosts will have the opportunity to score more points.

Let me explain to those less familiar with science management that today – not just in Poland – scientists are assessed according to the number of points obtained for various types of achievements, including publications. And each publication is different, depending mostly on the point rating of the publishing house that publishes it. Materials from international conferences are scored higher than those from national conferences.

The scoring of scientists is connected with the story of a young employee of one of the universities, who sent me an interesting work of his. He wrote, however, that he lost the motivation to publish it, because the university appointed him as a lecturer. When I asked about the relation between these two events, he answered me with these words:

As for the lack of motivation, I explain it by the fact that I will soon undergo a periodic parametric evaluation. Despite the fact that just in the winter semester I give six lectures (of which three are leftovers after people who have recently left the university), from the point of view of the employee assessment form – awarding points for "achievements" – I am useless. The form awards points for writing scripts, e-learning materials, conducting classes in English, and preparing new subjects, rather than taking over existing ones, even though it is a Herculean effort. On top of this, scientific publications do not count because it is a didactic position.

So if a university allocates someone to learning, they do not have to develop anymore. They are even discouraged from doing so. Isn't this a tragic misunderstanding! But it is only one of several side effects of introducing point-based assessments of researchers.

More than twenty years ago, when the point system had not yet been invented, I attended another, this time truly international conference in Canada. I was a member of the Program Committee, whose task was to review the submitted works. To my surprise, on the first day of the conference, I saw in the program many of the works that I and my colleagues recommended

to be rejected. The organizers explained that the conference will be attended only by those scientists whose works have been accepted, because their home universities would not finance the trip otherwise. And the organizers must take care of the budget.

This position was eagerly welcomed by the publisher of conference materials, one of the most respected scientific publishing houses. The materials from the conference were published in a valued series, which is probably subscribed by 80 percent of IT departments and institutes around the world. And if they subscribe, they pay. And so a few thousand copies could be sold.

In 2013 I took part in the annual congress of the European Academy of Sciences, which took place in Wrocław. One of the plenary sessions was devoted entirely to the problem of fraud in science. As I found out, there is a special unit within the European Commission which deals solely with this problem and which coordinates the work of national organizations in the member-countries of the European Union. Fraud in science is committed primarily when accounting for scientific grants. This is not about plagiarism, which is no longer dangerous, because it is now relatively easy to detect. This is about a more serious type of fraud, which introduces false theses to science. I was particularly disturbed by two types. The first is to analyze data from studies that have never been carried out. The data is generated artificially. The second type is an unreliable analysis of real data leading to inaccurate conclusions. Both types of fraud are difficult to detect and lead to knowledge erosion.

Is there any way to deal with the problems described here? I believe that in science, as well as in business, administration, army, police, health care, education, etc. etc., it is necessary to give up any form of carrot and stick, including grades for both children and adults, and to replace it with rational thinking and acting. I recall the definition of a mathematician given by Prof. Hugon Steinhaus, an outstanding mathematician of the 20th century: “A mathematician is anyone whom other mathematicians consider to be a mathematician”. Could this definition be taken as a starting point for discussion?

8.9 Management by objectives – a special trap

Sometimes the companies which advocate the carrot and stick method introduce a mechanism of motivation in the form of a fashionable and modern-sounding method of *management by objectives*, abbreviated to MBO. This is actually a recipe for a spectacular disaster. Below I present a case study in the form of a report on the implementation of this method in a fictitious company. My story is not a product of my imagination, however, because it describes real events, which I had the opportunity to observe in person in various companies. Naturally, the names of the companies are concealed and the names of the people were changed.

8.9.1 Starting point

The protagonist of our story is a private company Rainbow JSC, established in the process of privatization of a company that had been operating for many years in the People’s Republic of Poland. After the privatization it employed about 2000 people, had seriously decapitalized fixed assets (machines and buildings), and a highly demotivated crew. It had a well-established domestic market for its mass product and some exports, but the condition of the company was not good. Prior to privatization, employees received only advance payments and not full salaries. After the privatization, there was apathy, exacerbated by fear after the reform. Significant reductions in staff were expected, and did, in fact, take place.

Immediately after the acquisition of the shares by the new owner, the Board of Supervisors and the Management Board were appointed, and the Board of Supervisors set the first tasks to

be performed by the management. In the first place, they expected investments in new technological lines and buildings at the level of about 100 million dollars. Second, due to new technologies, it will be necessary to lay off (initially) about 400 of the lowest qualified workers and to employ several dozen new ones, mainly in managerial positions. English language courses for senior management should also be organized, as the company employs several foreign managers. In the “soft” domain, it will be necessary to introduce modern motivational mechanisms for the crew.

8.9.2 Motivation – attempt no. 1

In line with fairly common practice, the Management Board has adopted an incentive model based on bonuses. The bonus fund was set at the level of up to 30% of the basic salary fund. The amount of bonus, decided by immediate superiors, depends on the quality and efficiency of work, as well as the employee’s time flexibility. The bonus fund is established every six months by the Board of Supervisors, based on the company’s performance, and is distributed by the Management Board. Bonuses are paid monthly (quick motivation). Bonuses for the Management Board are decided by the Board of Supervisors. It was also decided that the effectiveness of the incentive model would be evaluated on a quarterly basis. This was meant to get rid of the old socialist principle: “Down you lie or up you stand, Either way you’ll earn a grand”.

After the first three months, the new motivation rules were assessed poorly. It turned out that the methods used by direct superiors when granting bonuses boiled down to choosing one of the four traditional options (the so-called “golden four”):

1. **Fair** – justice is me, your superior; you are to work so that I like it, and it’s your business to know what I like.
2. **Proportional to the basic salary** – everyone understands this principle, and I don’t have a problem, because nobody will accuse me of distributing the bonus according to personal sympathies.
3. **Reward the best** – only the best get the bonus, the rest only have themselves to blame.
4. **Punish the worst** – the bonus is given to everyone proportional to their salaries, except for some of the worst; let the worst be publicly stigmatized.

Some situations that occurred were not predicted by the system. On the one hand, if the manager knows that one of his subordinates is to be dismissed (he has a difficult character, sabotages work in a team), he cannot get a high bonus, even if he worked well. It would not look good if this individual, after their dismissal, went to the Labor Court and showed that he was a great employee (he/she even got a bonus!) and still was sacked. The Court could order the company to re-hire him/her.

At the other end of the spectrum is an example of a subordinate who, although he works poorly, he is (for the time being) the only professional able to operate a certain type of equipment and the competition may want to offer him more. Needless to say, this employee must be given a bonus so that he does not even think about leaving.

Most importantly, however, the employees’ opinions on the new remuneration model were clearly negative. It was widely believed that bonuses were unfairly distributed. The managers defended themselves that it was impossible to make everyone happy (and of course they were right), but the management admitted that the system was functioning poorly because it did not lead to an increase in the quality and efficiency of work. The implementation of many tasks was delayed, employees did not always do what was necessary, and the flow of information

was compromised. It should be emphasized that all these problems concerned not only the rank and file, but also the management at all levels, including the Board.

8.9.3 Consultant needed

After such an assessment of the implemented model, the Supervisory Board of Rainbow JSC decided to hire an external HR management consultant specializing in the implementation of incentive systems. The choice was a large consulting company Wilson & Brandt Poland, with branch offices in 70 countries around the world. As usual in such cases, it was decided that hiring a large and expensive company, even if it does not guarantee success (who can?), it will at least make it possible to avoid being accused in the future that the problem has not been taken seriously. W&B Poland offered Rainbow JSC the following program:

- Stage 0: seminar for the Management Board.
- Stage 1: assessment of the company's needs.
- Stage 2: development of a motivation system together with the Management Board.
- Stage 3: implementation of the system on the middle management level, trainings.
- Stage 4: Evaluation of the system after the first quarter of application, making the necessary corrections.

The offer was accepted. It was decided that the consultant would introduce the method of management by objectives – MBO.

8.9.4 MBO in “Rainbow JSC”

The basic assumptions of the new system gave up entirely the subjective assessment of work by superiors: an end to bonuses awarded randomly, at the discretion of superiors, or in proportion to the basic salary. Bonus rules are to be clear and based on numerical indicators, so that everyone can not only calculate the amount of the expected bonus, but also optimize their performance from the point of view of maximizing it. The bonus at each level will depend on the implementation of the most important objectives (priorities) associated with a given position. The system also involved dynamic target control. They will not be set once and for all, but will be changed dynamically – new objectives after the previous ones have been achieved. The objectives should comply with the SMART principle⁷⁶ described in section 9.11.2.

The number of targets set for one person should be between three and seven. Objectives should be agreed with the ones responsible for their implementation before they are set and allocated. To motivate the crew to do a good job, a slogan historically linked to Motorola and its six sigma method (section 14.1) was chosen⁷⁷:

Do it right the first time.

It was also agreed that bonuses would be paid on a quarterly basis, as it is difficult to assess the achievement of objectives within a month, and that the assessment of a subordinate's work would remain in the hands of his immediate superior, which in the corporate language is referred to as the one level up principle. The superior would calculate and grant the bonus, taking

⁷⁶ The SMART method is a good method. The fact that it has been used in the context of MBO by no means belittles its merits.

⁷⁷ Same note as for SMART.

into account both what the subordinate had achieved and how he had achieved the goals set for him. The superior would also take into account how the work of the assessed person affects relations with his superiors, subordinates and colleagues. Following the one level up principle, the President of the Management Board is assessed by the President of the Board of Supervisors, members of the Management Board are assessed by the President of the Management Board, division directors are assessed by the appropriate members of the Management Board, etc.

In order to meet the condition that the amount of the bonus must not depend on any arbitrary assessment, it has been assumed that each employee's the bonus will be calculated according to the following formula:

$$\text{bonus} = (w_1 * sr_1 + \dots + w_n * sr_n) * p * q,$$

where:

w_i	is the percentage weight (degree of significance) of the i -th target, i.e. the maximum percentage share of this target in the bonus; the sum of weights should be 100%;
sr_i	is the degree of achievement of the i -th target; a scale of 0-150% has been adopted to allow for the recording of overdrafts, although for some targets a two-tiered step scale is allowed with 0 or 100% as the only possible values;
p	is the maximum bonus that an employee can earn;
q	is a coefficient of a percentage assessment of the company's achievement of its targets; this coefficient is calculated for the entire company, similar to the bonus calculated for the staff.

Tab. 8.9-1 Parameters for calculating bonuses

The Board of Supervisors introduced the following targets for the entire company, together with the weights assigned to them, for the first quarter of the MBO system's operation (Tab. 8.9-2):

Purpose	Weight
Increase in gross profit by 5 million PLN	30%
Decrease in working capital by 10 million PLN	20%
Sales of new products for 7 million PLN	15%
Increase in sales by 30 million PLN	35%
Total	100%

Tab. 8.9-2 Weights assigned to the global tasks of the company

The degree of achievement of each of the company's targets was calculated in proportion to the achieved result. For example, if the increase in gross profit amounted to PLN 2.5 million, the degree of achievement of this target and the corresponding bonus component would amount to:

$$s_1 = \frac{2,5}{5} = 50\%$$

$$w_1 \cdot s_1 = 30\% \cdot 50\% = 15\%$$

The entire company earned 15% of its maximum bonus based on the increase in profit. Naturally, in the case of 100% achievement of all of the company's targets, the q -coefficient reaches the maximum value of 100%:

$$q = 30\% \cdot 100\% + 20\% \cdot 100\% + 15\% \cdot 100\% + 35\% \cdot 100\% = 100\%$$

However, it was assumed that if the q -coefficient was below 50%, the bonus would not be paid at all. After all, how can you pay a bonus if even half of the targets have not been achieved?

8.9.5 The first challenge for Director Brown

In the next part of our case study we will follow the fate of one of the directors, a member of the Management Board. The reason is that the MBO system was introduced to the Management Board first. Let's call our hero John Brown. The MBO sheet created for Director Brown by the President of the Management Board and approved by the Board of Supervisors included the following targets and weights (Tab. 8.9-3).

Target	Weight
Restructuring activities: the sale of company A1 by 11 June this year the sale of company B4 by 15 November this year. Each delay of one month shall result in a reduction by 10 percentage points in the completion rate.	50%
Securing process steam supply (assessment method not specified)	10%
Cost reduction by 7.5% (in proportion to the result)	25%
Ensuring social rest (scale 0% or 100%)	10%
Progress in learning English (assessment by the teacher)	5%
Total	100%

Tab. 8.9-3 Director Brown's targets

In the case of social rest, a stepwise scale was adopted, for measuring the level of social rest is otherwise difficult. There can either be social rest or unrest. And if there is social unrest, there can be no bonus for social rest. The company considers it important to avoid strikes and other

forms of unrest when introducing changes, particularly that protests had already taken place before.

The advocates of MBO believe that one of its main advantages is the possibility for employees to optimize their actions in order to achieve the highest possible bonus. It should be emphasized that this possibility is limited by the interest of the company. Let's imagine what the optimal strategy of Director Brown would be from his point of view.

Following the rules of the game, Director Brown considered restructuring to be the highest priority (up to 50% of the bonus), and within this priority – timeliness of task completion. He also noted that neither the transfer of resources to the spin-off companies, nor the negotiation of favorable prices for future services were to have any impact on his bonus. This was all the more surprising as the sold companies were to continue to provide the same services to the company as before, and in the absence of competition in the region, they acquired a monopoly position. However, the authors of the MBO sheet for the director decided that it is impossible to determine in a measurable way (the M in SMART) how the quality of transactions would be evaluated from the point of view of the company's interest. In this way they fell into the first MBO trap, consisting in the fact that:

*In many situations,
it is not possible to set in advance in any meaningful way
the parameters to be achieved by the employee.*

Director Brown also calculated that a 30% reduction in the supply of process steam will result in a 5% reduction in costs, so it is worth his while, because ensuring the supply of steam is not rewarded highly – in addition, it is not known how it will be evaluated in percentage points – while the reduction in costs is. He also immediately realized that he wouldn't get a bonus for social rest, because at the beginning of the quarter there was a two-hour strike. Although strikes in his unit entail losses in other units, they are actually associated with a reduction in costs in his unit, because strikers do not receive remuneration. And so although the reduction in employment will cause further protests, it will bring him a bonus for reducing costs. In view of the above, Director Brown concluded that 75% of his bonus is guaranteed by restructuring and cost reduction. He decided to start learning English at the end of the quarter, when the spin-off of companies is over. It's not worth fighting for this meager 5%, because the stakes are much higher.

Note that Director Brown optimized the strategy from the point of view of his own interest, rather than that of the company. The MBO method is characterized by the fact that:

*The MBO method entirely relieves the employee –
not only in disciplinary terms, but also in terms of dignity –
from thinking about the interests of the company.*

My job is to complete five tasks; other tasks are not my business. I was not the one who invented this game – it was the company, so my moral right is to play to win it. In section 8.2 we discussed the issue of people switching from thinking in terms of dignity to thinking in terms of profits.

8.9.6 The second challenge for Director Brown

After some time, the President of the Management Board realized that although Brown does follow the MBO sheet to pursue his targets, the achievement of these targets is not in line with the company's interests. So he decided to redefine the targets and change the weights. The new sheet for Director Brown looked as follows (Tab. 8.9-4):

Target	Weight
Restructuring activities: the sale of company A1 until 11 June this year. (15%) the sale of company B4 until 15 November this year. (25%) Each delay of one month shall result in a reduction by 10 percentage points in the completion rate. In addition, the degree of task completion can be reduced to as much as 0% when the sale of companies turns out to be unprofitable for the company.	40%
Ensuring the supply of process steam is a primary duty of the director, so no bonus is due for the implementation of this task. Should shortages in steam supply result in losses, the overall bonus will be reduced by these losses.	0%
Cost reduction by 7.5% (in proportion to the result)	25%
Ensuring social rest (continuous scale from 0% to 100%)	30%
Progress in learning English (assessment by the teacher)	5%
Total	100%

Tab. 8.9-4 Director Brown's adjusted targets

Note that the introduced changes mean that the first three criteria of the SMART principle are abandoned:

1. Targets are no longer SPECIFIC. In the case of the first task, the fact that the sale of spin-off companies is to be profitable for the company is not specific. After all, it was not specified what profit is expected, and so it was left to an arbitrary assessment by the superior. Apart from extreme situations, it will always be the case that some parameters of the transaction will turn out to be profitable for the company while others will not. Some will be profitable in the short term and unprofitable in the long term, while others vice versa. The decision as to whether the profits outweigh the losses will, therefore, always be arbitrary and thus perceived by the beneficiary of the bonus as non-substantive. In the case of the second task, it is unpredictable which losses of the company will be attributed to the lack of steam, although many people responsible for the losses in their units will certainly try to blame the lack of steam. In the case of the fourth task, since securing social rest is to be measured in percentage points, it also seems vague.
2. Targets are no longer MEASURABLE, not only in the case of restructuring, but also in the case of social rest and steam supply. For example, what percentage should the bonus be reduced in the case of unsuccessful restructuring?

3. Targets are no longer ACHIEVABLE, because achieving a goal that has not been clearly defined is impossible.

Naturally, as soon as the MBO sheet was changed, Director Brown decided to modify his strategy. First of all, he decided to ensure the supply of process steam, regardless of the costs. Any disruption to the work of other departments could make them liable, even if their losses are not directly attributable to the lack of a couple (which is always difficult to prove). And factory losses can easily absorb the entire bonus. The risk associated with Objective 2 is therefore enormous. In addition, in order to ensure social peace, he decided to withhold redundancies and raise salaries. Due to steam and social calm, the issue of reducing costs is no longer so decisive for the future bonus.

A specific case in the new target list is the redefined restructuring. In this case, no criteria have been formulated that would cause the actions taken to be considered beneficial or unfavorable to the company. Thus, the only way is to secure the favor of the assessor. You have to look at what the boss likes, whom he likes and for what he likes. And take appropriate action. To begin with, one could tell him that Malinowski has private conversations on the company's telephone.

8.9.7 Evaluation of the system after one year

After one year of operation of the new system, the Management Board has critically assessed its merits. It was ascertained that instead of taking care of the company's interests, employees play a game of "who gets the highest bonus". A recurring problem which existed before the implementation of MBO was that the system does not allow to pay bonuses to a person who does not work well, but who is particularly valuable for the company. There were also two quite unforeseen situations.

The first situation was related to the opening of a branch in Russia, which resulted in an increase in sales by 15% with a simultaneous overproportional increase in the start-up costs of this branch and an overproportional increase in employment (takeover of an existing bankrupt company with a guarantee of employment for its employees for 18 months). This increase in sales resulted in a q -value of 140%. The company had to pay very large bonuses, with a relatively smaller budget for salaries.

The second situation was also related to the new branch. It took over all of the company's exports in Rzeszów, which made it necessary to re-design the company. Temporarily – this situation is likely to continue for one year – the decrease in sales and profits of that company brought the q coefficient to 0%. This means that there is no bonus for the staff, which has to work with particular dedication during the redeployment period. Social unrest can be expected.

The following facts were also highlighted in the discussion on the effectiveness of MBO:

1. High level managers play "private games" instead of taking care of the company's development.
2. The distribution of responsibilities is not clear, which leads to conflicts of competence and the emergence of "no-man's-zones".
3. The decision-making process is ineffective – as objectives become less clear, it is difficult to make the right decisions.
4. There are difficulties in negotiating actions in accordance with an agreed vision of development, because current bonuses are more important for everyone than future development.

5. Lack of determination to make decisions related to the increasing competitiveness of the ad hoc market; no one wants to make a decision which, even if successful, will not generate bonus points, but may lower the bonus if it is a failure.
6. Management costs are rising.
7. In the pursuit of increasing sales and reducing costs, everyone has forgot about the need to develop new products.

As a result of the assessment, the Management Board of Rainbow JSC deemed it necessary to modify the MBO system for the entire company, as the adopted rules were too rigid to meet the requirements of reality. First of all, it was decided that the q -coefficient (the degree of achievement of targets by the company as a whole) will be made more flexible in order to be able to manipulate it freely. The upper limit was set at 120%, but it was decided that in justified cases the Board of Supervisors may lower the coefficient manually, e.g. in a situation such as the one with the branch in Russia. The President of the Board of Supervisors received an additional fund of special rewards paid outside the system, e.g. in situations such as the one in Rzeszów. Rewards from this pool will also be open to lower-level managers, and they will be paid based on the decision of the Special Prizes section. Once again, the realities of life forced a return to the manual control of bonuses. Alfie Kohn's observation that bonuses motivate very strongly, but only to get bonuses (section 8.1) was confirmed.

*Do rewards motivate people? Absolutely.
They motivate people to get rewards.*

8.9.8 Could these problems have been avoided?

The described story of Rainbow JSC is a typical path followed by a company implementing the MBO method. Regardless of how – more and more cunningly and creatively – the goals are set and the bonus methods are defined, the company experiences the problems associated with MBO more and more painfully. This is not a result of poor implementation, wrong choice of targets, and poorly designed algorithms for the calculation of bonuses, but it actually results from the very essence of MBO, which involves phenomena that cannot be eliminated in any other way than by removing the method entirely. These phenomena include:

1. Employees feel relieved from thinking about the future interests of the company in favor of thinking about their own interests. What's more, they feel compelled to do so!
2. Employees receive a strong demotivating signal from the company: "We cannot simply trust that you will work as well as you can. If we don't "motivate" you with a bonus, you will be lazy and will do a sloppy job. This signal reinforces the determination to think about one's own interest.
3. Each employee's bonus depends on several parameters of the company, the value of which can always be optimized at the cost of a few dozen, on which the bonus does not depend. MBO is a game of unequal opportunities – the company manipulates several levers, while an employee – several dozen. In such a game, the company always loses (section 8.9.10).

4. MBO is a carrot and stick system with all its disadvantages described earlier, including the phenomenon of bypasses (section 8.3).

8.9.9 Bonuses for the Board of Supervisors

The following hypothetical discussion may be a good commentary on point 2 in section 8.9.8. Suppose that Rainbow JSC employs a new consulting company – let's say TQM Poland, whose task is to suggest a different incentive system for employees. The consulting company begins by asking the owners of the company the following question: “Since you have introduced the MBO system for the Management Board, why have you not introduced it for the Board of Supervisors as well? Such a question would probably cause confusion in every company. Bonuses for the Board of Supervisors? That would surely be inappropriate! After all, the members of the Board of Supervisors are:

- competent – they are the ones to know what is most important thing for the company;
- honest – they will tell us what is most important thing for the company and will set the directions of its development;
- responsible – they will ensure the proper implementation of the tactical tasks set by the Management Board.

Otherwise, we would never have appointed them to the Board of Supervisors!

If so, says TQM Poland, then the logical conclusion is that you have introduced MBO for the Management Board, because you considered its members incompetent, dishonest, and irresponsible. After all, if that had not been the case, you would have treated them in the same way you treated the Board of Supervisors. So you decided to leave all the assets and the entire future of the company in the hands of such people? If this is what you really think, then the entire Management Board should be replaced immediately. And if you do not agree with this, start taking them seriously – the same way you have been treating the Board of Supervisors.

8.9.10 Unequal opportunities in the game

Of course, there are managers who believe that people (“people” are those below us, those equal to us are “colleagues”, and those above us are “bosses”) should always be treated with an appropriate degree of distrust. If they think so, they should take into account the argument from the theory of control of complex systems. This theory teaches that in systems with many parameters, it is relatively easy to optimize a few selected system parameters, if only we can change most of the others. To illustrate this principle, let's imagine a simplified situation in Fig. 8.9-1 i.e. in terms of time, cost, and quality.

A special case of management by objectives is the establishment of so-called sales targets for sellers and linking them to a bonus. This also leads to a game which the company cannot win. This is illustrated by the example below.

Nobody will probably have any doubts that it is relatively easy to achieve high quality while not caring about the price and time, achieve a good price by compromising the quality and time, and achieve a short production time by not caring about either quality or price.

In a typical MBO system, we set for the employee the task of optimizing three to five parameters, agreeing that they can freely manipulate several dozen others. In our example, as much as one third of the parameters are covered by the MBO system, and still the employee will always be able to achieve his or her bonus target at the expense of the company's interest.

So if we don't trust people, we should not offer them MBO, because they'll certainly win the game. We simply have no chance to win.

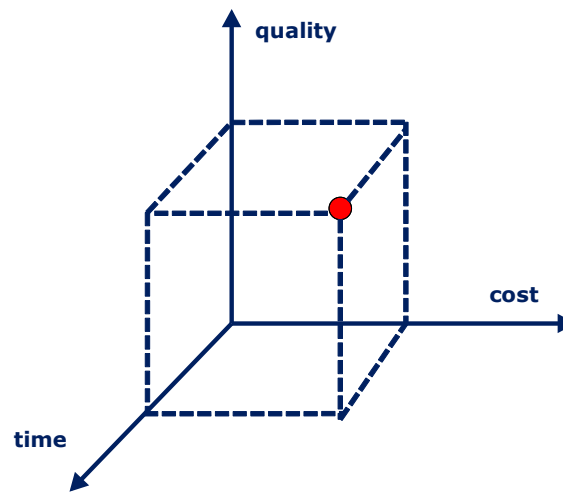


Fig. 8.9-1 MBO – in this game the company has no chance to win

Sales target

At the end of the year, a company was approached by a customer who wanted to make a very large purchase. The sales department of the company manipulated the customer in such a way as to move the purchase to the following year. The reason for this seemingly strange behavior was very simple: the high value of sales in that year would increase the sales target for the following year and thus make it difficult to achieve the bonus. The purchase was completed after the New Year, after which the sales department decided to sell as little as possible during the first quarter in order not to increase the sales target for the following quarter.

Does it follow from the example above that sales targets should not be set for sellers? Of course not. It's just that the achievement of these targets should not be linked to a bonus and it should be remembered that sales are a random process that needs to be examined for stability and volatility before the expected scope for change is determined (Part V). By and large, it would be best if the sales targets were set by the salespeople themselves.

Here is what Samuel A. Culbert and Lawrence Rout write about management by objectives in their book *Get Rid of The Performance Review* ([11], p. 16):

Performance reviews are a throwback to the post-World War II era when modernizing management was all the vogue. In particular they are the bitter aftertaste of something called MBO (Management by Objectives), which always sounded good never really worked. (...) Managers could skip daily involvement in their subordinates' work lives; they had a system that held subordinates accountable for keeping commitments, making their numbers, and producing tangible results. With their distance secured, they could stand back and avoid the fallout from train wrecks. They also found a way of getting promoted regardless of how many of their employees failed.

8.9.11 Opinion of an independent expert

The story of Rainbow JSC was presented in episodes in the “Personnel” magazine. Each episode was concluded with opinions of practitioners and theorists related to the story. Below I include an opinion of Helmut V. Gläser, a coach and consultant of large international companies in Poland, Russia, Germany, and Spain.

The Management Board of Rainbow JSC has chosen the wrong path from the beginning of the changes after privatization. The first mistake was the introduction of a bonus system. If the Board was expected to introduce new management methods and modern incentive mechanisms, the choice of such an outdated method seems astonishing. Management by objectives (MBO) can also hardly be considered a modern method.

The anachronism of bonuses

Motivating by means of bonuses is not only an outdated method of management, but simply means a failure of management. In the initial period of changes in Rainbow JSC, a discretionary way of awarding bonuses was adopted, which in effect aroused a sense of injustice among employees. Recent animal research shows that a sense of justice is not a social competence that can be shaped – it is inherent in our genes⁷⁸. I have no knowledge of a bonus system that would be fair. This means frustration and a decrease in motivation.

The bonus mechanism itself is also pathological. When we work in companies “managed by motivating”, we are oriented towards the result and are rewarded for that result. “Management by motivating” neglects orientation towards the company’s result. Employees are given an immediate communiqué that this is not about the result, but about additional remuneration. This mechanism was most evident in the described case of director John Brown. After the introduction of the bonus, the result of the company lost any significance – the important thing was the possibility of obtaining the bonus. Therefore, some of his activities (e.g. savings in his unit) were harmful to the company, reducing the results of other units.

The anachronism of MBO

Modern management is based on a process approach. Management by objectives (MBO) is a method that perpetuates the outdated, vertical model of management. In order to show more clearly the dangers inherent in management by objectives, it is worth illustrating them with Edwards Deming’s comparison of MBO with Total Quality Management (TQM) presented in Table 8.6⁷⁹.

In the MBO, the objectives are cascaded hierarchically downwards. In TQM, the Board sets strategic objectives and delegates them to individual units. Here, horizontal verification takes place – the objectives defined by the Management Board are confronted with the expectations of customers (external and internal) and the potential of suppliers. The units also define their own needs in order to achieve the objectives. Communication takes place from bottom to top. The Management Board formulates the ultimate objectives, knowing the wishes of customers and the conditions for achieving these objectives.

After reading this comparison, we can immediately see that the problems of Rainbow JSC with Director Brown (and probably with other employees) are related both to the application

⁷⁸ Źródło: Sarah F. Brosnan, Frans B.M. de Waal, *Monkeys reject unequal pay*, „Nature” 2003, vol. 425, no. 18, p. 297 and following.

⁷⁹ The number of this table in Helmut Gläser’s original text was different. It is changed here, to preserve the numbering sequence of tables in this book.

of the bonus system and the outdated management system (MBO). In Rainbow these two methods were additionally combined into one, which – on the one hand – was anti-motivational, and – on the other hand – supported manual (once referred to as “socialist”) style of management.

CONCLUSION

I would suggest that Rainbow JSC introduce real changes in management, i.e. second order changes, rather than cosmetic improvements. If someone needs to make a long distance trip quickly and is moving in a slow car, they should immediately take a plane. The Management Board of Rainbow JSC has chosen first order changes, which resembles stepping on the gas pedal in a dilapidated car, which will not drive any faster anyway. MBO cannot meet the requirements of the today’s markets. Ultimately, one has to decide to buy a new car, i.e. implement management according to the TQM standards.

8.9.12 The MBO in the eyes of Edwards Deming

The MBO method is not new. It was already known to Deming, who writes extensively about it in [15] and [17], and in [15] compares it with TQM (Tab. 8.9-5):

MBO	TQM
The approach is result-oriented, but does not take the method of obtaining the result into account. The choice of method is determined by the stakeholder.	The approach takes into account the results and methods of achieving them.
Everyone can only responsible for their own results.	The first priority is to improve the entire process – often beyond the competences of their own function.
Objectives are negotiated between supervisors and subordinates – they are not disclosed to other employees.	Objectives set for individual employees are disclosed and made publicly available.
The evaluation is used to find the contributors to the success and those guilty of shortcomings in order to reward the former and punish the latter.	In TQM nobody looks for the contributors to success and those guilty of failure. If the results are different than expected, the causes are analyzed and ways of improvement are sought.
Achievement of numerical objectives (SMART) is the principal measure for assessing successes.	Considering an achievement a success depends on the adequacy of methods used to obtain the objective. “How much” and “how” are equally important.
The focus is on the supervisor, who sets targets and accounts for results.	The focus is on internal and external customers who need to be satisfied.
MBO may lead to optimization of subordinate processes.	TQM aims to optimize the operation of the entire company.

Tab. 8.9-5 A comparison of MBO and TQM by Edwards Deming

In this context, it is also worth recalling point 11. of Edwards Deming’s 14 principles discussed in section 13.15:

Eliminate productivity standards at the production level. Replace them with leadership. Eliminate management by objectives (MBO). Eliminate management by numbers and numerical targets. Replace them with leadership.

I would like to make one very important final comment. The disadvantage of the method of management by objectives (MBO) is not that we set objectives for the company, but that we link these objectives with remuneration, which provokes – and sometimes even forces – employees to play a game in which the company is most often the losing party. I discuss how to set general goals and how to write them down for tasks in section 9.11, which is devoted to building the strategic foundation of an organization.

8.10 Guilt or cause

If only it were all so simple! If only there were evil people somewhere insidiously committing evil deeds, and it were necessary only to separate them from the rest of us and destroy them. But the line dividing good and evil cuts through the heart of every human being. And who is willing to destroy a piece of his own heart?

— Aleksandr Solzhenitsyn⁸⁰

When something goes wrong, defects in the product appear, the company has suffered a loss, or procedures are not followed, a traditionally thinking manager asks the question: “Who is responsible?” or simply: “Who is to blame?”. However, as Deming and Juran have shown (section 8.6), only in not more than 15 out of 100 cases the cause lies with the “perpetrator”. In the remaining 85 cases, the system is “guilty”. So instead of looking for who is to blame, we should consider finding out the cause. If we find the guilty person, all we can do is to punish them. When we find the cause, we have a chance to eliminate it, and thus permanently get rid of the undesired phenomenon.

Sea ferry disaster

In 1987, the catastrophe of the Herald of Free Enterprise ferry which set off from the Belgian port of Zeebrugge was widely publicized in the European media. 150 passengers and 38 crew members died. It was discovered that the ferry sank because the gate through which cars enter the ferry was not closed. The ferry sailed out into the sea with the gate open. The seaman responsible for the gate testified in the investigation that he did not close the gate because he was asleep. He slept on duty, having such an important task to perform! It seemed, therefore, that the perpetrator of the misfortune and his guilt were obvious. Yet the court acquitted the accused. How is it possible?

First of all, the judges asked why the seaman was sleeping. After all, the ferry departed in the middle of the day. It turned out that he fell asleep because he had already been working for 36 hours without a break and he was to work for a further 12 hours. He had less than an hour to rest when cars were entering the ferry, and of course he did not wake up on time.

Further questions from the court concerned two aspects: did the officers on the bridge know that the gate was not closed and why the seaman was forced into a 48-hour watch.

The answer to the first question was: “They didn’t know”. There was no installation on board to warn of an unclosed gate and there was also no procedure to check whether the gate is closed. In response to the second question, the court learned that the ferry owner carried out a promotional campaign, under which additional cruises were introduced in order to serve all amateurs of cheap cruises. However, no additional employees have been recruited, forcing the existing ones to work overtime.

Finally, the court asked if the construction of the ferry did not allow for a safe cruise with an open gate. And again a surprise! Yes, it did, but at normal cruising speeds. Unfortunately, the ferry – in the pursuit of the ship owner’s profit – sailed at the maximum speed of 18 knots. At that speed, the water had to get into the cargo hold.

⁸⁰ Aleksandr Solzhenitsyn, *The Gulag Archipelago 1918–1956*, Harper & Row, 1914, translated from the Russian by Thomas P. Whitney

The court concluded that the main fault lies with the ship owner and the captain of the ferry.
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Deming and Juran justified their thesis on the basis of statistical research, but they did not explain the mechanism of the phenomenon. Sometime later this was done by social psychologist Philip Zimbardo, the designer of the famous Stanford experiment. In this 1971 experiment, Zimbardo decided to investigate the mechanism of shaping the attitudes of a prisoner and a prison guard. He invited young volunteers, mostly students and assistants at Stanford University in California, to take part in the experiment. He chose this university because an earlier study had shown a relatively high level of resistance of its environment to the temptation to do evil.

In a carefully staged experiment, the volunteers were divided into two groups: prisoners and guards. Hidden cameras and microphones recorded the behavior and conversations of both groups around the clock. The experiment was supposed to last two weeks, but was interrupted after a week because the guards developed an unimaginable level of cruelty towards the prisoners. Even though they knew perfectly well that it was only a scientific experiment, and the prisoners were not criminals, but often their fellow students, they started to subject the latter to sophisticated mental and physical torture. More than 30 years later, identical behaviors were developed by military policemen in the Abu Ghraib military prison⁸¹ during the war in Iraq.

According to Zimbardo, the guards' behavior in both cases was determined not by their character predispositions, but by external circumstances. In his book *The Lucifer Effect* [84] (p. 30) he writes:

The traditional view (among those who come from cultures that emphasize individualism) is to look within for answers — for pathology or heroism. Modern psychiatry is dispositionally oriented. So are clinical psychology and personality and assessment psychology. Most of our institutions are founded on such a perspective, including law, medicine, and religion. Culpability, illness, and sin, they assume, are to be found within the guilty party, the sick person, and the sinner. They begin their quest for understanding with the "Who questions": Who is responsible? Who caused it? Who gets the blame? and Who gets the credit?

Social psychologists (such as myself) tend to avoid this rush to dispositional judgment when trying to understand the causes of unusual behaviors. They prefer to begin their search for meaning by asking the "What questions": What conditions could be contributing to certain reactions? What circumstances might be involved in generating behavior? What was the situation like from the perspective of the actors? Social psychologists ask: To what extent can an individual's actions be traced to factors outside the actor, to situational variables and environmental processes unique to a given setting?

The dispositional approach is to the situational as a medical model of health is to a public health model. A medical model tries to find the source of the illness, disease, or disability within the affected person. By contrast, public health researchers assume that the vectors of disease transmission come from the environment, creating conditions that foster illness. Sometimes the sick person is the end product of environmental pathogens, which unless counteracted will affect others, regardless of attempts to improve the health of the individual.

Zimbardo calls the phenomenon described in the Stanford experiment the Lucifer effect. In recent years we came across it during the financial crisis of 2008 and 2009. One of the main sources of this crisis was the introduction by some banks to the financial market of worthless products, such as mortgages, which were expected not to be repaid. These products were sold

⁸¹ Philip Zimbardo was a defense expert at the trial of Abu Ghraib prison guards.

to unsuspecting customers, including large public trust institutions such as trust and pension funds. The bankers knew perfectly well about their dishonesty, as evidenced by their correspondence (e-mails) revealed later, in which they made fun of the naive customers. In fact, they behaved like the guards from the Abu Ghraib prison, who created photographic documentation of their crimes.

The sources of both phenomena should be sought in the system. Both prisons and banks have focused on short-term effectiveness (the prisoner has to comply with discipline and the bank's customer has to buy the product offered to him), turning a blind eye to the method of achieving this effectiveness. At the same time, effectiveness was highly rewarded and ineffectiveness was punished. Therefore, both circles created mechanisms of social negotiation of excuses, which Marek Kosewski writes about (section 7.6).

Does this mean that guards and bankers behaved equally dishonestly outside of work? The vast majority of them certainly did not, which is confirmed by various studies. They did not torture their children, they did not steal, and they did not try to sell a broken lawnmower to their neighbor. In their daily lives, they were honest people who passed on the universally accepted standards of honesty to their children. They were outraged by crooks and cruel people. And when the time of settlement came and the conspiracy of silence broke down, they were the only ones to be punished, not the architects of the system in which they had to operate.

Evil bankers

An article entitled in the above way appeared in "Gazeta Wyborcza" of 9 April 2009. It said: "Every seventh employee of the bank (...) has been punished for falsifying sales results in an unethical way. – Hustling customers with credit cards, investment funds, and loans is a market standard forced by the pressure from the superiors – say employees of many banks. (...) As many as 650 of 4,000 employees lost their monthly and annual bonuses (...). Including those who tolerated breaking the rules.

One of the former bosses of a bank's branch remembers with irritation the training on how to "tie" the customer to the bank. – Never let the customer go away once they took their first loan. Offer them another one, plus a credit card and a renewable credit in his account. When they have to pay off several loans, carefully monitor the payment of installments. As soon as you see any delays, offer them a consolidation loan. The customer who takes it is yours! He will be tied up to the bank for many years – he recalls the training instructions.

An employee of another bank describes how employees were taught to cross-sell: – We were supposed to hustle each customer with a savings account, insurance, SMS information. A package like that costs about 10 PLN a month, but we were not supposed to talk about it. If someone later made a complaint, we were to give the money back. But out of two hundred customers, maybe two will find out what's going on and the rest will be paying the 10 zloty every month.

8.11 Competition

Most of us have been taught since childhood that competition shapes us up. Of course, "noble competition". This education begins as early as kindergarten. Who will be the first to finish the milk soup, who will paint the most beautiful picture, who will collect the most waste paper, who has the most beautiful dress? Then we go to school and begin again – who is the best student, which class is the best, which school won the competition? ... And so on until old age.

We like to be the first, the best – unfortunately, we also like to feel that others are worse than us. There is a sad joke, supposed to be indigenously Polish, but which could also be told

anywhere in the world. God says to a human: “I’ll do for you anything you want on one condition – I will also do twice as much for your neighbor. What would you like? The human thinks for a while and says: “Dear God, take one of my eyes”.

The desire to bear the palm has been inherent in us for generations.⁸² It has also permeated into the management of teams in enterprises, schools, the army, social organizations, and politics. We constantly keep competing in one game or another, although – unfortunately – we often follow the rule: “I may lose as long as he/she does not gain”.

I was once told by a friendly entrepreneur, who is keen to create harmony and the atmosphere of cooperation in his company, that he proposed to make the salaries of members of the Board equal. Everyone would receive a raise, which would be slightly higher for those who had earned less so far. After the regulation everyone would earn the same. The proposal was opposed by those who earned more. After all, we believe that those who earn less are worse, while those who earn more are better, right? The pay gap is for “the better ones” a source of satisfaction, which they would not like to give up. They prefer not to get a raise.

If we are surprised by this example, let’s look around us. After all, there seems to be a principle that for me to feel better, someone must feel worse. In order for someone to win, someone else has to lose. In psychology, this phenomenon is called relational fulfillment of the need for ambition.

A competition for sellers

Company X has a network of showrooms throughout the country. The sales director of the company, whose salary depends, of course, on the volume of sales in the entire chain, decided to motivate his salespeople to do better. He has, therefore, announced a competition “Who can sell more”. A large prize pool was made available for the winners.

The first result of the competition was a worsening of the cooperation between the sellers. After all, no one will help a competitor. When I get a customer who needs a product that I don’t have in stock, I won’t send them to a colleague, because it would reduce my chances of winning the competition. Neither shall I share with my colleagues any observations on customer expectations, nor will I pass on my knowledge to younger colleagues.

The second result was the domination of the target “to sell as much as possible before the end of the competition”. This slogan has overshadowed the company’s basic task of building customer trust and loyalty. The customer was aggressively persuaded to buy as much as possible, and if the seller thought the customer could not afford it, he or she would disregard the customer. Such a customer was simply not worth their attention.

Naturally, usually only a few sellers have a chance of winning the competition, and most often it is clear in advance who these sellers are. And so the others lose all enthusiasm for action. This is the third negative result of competition, which, in addition to inhibiting positive action, also creates a sense of injustice among the losers. It can also carry a sense of defeat, which is even more destructive. The feeling of being worse. This demotivates not only for the duration of the competition, but often for the entire life.

A frequently cited example of “noble competition” is sport. I mean competitive sport, because there is no competition in recreation. But competitive sport involves a division into

⁸² When saying „us”, I mean people brought up in the European tradition of Greek Olympiads. In countries visited by Confucius during his lengthy wanderings, the pursuit of progress dominates over the pursuit to bear the palm.

“better” and “worse”, as well as the principle that in order for someone to win, someone else (or the rest) has to lose! And so professional sport has been drifting in a direction that contradicts its basic mission. Doping, corruption scandals – stricter control and more spectacular abuses of the law. A cul-de-sac, which is a consequence of the structural cause underlying the idea of competitive sport: only the winner counts and there can only be one winner. Meanwhile, recreational sport, without competitions and rankings, remains pristine. Nobody needs doping there and nobody tries to corrupt anyone. The reward for practicing sport is the pleasure of practicing it, as well as the growing strength, better physical and mental condition, and better health.

Recreational and competitive sports

In one of my lectures, I talked about the difference between recreational and professional sport. One listener commented that in professional sport, the results are much better than in recreational sport. Is it not the case, then, that rewards motivate positively?

In order to answer this question, let us treat each of the two types of sports as a company and consider what products these companies create.

The “competitive sport” company does not “produce” sports results, but spectacles. The customer buying a ticket to the show wants to be certain that he will see a fair game and not a fixed match or a competition based on pharmacological doping. Unfortunately, the spectator is often cheated. Corruption scandals and doping spoil the product (i.e. the spectacle). The customer (the spectator) usually learns about it much later and cannot demand a refund. The “professional sport” company often delivers a very poor quality product and, in addition, it does not feel obliged to compensate the customer.

The “recreational sport” company offers such products as: the joy of practicing sport, mental relaxation, better health, better fitness, rather than the times, meters, and number of won matches. This company generally delivers a product that brings the customer satisfaction, which is a good quality product.

Modern knowledge of management strongly emphasizes the thesis that cooperation is the basis for the success of each team, including each individual who is a member of the team. It is also known that competition does not stimulate cooperation – it destroys it. Contemporary American psychologist Alfie Kohn devoted his entire book to this issue [46]. Unfortunately, it is very difficult to implement the idea of cooperation in a competitive community. This is undoubtedly one of the most difficult challenges for any manager. It requires overcoming many psychological barriers – both their own and those under their care.

I sometimes hear an argument: “My employees like to compete because it makes things happen”. True. In a company stuck in a rut, where work is monotonous and does not pose positive challenges, competition adds color to everyday monotony. It does not mean, however, that it increases the effectiveness of the team’s work. After all, not everything that is liked is beneficial, for which numerous examples can be quoted: cigarettes, gluttony, addiction to alcohol or drugs, hours spent in front of the TV set. If, however, the company’s employees are desperately looking for excitement that will make their work a little bit more interesting, then it is necessary to think about it seriously.

Naturally, along with the removal of barriers to cooperation, it is also necessary to build sources and skills of its implementation. Workshops in assertiveness and communication, positive thinking, techniques of teamwork, elimination of factors causing fear, techniques of information flow. How distant these concepts are from those of bonuses, commissions, and work leaders. Modern management practice features a revolution which changes the face of the

world. And it will change it faster than we think. As usual in such cases, those who don't get on the departing train on time will never reach the destination.

Finally, one last remark on competition. How is it possible that competition in general is bad, while the market competition of companies is good? The explanation of this apparent paradox is simple. Competition is good for the market, for customers, but for companies it is bad. If companies were allowed to cooperate in controlling the market, e.g. by entering into a price collusion, they would earn more. However, we, the customers, do not want such effectiveness, which is why the rule of market competition applies in the rule of law.

But cooperation between companies can also be useful for the customer. One of many examples is the cooperation between Peugeot, Citroën, and Toyota over the production of a small car in order to reduce manufacturing costs and, consequently, the price of the car for end customers.

The argument that competition is good because it protects us from dishonesty of companies' collapses when we deal with forms for which the main purpose is not to maximize profits, but to create benefits for all their stakeholders. And that's exactly what Teal companies are like.

8.12 The summary of the model of violence

8.12.1 A self-fulfilling prophecy

As we have seen, the model of violence is characterized by the following phenomena:

1. Employees act on the basis of extrinsic motivation, while their superiors refer mainly or solely to this motivation.
2. This means that superiors use a carrot and stick as the basic tool for "motivating" their subordinates to work.
3. A carrotstick shapes the desired behaviors, but at the same time builds and perpetuates attitudes that counteract these behaviors. When the carrotstick disappears or reaches the end of its escalation, the attitude will result in behaviors contrary to expectations.
4. A wall of silence, distrust, and often hostility starts growing between the superiors and the subordinates. The superiors do not learn from their subordinates about what makes the work of the latter burdensome and thus ineffective. They don't find out how they could increase the quality and efficiency of teamwork. They don't learn what mistakes they make themselves.
5. Dignity-based motivation is replaced by motivation referring primarily to profits, which invariably leads to the syndrome of optimization of the employee's own interest without looking at the company's interest, i.e. the bypass syndrome (section 8.3).
6. Unfriendly behavior of the company towards employees provides arguments for social negotiation of excuses leading employee anomy (section 7.6).
7. In response to the carrotstick and the resulting disagreement with their superiors, subordinates begin to manipulate the carrotstick in order to achieve their individual goals, which is most often done at the expense of the company's interests.

Thus, the assumption that people are lazy and dishonest becomes a self-fulfilling prophecy. It is also necessary to know that:

People deprived of the possibility of satisfying their dignity needs react only to the carrot and stick.

And this is the actual source of the unusual – though far from practical – popularity of this method.

8.12.2 War Games

Some listeners and readers ask me how claiming that people are inherently hardworking and honest relates to all the examples of using a carrotstick by employees against their bosses or companies. After all, one cannot call such actions honest if they are contrary to the interests of the company.

Indeed, employees cannot be very proud of such actions, so they deal with this problem by means of social negotiations, mentioned in section 7.6. In the case of the bonus game, it is relatively easy, because all described actions are strategies in a game invented and imposed not by them, but by the company. And for each of the parties this game is a game of survival – the survival of the company on the market and the survival of the employee in the company. In this game, there is no room for trust on either side. And, actually, it was invented precisely because of a lack of trust in the employee on the part of the company.

The presence of a carrotstick demonstrates an attitude towards employees, which can hardly be called friendly and trustworthy. And those who do not trust us cannot expect us to trust them. Those who discipline us with a carrotstick cannot expect us to take care of their interests. If we are not treated with respect, we feel relieved of loyalty towards such a person or institution. The dignity dissonance (section 7.6) becomes justified in the operations of the company, which leads straight to employee anomy. After all, we, the employees, must defend ourselves. If they do, we cannot do otherwise.

The presence of the war game is an immanent consequence of abandoning trust and partnership in favor of violence.

If we do not trust people, we must constantly control them. If we need to control them, we need to establish strict rules of conduct for those who are controlled and those who control them. These rules must be not only strict, but also simple, so that they can be easily applied. The main objective is replaced by a measurable objective, which determines the conditions of payment (section 8.3). In this way we have established an MBO system in its pure form.

Meanwhile the war goes on. The war between the employee and the company. Its very frequent form is robbing the company by employees. Here are some media news regarding this matter:

“Gazeta Prawna” of 2 November 2009.

(...) Throughout Poland employees steal from their companies, while the economic crisis has further increased the number of such crimes. According to the report prepared by the consulting

company Euler Hermes, as many as 92% of the surveyed entrepreneurs admit to losses. Meanwhile, in a similar survey conducted in the autumn of last year, only half of the companies were affected.

Finding the guilty party

– *Employees robbing the company is a huge and embarrassing problem – says the head of personnel in one of the largest Polish consulting companies, who did not agree to disclose his name. – Recently we had to reduce the salaries of several of our drivers by 1500 PLN. As part of their revenge, they started stealing gasoline from company cars. The whole thing was, naturally, discovered and we had to fire these employees. We did not reported the case to the police just because it would damage our company’s image. After all, it was us who hired bad employees who came up with an idea to steal – he says.*

Theft in Polish companies is a daily occurrence, although it is difficult to discover. Managers in one of the paper companies noticed that something wrong was happening only after another lost tender. Interestingly, they always lost to the same competitor and the difference in the price offered to the customer was always small. The management began to suspect that the competition must have had a mole in their company, who passed on the bidding prices. They hired IT investigators to track down the disloyal employee. It turned out to be possible thanks to the fragments of websites that remained on the hard drive of one of the employees. – He acted very cleverly. He was a keen player of Ogame network game. But apparently innocent contacts with other players served him to pass on important company data – says Zbigniew Engiel from Mediarecovery, an investigative IT company. He remembered a case when in one of the companies someone stole the entire customer database and handed it over to the competition. Checking the computers, IT specialists realized that the database had been downloaded to a CD. They also managed to determine whose computer was responsible. The employee was fired. – There are more and more of such cases, and theft is no longer associated with taking the equipment. The worst thing for the company is when knowledge or confidential data is stolen. This can cause millions in losses – says Bartosz Pikula, head of the insurance office for misappropriation risk at Euler Hermes.

“Gazeta Prawna” of 14 October 2010.

According to a report by Euler Hermes, 90% of Polish companies admit that they caught their employees stealing, cheating, or conducting private business during working hours. The most common abuse of Polish employees is theft.

45% of our entrepreneurs have caught such a thief red-handed in the last two years. The thieves are regular employees of supermarkets, as well as bankers. However, in comparison to other countries, multi-million dollar thefts involving white collars are less frequent in Poland.

On the other hand, examples of minor crimes are more numerous. Last month, policemen from the district headquarters in Świdnica arrested a supermarket saleswoman who had been putting food items, cosmetics, and alcohol into her bag for a few days just before leaving the work. She stole goods worth 3 000 PLN. At the same time, a court procedure was initiated against the administrator of ATMs in PKO BP in Szczecin. During the year, he stole over 470 000 PLN.

Theft is not the only crime of Polish employees. One in six companies discovers cases of fraud, and one in ten bosses has to deal with abuses of counterfeiters, computer scammers, or

personal data thieves. Companies rarely report this type of crime. Sometimes they only make public events related to the theft of goods. They usually conceal financial losses that could cause anxiety among shareholders.

Offences not covered by the Penal Code are very common. Employees are notoriously late for work, use a company telephone, fax, or paper for private purposes, or privately make extra money during working hours. Less frequent cases include drinking alcohol at work or falsified sick leave certificates. Experts advise to apply zero tolerance. – Turning a blind eye to misdemeanors is the first step towards incurring more serious losses – warns Jakub Bojanowski from Deloitte.

The described situations are classic cases of employee anomy. Unfortunately, the vast majority of companies do not know how to deal with this problem. In response to a phenomenon being a reaction to violence, it can only escalate the latter.

Radio TOK FM of 6 October 2010.

The news service which reported a mass phenomenon of stealing from companies by their employees in Poland featured an expert specializing in advising on how companies should solve this problem. He listed four most important ways:

1. Security companies guarding and checking employees.
2. Closed-circuit television watching the employees.
3. Programs that track the actions of the computer user (data theft protection).
4. Informing by other employees.

The latter was particularly recommendable due to its high efficiency and low cost. He also said that about 60% of companies resort to this method.

In this context, it is also worth quoting Meredith Belbin [7] pp. 48-52:

Some long-term American research generated in the Harvard Business School and quoted in "The Economist" (7 August 1999) presents a different picture and accords with what I have found in the UK. Where managers have been awarded generous share options linked to the profitability of the company, long-term profitability has been found to fall in comparison with companies where such schemes are absent. The explanation is that top managers, often near the age of retirement, are well placed to manipulate the profits of a company in order to provide impressive short-term results. Selling fixed assets, reducing or revaluing stocks and curtailing research and development are well established devices for achieving that aim. Managers are then well placed to cash in their shares and buy retirement annuities. The strong incentive produces the opposite of what might be desired in the long term. Adopting such a formula can be a fatal move if the company's real interests are taken to heart.

(...)Performance-related pay is being applied increasingly to middle managers as well as top managers. (...) The favoured emphasis is often on some easily measured indicator of financial performance. Yet this too can lead in unexpected and unwelcome directions. For example, one leading high street bank devised a scheme for rewarding bank managers according to the amount of new business transacted. It so happens that much of what counts as new business is lending. The lending rate shot up accordingly – but so too did bad debts!

(...) Performance-related income, akin to performance-related pay, is regrettably being applied on somewhat arbitrary criteria to whole organizations. Here the effects are worth noting as they operate in the public sector. Take the National Health Service. Successive governments have attempted to manipulate its performance through allocating or withholding expenditure:

here are some recorded examples. One of the criteria selected comprised the number of patients treated in hospitals and the cost of treatment (basing this on a standard cost of an occupied bed). Spectacular improvements were soon claimed by higher authorities: there was a rise in the number of patients treated and bed occupancy showed a greater rate of through-put – that is to say, beds were occupied for shorter periods. Upon closer examination it transpired that the same patients were being readmitted after being prematurely discharged from their beds. In their re-entry they were being counted as different patients. Premature discharge from hospital can ultimately be registered as a form of efficiency, when in fact it is the reverse.

How long patients were obliged to wait in Outpatient Departments became another focus of attention. (...) Some hospitals created what became known as hostess-nurse. The patient would be seen and interviewed in a pleasant way but with the real intention of reducing the recorded waiting-time. Patients would of course be no nearer treatment – but more Brownie points would be gained.

(...) Schools that produce good examination results, based on the grades received, gain extra resources. The effect has been to hold back pupils from taking exams where the average grade might be lowered. Another restrictive effect has been to limit the number of subjects that a pupil may take in an examination. Here the idea has been to eliminate the poorer grades presumed to accompany a more extended set of subjects.

(...) The individual effectiveness of teachers is now being judged by the examination grades their pupils obtain. One troubling outcome of this practice is that random tests of teachers by inspectors have shown that some teachers have opened the envelopes containing the exam papers early and coached their pupils through the questions.

A war between the employees and the company is a kind of guerrilla warfare, consisting of covert attacks, constant harassment of the enemy, small skirmishes. It is a war that is even more difficult to win than a guerrilla war, because guerrillas can ultimately be physically annihilated, while the employees may not. It is, of course, possible to order mass layoffs of effective players, but the ones who come after them will probably get into the shoes of their predecessors. The problem lies not in the employees, but in the company. It is the company that needs treatment, not for symptoms, but for the entire system. It is necessary to introduce a far-reaching change of mindset, beginning with the top management, then in the middle and lower management, and finally within the rank-and-file. The company must be willing to change and support it by group therapy led by experienced coaches with psychological competences. Unfortunately, it must take time and it will cost money. But there is no other way.

8.12.3 Who's playing a war game with whom

It would seem that the war game is played by dishonest employees with honest (though perhaps not very bright) superiors. Superiors full of positive intentions introduce a carrotstick and dishonest employees bypass it. This is one possible scenario, but there are others. Let's look at the example of British hospitals described in section 8.12.2 and think about the following scenario ([7]):

The opposition, supported by the media, criticizes (and rightly so!) the government that patients have to wait many months for a hip replacement surgery and many other procedures. With the election due soon, the ruling party decides to remedy the situation and do it quickly. Naturally, the only thing that they are able to come up with is to show the hospitals a carrot. If things are to be done faster, you need to pay for "faster". And so their reasoning is a carbon copy of a typical "carrot message" (section 8.1), which in this case reads as follows: Doctors and nurses are lazy and dishonest people, who could treat patients more speedily, but they don't

want to; if we show them a carrot, they will get to work. Instead of asking doctors what they need to speed up the treatment procedures, they offer a carrot. This has an immediate media effect: “Under pressure from public opinion, the government has taken immediate action to radically shorten treatment times”. Two months later, it becomes clear that “spectacular success” has been achieved: the patient’s average waiting time for the first medical intervention has been reduced by 76%. A clean sweep victory in the election is guaranteed! Have politicians and ministry officials been deceived in this way? Not necessarily. After all, they did not care about shortening the treatment time, but about improving the statistics and silencing the damned newshounds.

The same may be true in the case of destroying class two glass products (section 8.3). The bypass of glassworkers causes that not only they get a bonus, but also their superiors, as well as the management of the glassworks. If the glassworks is one of a hundred plants of an international holding company, it will be possible to say at the meeting of shareholders that the investment in the Polish glassworks was successful. And since the shareholders do not care about the healthy growth of the company or even about the dividend, because all they are interested in is speculation in shares, everyone is satisfied. Apparently we have a win-win situation. Except that sometime later we have a world crisis, which began with playing the carrot game first at Enron and later at Lehman Brothers. It was also played by the American government, which carried out a political program under the catchphrase “Every American owns his or her own home”. They played it in such a way that they gave guarantees to banks selling very high risk mortgage loans. These loans had no market value whatsoever, but they did have a fast-growing speculative value. Until the bubble broke.

The examples described above illustrate a phenomenon which I will call a cascading bonus game. First, there is a top-down cascade of goals: the government wants to satisfy the media (certainly not the patients!), the ministry wants to satisfy the government, hospital managements want to satisfy the ministry, and the heads of hospital wards want to satisfy their management boards. They come up with a *hostess nurse*, which meets the expectations of everyone – from the management of the hospital to the government. This cascade never reaches all the way down to the patient, but it does not need to, because before the patients write more letters of complaint to the media, the election will be won.

So who are the carrot-motivated employees playing against? As we can see, not necessarily against their superiors. In the case of British hospitals, they played against the patients, but in the case of glassworks? After all, everyone from the employees to the shareholders is winning. And yet we smell a rat here.

Destroying class two products makes the company less profitable than it was before the introduction of the quality bonus, because these products could still be sold, even if with a lower margin. In relation to sales value, more energy is consumed than before, which not only further reduces profitability, but also increases environmental pollution. Perhaps the pollution will generate cost because it may be necessary to buy the right to emit CO₂ from the neighbor, so profitability will fall again. In the short term, neither the employees at all levels of the holding company’s management nor the shareholders lose. In the long run, however, everyone may lose including the company’s stakeholders, such as suppliers, the society, and the state treasury. Let us also note that in the above analysis the loss was calculated as the difference between the worse condition of the company today and the better one yesterday. However, if the production process had been improved instead of destroying class two products, then “today” would actually be better and not worse than “yesterday”. And this is the real defeat of the company.

The bonus war game is, therefore, a game against the company, though not necessarily against the company's management. In this game, I shall understand the company's victory as follows:

Company's victory

Bringing the company's business condition to a value system that ensures that the interests of all stakeholders are met in the foreseeable future.

I realize that this definition can be criticized from two points of view:

Readers with mathematical education may say that it is imprecise. That is true. However, business experts are most often able to say which company is characterized by healthy growth and which one is on the verge of collapse. Of course, my definition does not include emergency situations that cannot be predicted or avoided.

Readers with business education (managerial or investor education) may say that the criterion of winning is not a very ambitious one. After all, what kind of future is defined by "satisfaction of interests"? Where is the development and spectacular profits? To this I would respond by saying that very fast development often leads to the company's collapse. The recent economic crisis has provided a large number of such examples. On the other hand, if a company is to meet the expectations of its stakeholders in a permanent way, it must remain in a good financial condition, including the achievement of profit.

After adopting such a definition of victory and such a definition of the parties, it becomes obvious that our game is not a zero-sum game.⁸³ In other words: both players may win and lose at the same time. We are, therefore, dealing with four possible scenarios of ending the game presented in Fig. 8.12-1. It seems, though, that in a real carrot game, only three out of these four scenarios are possible.

- A. (Company) won – (employees) won. Employees are able to achieve the main objectives, although they would probably also achieve these objectives without bonus systems. This group also includes the case of a profit bonus paid according to the bowl paradigm (section 9.8).
- B. (Company) lost – (employees) won. The main objectives are very difficult or impossible to achieve, but the measured objectives leave enough room for maneuver to achieve them through a bypass. Therefore, the objectives are achieved, although the final effect is unfavorable for the company. This group also includes situations where bypasses require breaking the law, for example through creative accounting or mere dishonesty, such as withholding payments to all creditors (section 8.7).
- C. (Company) lost – (employees) lost. The objectives set are physically impossible to achieve or employees prefer to lose bonuses or even work rather than act dishonestly. The objectives are, therefore, not achieved and employees do not receive a bonus. An additional effect is the attitude of employees who are aware that they will not receive the bonus and do not even try to approach the objectives set for them. They tend to deal with the arranging their retreat or "soft landing".

⁸³ In the game theory, a zero-sum game is a game, in which each participant's gain or loss is exactly balanced by the losses or gains of the other participants. In such a game, no utility is generated or lost.

The case **(company) won – (employees) lost** corresponds to the situation when the company achieved its objectives, but the employees did not receive a bonus. Such a situation may also happen, but since it violates the rules of the game, I will not discuss it here.

company	lost	f: won p: lost	A f: won p: lost
	won	C f: lost p: lost	B f: lost p: won
		lost	won
		employees	

Fig. 8.12-1 Scenarios of ending the carrot game

8.12.4 Three laws of duality

In the model of violence, the three laws of duality that we have already come to know under different names are fulfilled: the carrot law (section 8.1), the bonus lever law (section 8.7) and the law of reaction to the bonus (ibid.). Let us present them once again in a slightly different wording:

The first law of duality – a carrot and stick

A carrot and stick cannot exist without each other. The creation of one of them irrevocably leads to the creation of the other.

The second law of duality – the weak and the strong

Anyone who installs a mechanism that gives them a strong position can at any time find themselves in a weak position.

The third law of duality – profits and values

Profit-driven motivators undermine the action of dignity-driven motivators (values), while referring to values weakens the need for achieving profits and so it undermines the driving force behind this method.

Does it follow from the latter law that good pay demotivates people to work? Not necessarily, although it is possible. The answer depends on whether our work brings us social and dignity-based satisfaction, whether we feel good in it, whether we are surrounded by friends, whether

we fulfill our ambitions, whether we are able to develop. If the remuneration is part of the equipment of the workstation (section 7.3), and so it is not an incentive, but a factor enabling the performance of tasks, then no demotivation effect will occur. However, if it is treated as a carrot, then we will have to deal with all the consequences associated with it.

9 Partnership

Civilization begins when the individual in the pursuit of his ends can make use of more knowledge than he has himself acquired and when he can transcend the boundaries of his ignorance by profiting from knowledge he does not himself possess.

— Friedrich A. von Hayek⁸⁴

9.1 If not a carrotstick, then what?

When listeners and readers become accustomed to the idea that a carrotstick is not an effective tool for “managing human resources”, questions are invariably asked about how to organize the work of the team and what to do to make it work as well as possible. How to motivate the team to work?

The principal message of Alfie Kohn’s book [47] reads:

For a start, stop demotivating the employees.

To demotivate them with a carrot and stick, with competitions for the best salesperson, by comparing them with each other, making remuneration dependent on factors beyond the employee’s control, lack of clearly defined goals. Stop demotivating them with your power, constant control, depriving them of the feeling that they are beings who think and who can know more about something than you do.

Peter Drucker [19] advises:

Manage people as if they were volunteers.

A volunteer is never told: “Do it, or else...”. You need to talk with a volunteer as if they were a partner, because otherwise they will turn around and leave. On the other hand, a volunteer does not have to be watched, persuaded, or checked, and you can always count on their additional effort without asking a question: “And what’s in it for me?”

Finally, Frederick Herzberg says (both quotes after [47] page 189):

*If you want people to do a good job for you,
give them a good job to do.*

He also claims that:

⁸⁴ [36] p. 73

*Idleness, indifference and irresponsibility
are healthy responses to absurd work.*

So what should be done to make the catchphrase “Give the employee a good job to do” meaningful? The answer to this question seems very simple and has been discussed in section 7.3. The working environment must be organized in such a way that it provides:

- the necessary workstation equipment, including remuneration;
- social atmosphere based on trust and partnership;
- an inspiring challenge that builds involvement.

Unfortunately, the path to this state of affairs is not at all easy. To walk down this path, one needs the art, science, management practice, as well as the inspirational skills and personality of a leader. However, it contains a recipe for the success of the company.

9.2 The 4C principle

The concept of good work has several complementary interpretations. One of them is passing the Gallup Q12 test (section 6.6). Another interpretation comes from the times prior to the Q12 test and the classification of needs. It is the “4C” principle⁸⁵.

4C PRINCIPLE

cash
collaboration
content
choice

Since the entire section 9.9 is devoted to remuneration, here I will only discuss the other three components of 4C.

9.2.1 Collaboration

*Nobody can put together a contract that is as good as the
two honest people working together.*

— Jim Walter⁸⁶

⁸⁵ English language literature often speaks of the 3C principle (*Collaboration, Content, Choice*) (e.g. ([49] p. 187). I supplemented it with “cash”, and following the suggestion of Marek Kosewski, I explained “content” as the “sense of action”.

⁸⁶ Quoted after: Russell E. Palmer, *Ultimate Leadership: Winning Execution Strategies for Your Situation*, Pearson Education, Inc., 2008, p. 112.

No reasonable person will deny the need for collaboration today. Few managers, however, are aware of the fact that:

*The primary threat to collaboration
is competition*

Even the most noble, sublime, and fair competition (more in section 13.7) always destroys collaboration, because it is its contradiction – it sets people against one another. In essence, competition is not about being good, very good, or getting better, but about **being better than others**. And in order to be better than others, one doesn't even need to be good. It is enough for others to be worse! Competition quite often leads to the choice of such a strategy.

The first task of the superior on the way to building collaboration is, therefore, to eliminate all current and potential sources of competition:

- Do not make comparisons between employees, teams, departments.
- Do not organize rankings or contests.
- Give up punishments and rewards.
- Give up the performance bonus.

The second task is to teach and implement techniques supporting collaboration, including:

1. Establishing operational principles of collaboration between the collaborating parties: principles of communication, distribution of duties and powers, principles of making joint decisions, setting schedules of tasks.
2. Joint analysis and problem solving, i.e. the work of quality incubators (section 15).
3. Building trust, elimination of the fear of talking about problems (section 4).
4. Building positive relations between employees, but also with external contractors.
5. Assertive communication (section 3.1.2).
6. Conflict resolution with a win-win method (section 3.2.1).

The importance of the procedural aspect of collaboration is demonstrated by the following tragic example:

Cooperation in the cockpit near Smolensk

As stated in the *Final Report on the determination of circumstances and causes of the TU-154M No. 101 plane crash near Smolensk* announced on 29 July 2011, one of the most serious causes of the crash was the lack of cooperation procedure in the cockpit between the captain, the second pilot, the navigator, and the flight engineer. As a result, during the last dramatic seconds before the disaster, there was no proper exchange of information between these individuals about the dynamically emerging threats. This resulted, among other things, in too many activities being performed personally by the captain in the last seconds of the flight, which was caused by the lack of knowledge on how the crew would react to his commands.

Here is another illustration related to the phenomenon of collaboration, this time a positive one.⁸⁷

Coach of the Barcelona football team

A young and relatively unknown coach was engaged in order to improve the performance of the team. He focused primarily on cooperation between players, which resulted in a spectacular increase in the number of passes between team members during the match (500 compared to the average of 180 in other teams) and, as a result, an increase in the number of matches won. Here are some of his principles:

- The best coaches do not set goals such as “we have to win this match”, but “we have to play the best we can”, measuring it, for example, with the number of passes. The quality of the game should not be compromised even for the price of losing a match. When Adam Małysz was on a winning streak, he did not think about winning, but about making a good jump.
- Let us respect the opponent.
- Every player needs to know a lot about the skills and predispositions of his fellow players. (This rule also applies to U.S. firefighters’ teams).
- Integration meetings build sympathy, but not self-knowledge.

Regardless of the procedural aspects, collaboration is also very important for building interpersonal relationships based on partnership and trust.

9.2.2 Value

Employees should know and appreciate the value of their work. They should understand its meaning. Otherwise, work may be perceived as a nuisance, something we are forced to do only to make ends meet. No payment of the work-related dignity reward (section 7.2) is made.

Interrupt the project

A colleague of mine, a very talented computer scientist, once told me about his work in the European branch of a large American computer company in the 1970s. His team performed an ambitious task of designing and writing a script of a complex system. The work was interesting and very well paid. Programmers earned twice as much as computer science professors at universities. The project was designed for three years. Unfortunately, after two years the American headquarters ordered to stop the project. Just “close the project” – without a word of explanation. “We didn’t even know the bastard who sent the telex message” – my colleague remembered.

This decision had very bad consequences for a very good and well-integrated team. Some people left for other companies. Others have run out of steam. Even though they earned a lot of money, they worked in a beautiful building located in the old district of Vienna, and the next project would probably be as interesting as the previous one. However, they did not want to do a job that might end up in the garbage can again. They preferred to work elsewhere, for less money, but with the knowledge that they were creating something solid and useful.

Experience gathered by mankind over the course of thousands of years shows that:

⁸⁷ Source: Victor Wekselberg’s lecture: *FC Barcelona as a laboratory for collaboration and motivation – a lesson for business*, Human Resources Congress, 23-25 April 2012.

*The least efficient is the work of a slave,
and the most efficient is the work of a volunteer.*

In his book *Management Challenges for the 21st Century* [19] Peter F. Drucker confirms the thesis that organizations employing volunteers are the most effective ones, because their driving force is the realization of a clearly defined mission. A mission – that is, an important and responsible task to be performed. Volunteers work so well because they are convinced of the value of what they do, they work in an atmosphere of trust, and what they do is reciprocated with love, respect, and recognition. Volunteers from the international organization Médecins Sans Frontières (or Doctors Without Borders) go to Black Africa, where they live in conditions unknown to the citizens of rich societies. And they work there for food and shelter, their reward being a great sense of created value, and so the sense of what they do, which provides the strongest incentive to work.

*A sense of meaning
is the strongest incentive for good work.*

1. Make sure that your co-workers understand and share the company's mission, and if the company does not have a mission yet, be the initiator of its creation. (For more information about the mission, see section 9.11).
2. Explain to your co-workers what their personal contribution to the company's mission is. In hierarchical organizations, the lower the position of the employee, the weaker their sense of co-realization of the mission may be. And yet, it shouldn't! Each position ought to be prepared to carry out the company's mission. Otherwise, it will not be the mission of the entire company and so it will cease to fulfill its function.
3. Give your co-workers a chance to learn, and then determine with him/her their tasks and positions, taking into account what he/she likes and is able to do best. A person doing something he or she cannot do will not have a sense of creating useful value.

And here is another very important point. If a person is to feel the value of their work, he or she cannot be forced to do what he or she considers unethical. Unethical actions towards customers, contractors, or co-workers irretrievably ruin the sense of value of work. If such a situation arises, we may as well forget about the authentic, intrinsic motivation to work. The only thing left is the carrot and stick. And unjustified belief that it will work. Because the employee will now have arguments to carry out social negotiations justifying their wickedness towards the company (section 7.6).

Unfair corruption

A company selling business-to-business products (B2B) was quickly gaining market share as its salespeople had a budget for bribes for their customer's purchasing staff. After a few years, however, the company collapsed. As it turned out, the salespeople, for obvious reasons, were not accounted for their bribe expense budget and so they kept more and more of the dirty money for themselves.

The bribes they were paying were growing smaller, which effectively demotivated their customers to make purchases. As we remember, in order to be effective, a carrot must grow constantly.

9.2.3 Choice

Lack of possibility to decide what to do and how to do it destroys human creativity. Here is what numerous studies have shown:

- Bitterness and burnout syndrome are not a result of working too hard, but a result of feeling permanently controlled (lack of trust) and incapacitated.
- Stress-generating positions are not those associated with frequent decision making, but those that contribute to a sense of impotence in affecting one's own destiny.
- Positions in which an employee has the power to make important decisions (trust!) usually show absenteeism on a very low level.

The first step towards the principle of free choice is to accurately describe all positions in the team and assign them the scope of decision making. This is best done by the employees themselves. It is also reasonable that those who will be responsible for implementing the decisions should at least participate in making them. Then they will treat these decisions as their own, rather than imposed. When defining the scope of decision-making, it is good to accept the principle that everything that is not prohibited is permitted. In such a case, the job description should provide a list of decisions reserved for other people with a comment that all the remaining decisions are to be taken by the person employed at the given position.

The job description should be followed by procedures for carrying out all routine (i.e. repetitive) activities. Procedures are, moreover, the basic element in the implementation of the principle of continuous improvement (section 13.6). They should be written together with the interested parties or even left for them to write on their own. It should also be clarified that the presence of procedures does not contradict the principle of free choice. Procedures must not be violated, but they can and, in fact, ought to be changed as soon as we can see the possibility of their improvement. This is what continuous improvement is all about.

The next step in the implementation of the principle of free choice is for the superior to refrain from the temptation to control the people under their care, even when they themselves ask to make a decision for them. The head of the team in which the free choice principle is being introduced should be prepared for the fact that in the initial period his team members will probably expect a constant confirmation of their decisions. This is a habit remaining from the time when they were only expected to execute the commands of others. In that case, they can be given advice, but they need to be told that it is up to them to decide and to take responsibility for their decisions. Mind that the word "responsibility" should be understood in a proper way, which I have already discussed in section 6.2.

In the broadest sense of the term, choice is freedom. Here is what Henry Bayard Philips has to say about freedom seen in the context of work (the quotation is taken from "On the Nature of Progress," American Scientist 33 (1945): p. 255):

In an advancing society, ... any restriction on liberty reduces the number of things tried and so reduces the rate of progress. In such a society freedom of action is granted to the individual, not because it gives him greater satisfaction but because if allowed to go his own way he will on the average serve the rest of us better than under any orders we know how to give.

9.3 What needs to be given up

An old Polish recipe for beetroot soup begins with the words: “Take all the vinegar you have at home and pour it into the pond”. A manager who wants to build their team according to modern principles, who wants to shape it based on relations of kindness, openness, and collaboration, should start by removing the sources of dislike and the feelings of injustice and envy among the team members. These feelings are first and foremost created by rating employees and teams against each other. Edwards Deming warned managers against making such comparisons. Nobody is worse or better. Everyone is potentially perfect, though each in their own way. Everyone deserves care and assistance in what they do, as well as an insightful and friendly analysis of what they do. Everyone ought to be encouraged and expected to perform better every day. Not better than others, but better than yesterday.

9.3.1 From violence to partnership

When moving from the model of violence to partnership, it is necessary, above all, to eliminate toxic management methods including:

1. the view that people are lazy and dishonest (self-fulfilling prophecy) in favor of trust and faith in man;
2. supervision and control in favor of building responsibility;
3. the search for guilty parties in favor of the search for causes;
4. any form of competition in favor of collaboration;
5. ratings and comparing employees to each other in favor of building a team;
6. quality and performance bonuses in favor of good remuneration;
7. praises in public in favor of spontaneous expressions of appreciation;
8. annual employee performance reviews in favor of assertive feedback and partner-like discussions about development.

The above principles are, of course, only part of what needs to be done, but they show the right direction.

The commander of “Grom” unit

In February 2009, after the kidnapping of a Polish geologist by the Pakistani Taliban, a TOK FM radio journalist spoke with General Roman Polko, former commander of the elite anti-terrorist military unit GROM, which became famous for its many extremely effective actions. During the interview, General Polko repeatedly returned to a single idea: every human activity will always be burdened by mistakes. In response to mistakes, however, one should not look for the guilty persons, but for the causes. Let's look for causes to eliminate them in the future. This is the only principle of effective operation.

And so I'd like to attract the reader's attention to this fundamental principle:

*Do not look for a guilty person to punish them,
look for a cause to eliminate it.*

It was expressed by the military commander of the most effective Polish combat unit. May it become a commandment for managers giving up violence in favor of partnership. Finally, a quote from the teachings of Edwards Deming (after [53], p.164):

*The manager's task is not to search for and register errors
made by employees, but to eliminate the cause of such errors;
to help people work better with less effort.*

Quality controllers in the cosmetics factory

In one of the Polish factories of an international company producing, among other things, hair shampoos, a decision was made to eliminate the quality control at the end of the bottling line and to entrust this task to the line operators. Prior to this change, the role of line operators was limited mainly to the manual removal of line jams, most often caused by a tipped over shampoo bottle. It is not difficult to guess that the job was dull and routine, and did not provide any satisfaction. After the change, the line operators were given the additional task of removing defective products from the line. They have undergone appropriate training and have received certificates of quality controllers. They were also told that quality control at the end of the line was eliminated, so that defective products that they did not remove would go to the customer. The operators did not check the quality of the shampoo – that was to be done by the laboratory staff – but they eliminated poorly twisted or distorted bottles, bottles without stickers or misplaced stickers. They did the same work that was formerly the job of the controllers at the end of the line, and of course they continued to remove the jams.

As a result of this reform, the number of customer complaints, and thus also the company's costs, has been very seriously reduced. Although line operators were not offered a pay raise for the extended duties, soon staff from other lines expressed interest in taking on a similar duty. It should be added, though, that salaries and general working conditions in this company were fairly above the national average.

9.3.2 The younger and the older – partners

Another interpretation of the notion “good work” is work in an environment where the paradigm of the weak and the strong (section 8.5) has been replaced by the paradigm of the younger and the older.

The relations between the younger and the older (Fig. 9.3-1) are symmetrical – instead of subordination, there is partnership. In this world, one speaks primarily about the duties of the older towards the younger, which include:

- passing on knowledge and skills to younger people, and with them, an ever wider range of decision making;
- supporting the intrinsic motivation to act and the self-esteem of the younger;
- assisting in solving current problems;
- teaching to ask questions and learning from mistakes;
- teaching independence;

- teaching the principles of collaboration and teamwork.

One of the basic principles of the world of *the younger and the older* is to abandon the idea that the older have a monopoly on knowledge. Undoubtedly, older people know many things that younger people don't know, but the younger also know things that older didn't even dream of. The lack of this knowledge among the older causes them to misinterpret the behavior of the younger, e.g. by reading bad intentions and aggression into situations when the younger are simply not able to do something, so they consciously or subconsciously develop defensive actions. Instead of collaborating with the younger on how to solve the problem, they intensify the system of repression.

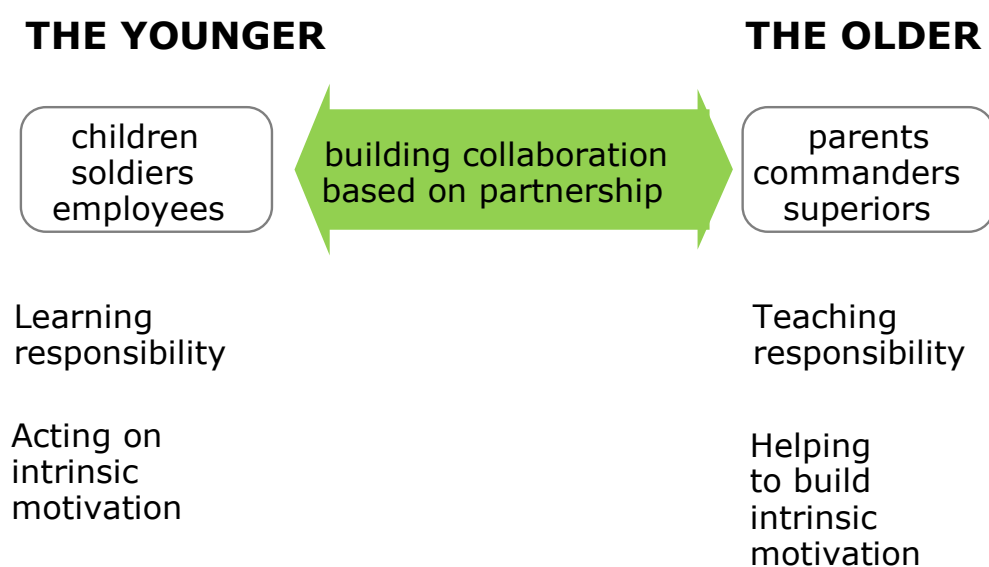


Fig. 9.3-1 The world of the younger and the older

In the world of the younger and the older, collaboration is the basis for action and trust is the basis for collaboration. Emmanuel Gobillot said (section 6.4) that in order to win trust, one needs to show it first. Show it by action, conversation, revealing that we, too, have doubts and need advice, that sometimes we, too, are not sure how to proceed. Asking for advice and asking for help are the most credible declarations of the willingness to cooperate. It is also a declaration of trust.

9.3.3 Abandonment of annual performance reviews

It is a common practice of large companies to conduct individual performance reviews of each employee once a year. These reviews are usually carried out by the immediate supervisor, sometimes together with the employee, sometimes without the participation of the interested party, with whom only the results of the review and the conclusions to be drawn from it are discussed. As a rule (known to employees as an element of corporate culture), the conclusions from annual performance reviews are the basis for rewards, annual bonuses, or promotions, but also for demotions and redundancies. The advocates of this method believe that without annual performance reviews, employees would lack the knowledge about how they work and whether the company is satisfied with them. Edwards Deming knew this method and was very critical of it

(section 13.16.3). Here is an example of the principles of such reviews sent to managers at all levels in one of the companies I know:

Evaluation criteria	Meeting scale
<ul style="list-style-type: none"> • Qualifications • Reliability • Involvement • Execution of commands • Collaboration • Creativity • Flexibility • Personal appearance • Workstation • Compliance with procedures 	<p>1 – meets expectations to a small degree</p> <p>2 – meets some expectations, but also has weaknesses</p> <p>3 – meets expectations to a satisfactory degree</p> <p>4 – meets all expectations</p> <p>5 – clearly stands out positively from others</p>

Tab. 9.3-1 A realistic example of the principles of annual reviews

This was accompanied by an instruction to divide the employees into three groups according to the ratings received:

- 10% – including the best,
- 70% – including the average,
- 20% – including the worst.

The team leader who received this task complained to me that he didn't know how to do it. "I have great, committed employees – he said. – Whom should I rate with low grades to satisfy the management?" Eventually, he found a way out, taking advantage of the fact that he was also supposed to review himself. And so he gave everyone a grade of 10 and rated himself with 1. He explained it this way: "All my employees are excellent, though each of them excels in something else. So I have to rate everyone with 10. However, I rated myself with 1 because I was unable to perform the task of reviewing my employees".

According to Thomas Gordon [31], periodic performance evaluations have a destructive impact on the social work environment, as they develop negative relationships between the superiors and the subordinates:

1. Differences in the understanding of responsibilities between leaders and subordinates make subordinates feel unfairly judged.
2. As a rule, personal traits cannot be objectively assessed.
3. Different leaders have different rating practices.
4. Leaders tend to first make an overall judgment of a subordinate's performance and then find a justification for it.
5. Leaders' ratings are influenced by the prospect of future administrative consequences. For example: "I won't rate the employee high, even though he/she works well, because I would have to give him a raise, and I don't have the money for it in the budget.
6. Rating builds a barrier between those who are rated and those who rate.
7. Most performance evaluation systems focus on the past, rather than the future.
8. It is a very unpleasant and stressful experience for both parties.

Jim Murray, my first TQM teacher and mentor, recommended that I replace annual performance reviews with regular superior-subordinate interviews (S-S), devoted to the mutual exchange of feedback information and, in particular, to finding out what is needed for development. In the course of such interviews, both sides agree on a partnership basis on what they expect of each other so that they can do their work more effectively.

Murray emphasized very strongly that during these interviews, it is necessary to provide employees with a full sense of security. They should be confident that what they disclose will affect neither the remuneration nor the promotion opportunities for themselves or their colleagues.

Minutes of mutual conclusions and commitments should be drawn up after each interview, known only to the parties taking part in the interview. The point is to ensure maximum sincerity of speech. Each subsequent interview begins with a verification of what has been achieved.

S-S interviews are conducted periodically, but not less frequently than once a year. This conversation should take place outside the workplace, so that both sides feel as little management hierarchy embarrassment as possible and so that the conversation is not interrupted. A walk in the open air ending with a meal can be a good scenario. As a rule, the time needed for an interview is several hours, and – at higher management levels – as much as the whole day.

As Chairman of the Board of Directors, I have held such interviews with Board members for many years. During the conversations each party asked the other only one question: “How could I help you in your work?”

9.3.4 On being lazy

Before judging an employee, a pupil, or your own child as a lazy person, consider whether the work he or she has to do is a “good work” and whether it creates the conditions to satisfy all personal needs, including the extremely important need for dignity (section 7.1). Before calling someone lazybones, think whether you have ever met a person who does not like to do anything. Truly nothing – neither to work, nor to learn, nor to play sports, nor to walk, nor to sit, nor to lie down. Nothing! You probably did not. And this is probably the reason why the unemployed experience such enormous mental suffering.

However, you have almost certainly met a person who does not like their work. You must have seen many of those. So the next time you meet one of them, ask them about the reason for their aversion. And if this happens to be a person under your care, you better listen very carefully, because you can learn a lot.

Lazybones

One of the employees of a company was a terrible sluggard. His laziness was almost textbook-like. He was last to come to work, but first to go home. He never volunteered to do anything. He never agreed to stay longer and did his work in the most minimalistic way. And so he enjoyed the opinion of a person who was not only lazy, but also devoid of any ambition. He was neither interested in rewards, nor discouraged by punishments. He seemed a perfect example of someone who simply doesn't like to work.

It turned out later that this man did not sit in front of the TV set after returning home from work. In fact, he swallowed his meal in a hurry and ran to the nearby hospice to take care of the dying as a volunteer. He was no longer lazy there. Nobody needed to encourage him to work, even though he worked without being paid. He worked with dedication, because for him it wasn't just a job. It was a

mission the accomplishment of which gave him a great sense of fulfillment, love, and gratitude of people. It gave him a sense that he was doing something really important.

9.4 The traps of managing without the carrot and stick

Like everything that overturns the old order of things, managing without the carrot and stick also carries traps that companies can fall into when introducing this style of management too hastily and in a simplified way. For if we eliminate the carrotstick and yet forget to prepare both the superiors and the people under their care for the new role, the following syndromes may appear:

1. Superiors do not react to errors, poor quality, and low productivity, because “you can’t punish”. The people under their care come to the conclusion that quality and productivity are not important. Those who work badly begin thinking that it is acceptable. Those who work well become bitter and begin thinking that it is not worth their efforts.
2. Superiors do not respond to employees’ disciplinary misconduct. However, when they come to the conclusion that things have gone over the top, the employee is fired. And then a problem arises. The employee thinks their dismissal is unfair, because no one ever told them that he or she was doing something wrong. Naturally, they share their grievance with others, which builds up the opinion that dismissals in the company are not of a substantive nature, but are rather the result of personal prejudices. There is a fear of unexpected dismissal, the impression that everyone can be dismissed at any time, and the sense of security is disturbed. An additional effect of this situation is a very weak position of the company in the labor court (more on the problem of fear caused by dismissals in section 4.1.5).
3. Since “you cannot reward”, superiors do not show appreciation for good work, do not give the employee a sense of success or job satisfaction. Employees become convinced that good work is not important for the company.

So how can we protect ourselves from such traps?

First, if there is a problem with the quality of work, the reaction should be immediate. However, it is not about punishing the guilty party, but about undertaking an analysis of the causes of the problem and indicating ways to avoid them in the future. The answer to the question of how to achieve this is given in part VI “The road to quality”.

Second, by waiving punishment for mistakes made, we do not waive punishment for disciplinary misconduct, in particular, reprimands entered in the employee’s file. Of course, such a reprimand is not pleasant either to the team member or to his or her superior. For the employee, however, it provides protection against unexpected dismissal and gives him a chance to improve. For the company, it is an argument in the labor court. Of course, before a reprimand is entered in the file, there should be an interview with the team member under our care, and perhaps even several interviews. Entering a reprimand in the file should be the ultimate action.

A drunken employee

Once the boss of our warehouse came to work quite loaded. Such an incident deserved at least a reprimand entered in the file. However, the head of production, to whom the warehouse boss was subordinate, decided to have a conversation with her. It turned out that the previous evening the

warehouse boss's husband found out that he had terminal stage cancer. The warehouse boss was sent home and, of course, there was no reprimand.

Third, under no circumstances should we give up to express our appreciation. This is a difficult and not an entirely obvious art. I discuss it in section 9.6.

Fourth, giving up bonuses and commissions must not mean a reduction in salaries! The basic salary should be increased by averaged bonuses and commissions. Some will benefit from this, while others may sometimes lose (section 9.9). From the financial point of view, the company will surely "lose". However, this is the cost of the transformation. We may apply the "profit bonus", but we need to be careful not to turn it into a carrot. This issue is dealt with in section 2.

Finally, a very important point. I have seen companies that decided that they would start their transformation with the eliminating the bonus and commission systems, because that was apparently the easiest thing to do. All you need is an administrative decision. However, this is a very serious mistake! Changing the remuneration system always arouses profound emotions, so it should be an initiative taken by the stakeholders themselves, and not by the management. In order to make such a decision, it is necessary to master the art of talking about difficult issues, as well as understanding motivational mechanisms. This is why I started the second edition of my book with these topics. We need to remember that the elimination of the carrot and stick deprives the managers of the pre-existing tool for responding to errors, which leads to the situations described in item 1 above. We must, therefore, learn how to respond properly, i.e. to find and remove the causes of errors. And that takes time. When I decided to eliminate the bonus systems in my company, the preparations to implement this decision took six months. And it wasn't excessively long. We should bear in mind the following extremely important warning:

*Do not start your transformation
with changes in the remuneration system!
Preparations for such a change
require time and groundwork.*

See section 11 for more information on changes to remuneration schemes.

9.5 Archetype of the sun and rain

A possible solution to the previously discussed problems, the source of which lies in the archetype of the carrot and stick, may be the archetype of the sun and rain. The carrot and stick symbolize the tools used to change someone's behavior by violating their dignity. The sun and rain symbolize the pleasant and unpleasant natural consequences of our actions (Tab. 9.5-1). After all, the sun does not shine as a reward for our good work, and rain does not fall as a form of punishment.

If an employee gets a bonus for good work, it is a carrot. However, if the same employee, along with others, earns more, because customers value the company's products, it is the sun. Customers do not buy products to reward employees. Actually, they do not care at all about rewarding employees. They just like the products the employees make.

If an employee loses a bonus for bad work, it is a stick. However, if a company has to reduce wages because customers have turned their backs on its products, it can be called the rain. Again, customers do not buy the company's products in order to make employees work better or punish them. They simply do not like these products.

The sun and rain are different from the carrot and stick in that they are natural consequences of the state of things or the course of events, and not events imposed by the stronger. To explain the difference between a natural consequence and a carrotstick, let's consider the following example:

- a. **Case no. one.** Mum says to Johnny, who is three years old: "Don't touch the phone or I'll teach you a lesson" (stick). Johnny doesn't touch the phone as long as mum is looking, but as soon as she turns around, he will try to do it. Every forbidden fruit is very tempting.
- b. **Case no. two.** Johnny touches the pot of boiling soup. "Ouch! It's burning" (rain). He will probably never touch it again. And you don't need to remind him.

When mother takes Danny to have ice-cream in exchange for doing his homework in geography, it is a carrot. However, if mum takes Danny to have ice-cream without any precondition, it is a consequence of the fact that mum likes Danny and they both like ice cream.

Sun	Rain
<ul style="list-style-type: none"> • authentic expressions of appreciation • I am doing very well – promotion to a higher position • customers like our product – we earn more • profit-related bonus 	<ul style="list-style-type: none"> • analysis of a negative phenomenon • I cannot cope – transfer to another post • customers do not want our product – we earn less • disciplinary penalty

Tab. 9.5-1 Examples of pleasant and unpleasant consequences

A particularly motivating reward, which is not a carrot, is to entrust someone with an ambitious task, but only if it is the result of an adequate assessment of competence. This is, after all, the most authentic expression of appreciation: "I am convinced that you will manage".

I personally know a teacher of German at one of Warsaw's schools, who expresses her recognition of a student's good academic achievements by giving the student a dignity reward in the form of a more challenging homework. "That's too easy for you – she says. – I think you can manage this one". And her students appreciate it. It is important to mention, however, that this teacher does not give grades, but instead discusses each student's homework with them. A more difficult task does not mean that the chance for a good grade is reduced.

Similar behavior is also appreciated by adults. After all, promotion of an employee to a higher position is equivalent to entrusting them with a more difficult task.

Of course, you can turn the promotion into a carrot. For example, it can be announced as a reward, subject to conditions, emphasizing that it depends on our good will and whim and, worst of all, offer it in exchange for obedience, rather than because of competences. In that case, it will naturally be a carrot and, like any carrot, it will be associated with a stick, because if the promotion was given for obedience, it may obviously be taken away for disobedience. Do we not know this phenomenon from the world of politics?

I devote the entire section 8 to the profit-related bonus, so I will not discuss it here, but I will write a few words about disciplinary punishments, because a question may be asked why I do not consider them to be sticks. In fact, they very often are, and everything depends on the intention and purpose which they are to serve. In principle, a disciplinary punishment should only be imposed in the event of a blatant breach of the work regulations or good manners, and ought to be a warning, not a burden. One good example of such a punishment is the yellow card shown to the player by the referee. In our company, it was a reprimand entered into the file and obliterated after six months. However, an individual who collected three current reprimands could have been disciplinarily dismissed, although this was not the rule. I have already written about it in section 9.4.

A very interesting example of a non-standard management model was described by Ricardo Semler [69], Managing Director of Semco SA, a company founded by his father in São Paulo, a manufacturer of industrial equipment. The company achieved a spectacular success in difficult conditions of high inflation, and he was awarded the title of Businessman of the Year in 1990. Employees in this company:

- are not subject to controls or regulations;
- determine their own working hours and remuneration;
- make the most important decisions democratically;
- evaluate and even choose the management staff, accepting at the same time the fact that senior management is paid several times more than the company average;
- can work free-lance using the company's assets.

In this company, employees do not know the archetype of the sun and rain, and yet they use it extremely efficiently.

As we will see in the following sections, the difference between a carrot and the sun and a stick and the rain can sometimes be very subtle. The boundary between them is easy to cross. The criteria that help to distinguish between these two archetypes include their sources, which are based on an attitude to human dignity. This is explained in Table 9.5-2.

Carrot and stick	Sun and rain
<ul style="list-style-type: none"> • Action imposed by the stronger in order to change our behavior. 	<ul style="list-style-type: none"> • A natural consequence of events or a state of affairs, which is the result of laws beyond our control (e.g. economic laws) or which aims to achieve a socially acceptable goal (e.g. the viability of the company).
<ul style="list-style-type: none"> • It violates our dignity because someone stronger puts themselves above us. 	<ul style="list-style-type: none"> • It does not violate our dignity. It is the result of an understanding of the laws governing the world or of a voluntary agreement.

Tab. 9.5-2 Differences between carrot and stick archetypes and the sun and rain

9.6 Praise and appreciation

If carrots demotivate, and praise is a carrot, then should we refrain from praise as well? Can't recognition be given to good work? Answering this question requires an explanation of the difference between praise and appreciation. Let us begin with two examples:

Praise: *Mr. Jones, I can see that you are developing. I like it very much. You work honestly, you come to work on time, and I also like your attitude towards your colleagues. I have already told them that they should follow your example.*

After expressing praise, Mr. Jones's superior clearly felt better. "What a great boss I am – he thought. – This Jones guy is actually quite mediocre, but I praised him. Because I know how to approach people. Let the poor sod try, maybe he'll turn into something decent yet. As an encouragement, I have set him as an example to others. Me – a good, wise, fair, and modern boss, who can motivate my people to work better. It is a pity that not everyone can appreciate it.

And what did Mr. Jones think? "What an asshole! »I can see that you are developing«. As if I were some kind of a moron! I wrote him a report and I put so much effort into it. I worked all weekend and even cancelled a trip with my family, and he comes up with that bullshit about coming on time to work. Idiot! And on top of everything, he made me an example for the team. Now I'm done for. And everything started to look so good. Who gave him the right to judge me? He'd better read this report, which he probably already put away in his desk, anyway".

Appreciation: *Mr. Jones, I really liked your report (fact). In particular, the final conclusions that you have formulated (specific details). You had to put a lot of work into it, especially now that you had so many additional responsibilities (appreciation of effort). But your efforts will be very useful for the company. I will present your conclusions at tomorrow's meeting of the Management Board and I think that we will go in the direction you have indicated (proof that a high evaluation of the work is not perfunctory). I am also pleased that your relationships in the new team are so good. I know it was not easy.*

Let us look at the differences between the two messages.

Praise	Appreciation
<ul style="list-style-type: none"> • a person is assessed; we do not like to be assessed, even a positive assessment is above all a grade • the assessment is vague and therefore perfunctory; it does not appear to be authentic • the reviewer puts himself above the person they review; praise flows from top to bottom 	<ul style="list-style-type: none"> • a person's work and other achievements are assessed; we always like to hear that we are doing something well • the assessment refers to specific things, which leads to the belief that it is not perfunctory • the person showing appreciation does not place themselves above the recipient of appreciation; appreciation has a nature of partnership

Tab. 9.6-1 Differences between praise and appreciation

The difference between praise and appreciation lies in the relationships that these messages build between the parties. Praise always emphasizes a non-partner attitude. We can even hear that:

Praise is more necessary for the one who showers with praise than for the one who receives it.

The main harm of praise is that it emphasizes the non-partnership relationship between the one who offers praise and the one being praised.

In principle, the only person authorized to offer praise without any reservations is a master to a disciple, and only if the master is genuinely admired by the disciple, and not a master established by the structure of any organization – a company, office, university, army, etc. This kind of praise can only apply to what a master excels in and what the disciple is trying to acquire. If we are not sure whether someone considers us a real authority, we'd rather not praise them. However, we can always express appreciation of what they are doing. What is more, we ought to do so as often as there is an opportunity to do so, because the sense of success is a very strong driving force for positive action. When expressing appreciation, however, the following principles should be followed:

1. Appreciation should not concern a person but their actions. Instead of: “You’re a great confectioner”, say: “You make excellent cakes”.
2. Recognition should be as specific as possible, as this enhances its authenticity. So instead of saying briefly: “You make excellent cakes”, it is better to explain why we rate these cakes so highly.
3. A theatrical tone should be avoided when expressing appreciation, as this strips it of its authentic character.
4. Expressing appreciation publically should be avoided, as this may spark negative reactions from others. In principle, expressing appreciation publically is allowed only if we are certain that it is shared by all those who listen. The principle that we express appreciation of the work and not of the person should be strictly observed.

All these rules may seem quite complicated and difficult to implement. Here is one practical piece of advice. If you don't want appreciation to sound like praise, imagine that you are talking to someone high above you. You will surely choose words which will not have the nature of patting on the shoulder. After all, you would probably not tell your boss that he is developing and making progress. So do not praise the boss, but remember that the boss also needs words of appreciation from you. The boss is also human. I say this as a long-standing boss. Be careful, however, so that your speech does not smell of toadyism and follow points 1 to 4 above.

Finally, a statement by Roman Szczepanik, Director of Human Resources in the ITI Group [34], p. 51.

How to motivate media stars

In every company, and therefore also in our company, the best specialists belong to the group enjoying the highest privileges. This is not only about the level of remuneration, but above all about working conditions, recognition, the way of being treated, as well as opportunities and space for creative development. Of course, this does not immediately mean that we need to fulfill all their desires and expectations, because we do not treat them as sacred cows. But because of their uniqueness, we want those celebrities to feel good in our company, so they may want to work with us for as long as possible. However, they must be aware of and take into account not only their ambitions, but also the financial capacity of the company and the profitability of the programs they run.

A very strong incentive for the celebrities is the need for recognition, both in their professional group and in the society. They care about a positive assessment and opinions of the people with whom they work. The quality of relations within their teams influences the way they operate. They have to be able to cope with high levels of stress on a daily basis. There are situations when the enthusiasm for work grows geometrically, because the viewing figures of their programs grow, but sometimes they feel less

comfortable, because their popularity is waning. And then they expect support, help, and understanding from their boss.

9.7 A gift with words of appreciation

If words of appreciation are not only possible, but even necessary, can they be accompanied by a commemorative gift? The answer to this question is: they may, but under certain conditions:

1. Combine the gift with words appreciation following all the rules described in 9.7.
2. Present the gift as a surprise afterwards. A gift announced as “something in return for something” becomes a carrot with all its negative consequences.
3. Do not link a gift with competition. Do not present it because someone is better than others, but because he or she is very good.

Remember that a factor much stronger than a material gift, a factor that emphasizes the importance of the appreciation expressed, is to entrust the employee with an ambitious task. The gift should only be a symbol commemorating that event.

9.8 Annual bonus – a bowl

When discussing remuneration without bonuses, commissions, and rewards, the question of the so-called profit bonus often arises. Is there anything wrong with the fact that the company tells the employee: “Today we can’t pay you more, but if we all make more profit, the company will share part of it with the employees”? How does the profit bonus relate to the payment of commissions? After all, this is the way in which the market – without asking anyone about the rules – rewards all company owners, i.e. those who work free-lance. Is the profit bonus a carrot with all the resulting negative consequences? Does it demotivate employees to do a good job?

To answer these questions, let us recall the definition of a carrot given in section 8.1. According to this definition, a carrot is a pleasant event announced in advance by the stronger party to change the behavior of the weaker one.

From the position of business owners, profit distribution is not a carrot, because the market certainly does not intend to influence (although, of course, it does!) their behavior. It is also up to the owners whether the profit will be paid out or reinvested. In their case, therefore, profit is not paid out in the context of using the carrot. But what about the employees?

In the case of employees, it all depends on the context in which the profit bonus will be announced and paid, as well as the trust that employees place in the company. If the profit bonus is:

- granted in the context of uncertainty about maintaining the job (employees do not feel that they are tied to the company for a long time),
- paid only to a selected group of employees, e.g. the management board,
- defined in advance as a preset percentage of profit, surplus profit, or another index (or indexes) determining the condition of the company,

it will have the nature of a carrot and may result in the bonus group taking profit maximization as its short-term primary objective. As a consequence, that group will:

- neglect other important objectives, such as: market building, development of new products, acquisition of new technologies, i.e. everything that does not affect the bonus, although it is necessary for the functioning of the company in the long run,
- will not take advantage of any (unplanned) growth opportunities, as this would entail additional costs and reduce profit,
- avoid spending any investment costs that are not immediately necessary, e.g. investments in machine park renewal, training,
- use artificial profit-building techniques, e.g. sales pushing as described in section 8.7.

The weaker the company's efforts to build trust and partnership, and thus the less loyalty employees have for the company, the more intense all these phenomena will be. With a high level of loyalty, a sense of being associated with the company for many years, and not only until a bonus is paid, with a high level of trust that employees place in the company, and with the company's application of the model of partnership rather than violence, these phenomena may not occur at all.

The company's positive actions towards the employees, based on partnership, provide protection against the negative effects of rewards.

Bonus for the bank's Management Board

I was once a member of the Board of Supervisors of a bank. The Board decided once a year to pay profit bonuses to the Management Board. One year we were faced with a dilemma: the Management Board achieved a profit lower than expected because it took advantage of a very good opportunity to buy a small local bank. The purchase significantly increased the market of our bank, but at the same time significantly reduced the profit. Shouldn't the profit bonus be paid out in this situation? I think it should. However, the bonus regulations did not allow for its payment, as there was hardly any profit.

Eventually, the Board decided to pay the bonus against the regulations. It also rejected my suggestion to change the regulations in such a way that in the future there would be no barrier to rational actions of both the Management Board and the Board of Supervisors. I moved that the profit bonus be converted into an annual bonus paid to the Management Board on the basis of two factors:

- the labor market of bankers in high positions - salaries in our bank were not competitive in relation to other banks, so from time to time other banks bought us employees;
- current and expected financial standing of the bank.

However, the habit of traditional thinking prevailed over rational thinking.

Since the year-end bonus should not numerically depend on profit, I will continue to call it an *annual bonus*. A properly programmed annual bonus is an example of a reward mechanism, which I call a **bowl**. From the point of view of motivation and dignity, it is the opposite of a carrot, as explained in Table 9.8-1.

Carrot	Bowl
<p>The company to the employee: Look, here is a carrot. We could give it to you right away, but then you would not work because you are lazy and dishonest. You will get a carrot only if you try hard.</p> <p>Declaration of superiority and lack of trust.</p>	<p>The company to the employee: Look, here is a bowl. Today it is still empty, but if it fills up owing to our mutual work, the company will share its success with you.</p> <p>Declaration of trust and partnership.</p>

Tab. 9.8-1 Differences between a bowl and a carrot

The bowl is, therefore, part of the world of natural consequences, the world of the sun and rain, the world of the younger and older, the world of partnership. However, the bowl is a difficult tool to use, because one careless step and it becomes a carrot. This step includes making a link between payout and indexes: 5% on the surplus of profit over 100 thousand PLN, 1% on the increase in sales, etc. This seemingly rational principle – after all, people need to know how much they will earn and what it will depend on – usually transforms the bowl into management by objectives (MBO, section 8.9) with all the negative consequences. So what should be done? After all, the bowl is always announced in advance...

When announcing the annual bonus, we must act in seemingly irrational way. We have to promise the employees something very elusive: “The company will share its success with you when the conditions are right, i.e. when we manage to generate a financial surplus after covering all the expenses necessary for the existence and development of the company”. The opponents of this course of action will say: “No one will believe in such a promise; people must be promised something more specific”. Very much so – but the whole problem is that if employees do not trust the company, they will not believe it. In that case, there is no other way but to start building trust.

Yet, even when trust is established, some important principles must be followed:

1. The bonus is paid to all or a large group of employees without linking it to individual performance. The point is to avoid the effect of competing for bonuses, which inevitably destroys collaboration.
2. The company offers the employees the fulfillment of all non-wage benefits described in section 7.1 and creates the conditions for the realization of the values described therein.
3. Employees are informed on an ongoing basis about opportunities and threats to the company, the state of its finances, development plans, and their expected costs. The company implements the model of full participation in management (cf. [73]). This is an extremely important condition, the implementation of which requires the organization of training sessions for the employees at all levels in reading financial reports.
4. The bonus is not numerically linked to profit or other measurable objective (section 8.3) and its payment depends on the current financial condition of the company and the one expected in the near future. There may not be a profit, but we will be willing and capable of paying out the bonus (as in the case of the bank’s management described earlier in this section), or there may be a profit, but the bonus will not be paid out so that we can accumulate cash for the necessary investments. The access to financial information referred to in point 3 above is needed for employees to understand the company’s decisions. The only guarantee for the payment of bonuses in circumstances of success may be a declaration by the management that it will not award itself a bonus (or will not be paid a dividend) if it denies it to the employees. Another solution, used e.g. at Semco

[69], as well as in most Teal companies, is to leave the decision to pay the annual bonus in the hands of the interested parties themselves.

In accordance with our principle that remuneration should not depend on productivity, the performance review of the bonus group should neither be the basis for making a decision regarding the annual bonus, although the bonus itself will depend on whether the company enjoys a financial surplus resulting from the work done. Here is how the bowl was implemented at Continental Airlines in the mid-1990s, when the airline was going through a serious financial crisis. In order to save the company from collapse, Gordon Bethune was appointed president (see [61], p.107).

Bowl at Continental airlines

One of the airline's top priorities was to get rid of delays in departures and landings, which caused the company to lose \$5 million a month. Bethune encouraged employees to change this and promised them half the savings in the form of bonuses. This amount was to be paid equally to all employees, which meant \$65 a month per person. While the amount itself was not large, it had tremendous symbolic value, and, as Bethune put it, "It was a nice little thank you for employees". Only one year after the plan was implemented, Continental had become the number-one airline in the country for on-time flights.

Note that the bonus was shared equally among all employees. Neither the individual contribution, nor the position was taken into account.

Does this mean that performance review should not be carried out? Absolutely not, and I will repeat it again: by all means, it should! Performance review is an essential element of the implementation of the principle of continuous improvement. Except that it is not carried out unilaterally by the management in order to decide on the payment of bonuses, but by the management in cooperation with the employees – and sometimes also by whole teams, such as is the case at e.g. Morning Star (section 2.4.1) or at Semko (section 2.4.6) – in order to implement the principle of continuous improvement. And this is not an evaluation of people, but an analysis of their work.

Examples of companies using the annual bonus as a fixed component of remuneration can be found in section 2.4.

9.9 Reform of the seller's remuneration system

During one of my lectures in a large pharmaceutical company, where I talked about remuneration without commission, the following question was asked:

"I have a group of salesmen in the company who are rewarded with commission, in which a few are much better than the others. If I introduce salaries that do not depend on sales volume, the best ones will simply quit. What should I do in such a situation?"

As this is not the first time this problem has been raised, I decided to propose a systemic solution. I shall call it a *reform of the remuneration system for salespersons*. The block diagram of the algorithm of this reform is shown in Fig. 9.9-1.

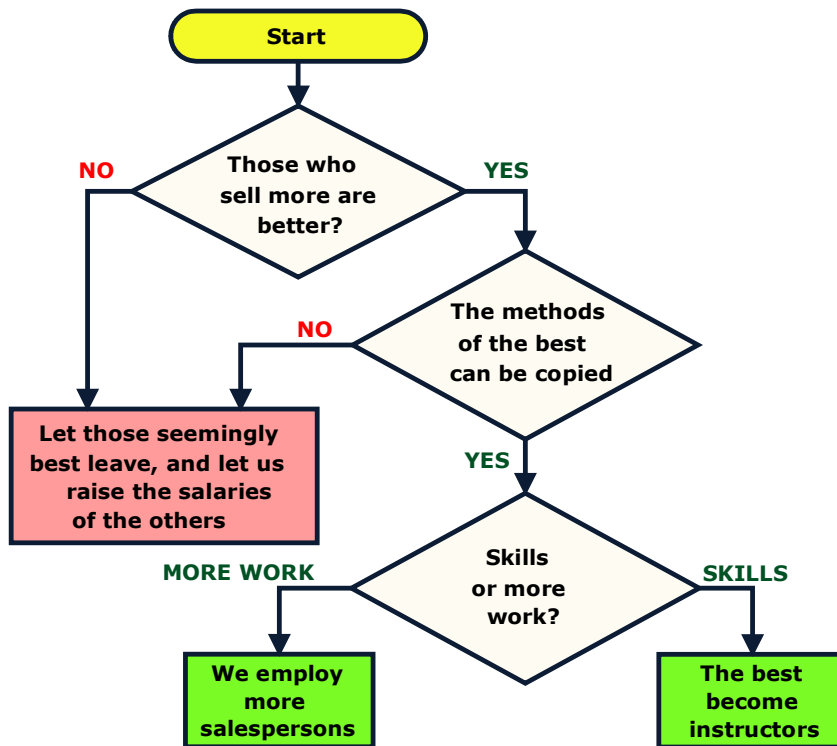


Fig. 9.9-1 A reform of the remuneration system for salespersons

9.9.1 Baseline situation

Suppose, for simplicity, that we have a group of ten salespersons rewarded on a commission scheme, in which the two best persons sell 50% more than each of the others. Let’s assume further that:

1. The company’s pre-remuneration margin rate is 35% of the value.
2. The salesperson’s remuneration is 5000 PLN plus 5% commission on sales.

1.		1	2	3	4	5	6	7	8	9	10	Total
Sales		300	300	200	200	200	200	200	200	200	200	2 200
Margin	35%	105	105	70	70	70	70	70	70	70	70	770
Salesperson’s salary	5	5	5	5	5	5	5	5	5	5	5	50
Salesperson’s com- mission	5%	15	15	10	10	10	10	10	10	10	10	110
Total salespersons		20	20	15	15	15	15	15	15	15	15	160
Company profit		85	85	55	55	55	55	55	55	55	55	610

Tab. 9.9-2 Baseline sales, commissions, and margins in thousand PLN

Let the baseline situation of the company be described in Table 9.9-1. Here, the monthly profit of the company after the payment of salespersons’ remuneration amounts to PLN 610,000.

We begin the implementation of our algorithm by answering the question whether the imbalances between salespersons result from the market situation – the better ones sell more because they operate in better markets – or from their individual selling skills.

9.9.2 The better ones are not better

If the differences between salespersons result only from differences between their markets, e.g. better salespersons have several hospitals in their regions, the “better” ones are not actually better, so we can let them go without regret. We may employ two others in their place and pay a fixed salary of 15.5 thousand PLN to all. This way the company will save PLN 5,000 per month, i.e. PLN 60,000 per year. If we spend this amount on training for salespersons and thus increase the sales by 5% – which is not an excessively optimistic expectation – then the company’s profit will increase by 462,000 PLN per year, i.e. by 76%. Note that since salespersons no longer receive commissions, sales growth no longer generates an increase in the cost of their salaries.

9.9.3 The better ones are better

Let us now look at the case in which differences in sales volume are not the result of differences between markets, but are due to the individual skills of salespersons. This situation again requires an analysis of two cases depending on whether the methods of better salespersons can be copied, i.e. applied by other salespersons or not.

9.9.4 The methods of the better cannot be copied

This situation is described in the box containing the story of the **Eyewear retailer** in section 8.7 – the shop assistant handpicking wealthy-looking customers. If the method of “better salespersons” cannot be replicated, we proceed in the same way as with market differences.

9.9.5 The methods of the better can be copied

Another case is when better salespersons are actually better. The absorption capacity of all markets is more or less the same, and yet better salespersons sell 50% more than any other salesperson. Here again we have two cases to consider.

9.9.5.1 The better work more

Let’s assume that better salespersons sell 50% more, because they spend on average 50% more time on work than the others. If that is the case and the markets of individual salespersons do not differ significantly, similar results can also be achieved in the markets of the remaining eight salespersons. Naturally, you cannot expect everyone to work like those two, but you can hire five new sellers, give them smaller markets to serve, and offer each seller a fixed salary of 16 thousand PLN. We may lose the two “better” salespersons, but they wouldn’t be able to work that way for too long anyway. Feeling occupational burnout, they would leave sooner or later, and perhaps they would start neglecting customers, spoiling the company’s image. After the reform, our profit sheet would look like the one in Table 9.9-2.

As a result of such a reform, the company’s profit will increase by PLN 200,000 per month. In this situation, the company can again afford to train all salespersons.

Number of salespersons	15
Everyone sells	200
They sell together	3 000
Margin 35%	1 050
Salesperson's salary	16
Salespersons' remuneration	240
Profit	810
Increase in profit	200

Tab. 9.9-3 After the reform of the team in the case of work input imbalance

Another possibility is that the first two salespersons work more, but at the same time they have better markets. They sell 50% more because there are more customers for the company's product in their regions. In that case, we will hire one new salesperson and set a fixed salary for all at PLN 15,000 in order to serve these two better markets. If the two most hard-working salespersons leave, we will hire two others in their place. Initially, the company will lose 5000 PLN per month, but soon it may gain by having a team of salespersons who cooperate with each other, exchange experience and observations concerning the market, and do not work beyond their physical capacity. And, of course, we should again invest in training.

At this point, it should be noted that the training of a team of competing salespersons produces worse results than the training of cooperating salespersons. This is because competing salespersons do not exchange experiences, so there is no synergy effect (box **Why can't it work?** in section 6.3).

9.9.5.2 The better know more

The last case is when our two salespersons are really better than the others. It is their knowledge, skills, and attitudes that allow them to sell 50% more than their colleagues. In that situation, the fact that this knowledge remains the sole share of two salespersons is a pure waste of the company's potential. It should be disseminated within the company, naturally with full respect for those who have it.

Salespersons	10
Instructors	2
Everyone sells	300
They sell together	3 000
Margin	1 050
Salesperson's salary	18
Instructor's salary	30
Salespersons' and instructors' salaries	240
Profit	810
Increase in profit	200

Tab. 9.9-4 After the reform of the team in the case of skill imbalance

Two of the best sellers are transferred to instructor positions with a remuneration of PLN 30,000, so they will now earn PLN 10,000 more than before. They also need to be trained in

coaching and mentoring skills. In their place, we hire two new salespersons and we offer a salary of PLN 18,000 to all salespersons. Our profit and loss account looks like the one in Table 9.9-3. As a result of this reform, the company also gains PLN 200,000 annually.

Naturally, we can ask the question whether each of the eight “worse” salespersons can always be “upgraded” to the level of two “better” salespersons. The answer is: probably not always and probably not everyone. We can also ask whether the best salespersons can be good coaches. Again, the answer is: probably not everyone. As in any profession, there are extraordinary talents and hopeless mediocrities among salespeople. As in any profession, virtuosos are not always good teachers.

However, if our team does include talented persons, their talents should certainly be taken advantage of. Even if it proves impossible to turn them into didactic instructors, they can still train other salesmen from the position of their masters, using the “stand-by-me-and-watch-me-sell” method. Naturally, in each case we will need the help of specialists who will train the salespersons and form the coaches. This help will be much more effective, though, if talented salespersons stop seeing their colleagues as competitors for bonuses and rewards. If this does not happen, there will be no cooperation with external coaches, there will be no disclosure of personal observations about the market, and there will be no willingness to improve the work of the entire team.

The “worse” group may also include people who are not suitable for the profession of a salesperson or who are not suitable for selling that particular product. I personally know an incredible bicycle retailer who had previously been selling coffee machines without special enthusiasm. However, he dreamt of selling bicycles and finally achieved his goal. So if our team includes individuals who for one reason or another are not fit for their role, they should be transferred to another position or obtain our help in finding another employer.

It may also be the case that eight “worse” salespersons cannot be raised to the level of two “better” ones. However, if we get rid of the “maladapted” ones, general sales training (a coaching company) and training in a specific company market (“better” sellers) cannot fail to increase sales. It may not always be as high as in the model example. But it has to happen. The opposite assumption would mean that salespersons can never be taught anything.

9.10 Misunderstandings on partnership and trust

When I talk about partnership, I occasionally come across the fear that the style of partnership in fact means being buddies, which leads to the breakdown of discipline and turning a blind eye to sloppy work, delays, or breaches of the rules of employment. After all, you can’t rebuke a buddy or give them a business order. When I talk about confidence-building, there is an assumption that it excludes monitoring, inventory, financial analysis, and counting cash at the cash desk at the end of the day. When I speak of the team members’ participation in decision-making, it is sometimes understood as an incentive for collective decision-making by means of voting.

9.10.1 Partnership is not chumminess

Partnership between the superior and the person under their care is above all a commitment to support the partner in the implementation of their tasks and in difficult life situations. In a partnership model, the superior supports his team members and the team members support their superior. They support each other with respect for the dignity-based values referred to in section 7.1, i.e. honesty, loyalty, truthfulness, etc. Partners apply these values to each other, as well as

to the organization for which they work together. Partnership is not a chumminess – it is a mutual responsibility and the resulting mutual trust.

Western idealism and eastern realism

In 2007, I listened to a lecture given at the Get Inspired conference on opportunities for business cooperation with Chinese partners. The lecturer, Professor Wee Chow Hou of Hong Kong, said at the beginning that insular China is no different from mainland China in terms of doing business. He put it this way: “Money is the universal language of business and this principle applies everywhere”.

“However – he continued – there is a fundamental difference between the style of acquiring business partners in China and in the West. We, the people of the East, are realists – we were born with our feet firmly on the ground. You Westerners are idealists born with your heads in the clouds. Your idealism is expressed by your deep faith in contracts and contractual penalties. You believe that concluding a contract with high contractual penalties is the basis for long-term cooperation. However, such a contract only gives you the certainty that it will be honored for as long as it is profitable for your business partner. There is no penalty that cannot be paid if it is worth it.”

“We, the Chinese – he said – also sign contracts, but we believe that the basis for good cooperation lies in building a strong positive relationship with our customer. Such a relationship cannot be built in a week. It can take months or even years. However, once it is built, neither will we abandon our partner nor our partner will abandon us just because it pays off. This is our idea of realism.”

9.10.2 Partnership does not preclude command

One of my listeners asked if a military commander, ship’s captain, firefighter’s commander, or surgeon in the operating room, who wants to shape partner relations with the people under their care, should refrain from giving orders and commands during the action. Can a conductor give a free hand to the orchestra musicians during a concert? I don’t think so. And if he doesn’t, it will mean that he uses coercion and, therefore, violence.

The idea of violence, as I understand it, is to disregard the opinion of others, to disregard their knowledge and experience, to assume that we are omniscient. Violence is manifested above all in the establishment of general principles on which operational decisions will be based in the future. Leaders of violence set their own rules of action, asking only their superiors for their opinion. Leaders of violence announce: “You will do as I say” and never get involved in any further explanations. They never have any reservations, and even if they do, they discuss them with their superiors, not their subordinates.

Leaders of partnership do have reservations, recognize the knowledge of the people under their care (no longer subordinates, but partners!), take advice with them, set the rules of conduct together with them. They try to make sure that these rules are accepted by the team as their own rather than imposed by someone else. Leaders of partnership share responsibility with the members of their teams. Together with them, they plan actions.

And yet, when it comes to action, leaders of partnership take over the command and all the responsibility that goes with it. They still act in accordance with the mutually established principles, but it is up to them to take the sovereign decisions. Maybe it’s going to be a bad decision, maybe the team would make a better decision, but during the action, the team has to function like a machine. There is no time for discussion.

However, after the action is over, the leader of partnership sits down with the team to analyze what happened. Then again there is time for discussion, a clash of views, innovation. And this is what distinguishes partnership from violence.

Both situations are allowed in Teal companies. One group of people may form a task force at one time and an action team another time (section 2.3.4).

9.10.3 Partnership does not preclude monitoring

As I have said earlier, partnership is about responsibility and trust. And if we trust someone, we don't have to control them. After all, control is an expression of mistrust. Does partnership mean resignation from taking stock in a warehouse, counting cash at the cash register, expecting reports on the performed tasks? Certainly not. However, such actions should be carried out in a way that does not violate anyone's dignity and should serve the purpose of improving performance of duties, rather than catching a thief. To explain it better, let me use a linguistic measure. In addition to the concept of *control*, I will introduce the concept of *monitoring*.

Control is the supervision resulting from a lack of trust and involves checking whether our subordinates (not people under our care anymore!) perform their tasks correctly, reliably, and honestly. So-called *mystery shopping*, i.e. sending inspectors pretending to be customers to retail outlets, is a classic example of control (the **Mystery Shopper** box in section 8.5). Naturally, there are situations in which such checks are necessary, but it always indicates a lack of trust, so action must be taken quickly to eliminate it.

Unlike control, **monitoring** is the measurement of the state or course of a process, the purpose of which is to make correct decisions and corrections, rather than checking anyone's integrity. Therefore, monitoring does not result from a lack of trust, but from the understanding that the course of all processes in the company depends on many factors, including random ones (more about that in Part V), so we do not always achieve the objective that was intended. A good example of monitoring outside the management domain is a navigator determining the position of the yacht during the voyage. This is not the result of a lack of trust in the helmsman, but a necessity resulting from the fact that during the cruise many factors can affect the yacht's course, such as: wind, sea currents, efficiency of on-board equipment, as well as human errors. Therefore, once in a while we establish the position of the yacht in order to mark our position on the map and correctly plot the course.

Therefore, monitoring differs from control primarily in terms of its intention and, consequently, in terms of the atmosphere in which it is carried out. If we need to take stock to check if the warehouse keeper does not steal, it is a control. If we do it in order to count the stock, which can always and for various reasons differ from what is expected, it is monitoring. From a technical, organizational point of view, control is not much different from monitoring. However, it is not enough to call control a monitoring system, to make it a monitoring system. Because the idea lies in the intention and not in the name. Monitoring is always needed in every company and it does not destroy the atmosphere of partnership. Control puts partnership very seriously at risk because it results from mistrust. And while it may sometimes be necessary, we should always keep in mind the cost it entails.

9.10.4 Partnership is not Athenian democracy

Athenian democracy is a situation in which everyone votes for everything in order to reach a decision. Such a democracy in a company is, of course, absurd, if only because it is usually the minority which is familiar with issues that require specific expertise. The team of all employees is invariably divided into professional groups – salespeople, technologists, accountants, human resources specialists, etc. – of which each represents a minority. If every decision were to be

taken by a majority vote, then the majority who are ignorant of a specific issue could always outvote the minority who are experts in it.⁸⁸

Partnership management, also known as participatory management, is not Athenian democracy, but a dispersed autocracy. The key decisions are taken by specialists, each in their own field. How to organize it in practice is discussed in Part VI devoted to process management, i.e. knowledge management. Teal organizations provide examples of organizations managed in this way, among them those described in section 2.4.1.

The fact that majority voting or, even better, a consensus, is not suitable for day-to-day management, does not mean that it should never be applied. It can be desirable and effective wherever there is a need for support of some action by the entire crew. Where there is a need for employees to feel that they are acting in a properly defined common interest – the concurrent interest of the employees and the company. The story described below provides a good example.

Fire in a furniture factory

During one of the conferences organized by the British Deming Association in the 90s, I listened to the story of an American owner of a furniture factory.

A few years earlier his factory had completely burnt down on Christmas Eve. It was a tragedy not only for the workers and owners, but for the entire small town, where the plant provided work for the majority of residents.

The day after the fire, i.e. on the first day of Christmas, the owners convened a meeting of the crew at the local cinema. They had already had a conversation with a local bank, which promised to grant loans for the reconstruction of the factory. However, there was still more money needed for salaries, so that during the construction time the employees could make ends meet. The management of the factory proposed that everyone would work on the construction site for a minimum wage sufficient to survive and paid by the construction company. This not only gave jobs to people, but also reduced the cost of reconstruction. For the entire reconstruction the management hierarchy of the company was to be suspended. Everyone would work where their foreman sent them.

This decision was taken in the vote of the entire crew and I do not need to add that it was unanimous. The factory was rebuilt, and in a much more modern version than before. However, the greatest benefit of this solution was a very strong sense of partnership and trust that emerged among the employees. "I would like to wish each of you such a crew" – were the final words of the owner of the factory.

Decisions taken by majority voting should apply only to situations such as those in the example above, which are not of a substantive nature and therefore do not require specialized knowledge. Another example is the referendum held many years ago in Zurich, the aim of which was to decide whether the inhabitants of the city agree to a small increase in taxes in return for free public transportation. The proposal was rejected. However, if the decision concerns a substantive matter, such as introducing a new technology, entering a new market, or realizing a major investment, it should be taken in accordance with the principles of partnership democracy (section 2.2.1).

⁸⁸ Unfortunately, this is exactly what happens in many world parliaments. Friedrich August von Hayek writes about it in his excellent *Constitution of Liberty* [36].

9.11 Strategic foundation

In the light of the criticism of management by objectives (MBO), is it necessary to depart from any goal-setting for companies and teams? Of course not. Objectives are necessary for the implementation of the company's strategy. Without them, the company is like a ship without compasses. However, the point is that setting goals should not eliminate thinking and responsibility, nor should it prevent the correction of the course which is necessary during each navigation. In order to clearly establish the main directions of the company's activity, it is necessary to define its *strategic foundation*, consisting of mission, vision, values, and strategy.

9.11.1 Structure of the strategic foundation

Mission and vision are sometimes understood differently by different organizations. Fig. 9.11-1 shows my understanding of these concepts, which does not mean that I believe it is the only one. I took the idea of strategic foundation (the name is mine) from the book by Andrew Campbell and Laura Nash [10], although I modified it a bit in my own way. The directions of the arrows indicate the order in which the foundation elements are built.

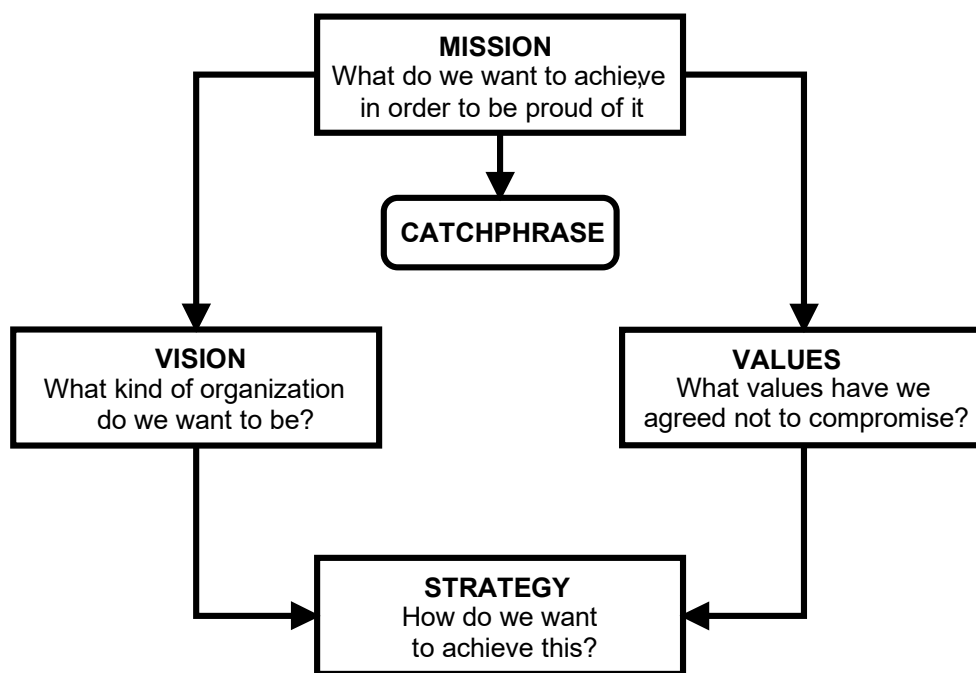


Fig. 9.11-1 Structure of the strategic foundation

The individual elements of the foundation are defined as follows:

1. The mission defines what is important to us, what we intend to pursue, and what we would like to be proud of. Every member of the organization should not only know the mission, but also sincerely identify with it.
2. Values are role models or models shaping the conduct that must not be violated during the pursuit of our mission. (More about values in section 7.1)
3. The catchphrase expresses our mission and values in a brief form. It is mainly used for PR purposes.

4. The vision responds to the questions of who we want to be in the future and what our organization should look like in the future, e.g. should it be big or small, premium or budget.
5. The strategy defines the way of pursuing the mission and vision while maintaining the selected values.

The example below shows how the elements of the strategic foundation are defined at Toyota, the undisputed leader not only in the automotive industry, but also in the area of quality management. I took the first four elements from [54] and added the strategy at my own risk. In fact, *The Toyota Way* is a method of managing a company that has been adopted by most of the automotive industry companies in the world since its announcement.⁸⁹ It is certainly the basis of the company's development strategy, but it does not include specific strategic, tactical, and operational actions, which I am describing below.

Toyota's strategic foundation

Mission

- Toyota shall lead the way towards the future of the automotive industry, enriching the lives of people around the world, providing the safest and most responsible means of transportation.
- By our commitment to quality, continuous innovation, and respect for the planet, we want to exceed people's expectations and be rewarded with a smile.
- We will achieve ambitious goals thanks to the talents and passion of people who believe that things can always be done better.

Values

- The spirit of challenge.
- Continuous improvement.
- Go and see for yourself ("Genchi genbutsu" in section 14.2)
- Teamwork.
- Respect.

Catchphrase

- Rewarded with a smile by exceeding your expectations.

Vision

- The largest, most respected, and most profitable automotive company in the world.

Strategy

- The Toyota Way (section 14.3)

⁸⁹ The fact that a company managed according to TQM principles makes its method available to everyone, and thus also to the competition (!), is a characteristic feature of the quality ideology. Quality companies do not share with the competition their technologies or trade secrets, but they do share the knowledge about quality, following the principle that improving oneself is not possible without improving the surrounding environment. In the 90's, I came across a tourist company White Rose Lane, which organized boat trips on the river flowing through the city of York in Northern England. When the company went on the TQM path, there were two similar companies operating on the other bank of the river. White Rose Lane offered them to share their knowledge of TQM, but they refused. A few years later both of them went bankrupt due to lack of customers and White Rose Lane bought their boats.

9.11.2 Implementation of the strategy

The strategy should set out the directions of action and allow to successively define specific tasks. For this purpose, we can define three levels of development plans with different time horizons:

1. **Strategic directions** with a long-term and not necessarily defined time horizon. They are usually set for many years in advance.
2. **Tactical tasks** have a shorter time horizon (e.g. one or two years) and are often related to the implementation of specific projects.
3. **Operational tasks** are very specific, have a short time horizon, follow the SMART principle, and are equipped with *lag measures* and *lead measures*.

When defining operational tasks, it is particularly important to assign to each of them one person responsible for its execution – although there may be several individuals participating – and to make sure that the tasks comply with the SMART⁹⁰ principle, i.e. that they are:

1. **Specific** – the person responsible for execution should know exactly what needs to be achieved;
2. **Measurable** – define clear criteria for evaluating whether a task has been completed;
3. **Achievable** – avoid tasks that cannot be completed;
4. **Results-oriented** – performing the company's tactical tasks;
5. **Time-bound** – limited in time, i.e. they must have a specified date of completion.

The attribute of *achievability* of a task requires an explanation, as it might seem that it hinders establishing ambitious, developmental objectives which involve risk. In fact, it is quite the opposite. Tasks the successful completion of which is not absolutely certain can be set on a tactical level. Winning a new market can be an example of such a task. Sometimes we can't predict in advance whether we'll be able to win it. Should we therefore fail to make an effort? Of course not! However, an implementation plan for a possibly unachievable tactical task should be broken down into achievable operational tasks:

1. carry out market research,
2. design market-specific products,
3. design a marketing campaign,
4. place the first batch of the product on the market,
5. ...

It is a very serious mistake to leave tactical tasks unallocated to operational tasks.

The principle of achievability should also protect managers from assigning tasks that are immediately known or almost certainly known to be unachievable. However, some managers believe that unachievable tasks motivate people to make extreme efforts. The typical way of thinking in such a case seems to be as follows: if I set a target that is not ambitious enough, my subordinates will be happy to have achieved it, although perhaps they could have achieved much more. For example, if I want to cut costs by 5% – which I think is possible – I will set the task of cutting costs by 15%. I know that this is unfeasible, but let them try. Maybe they will be able to reduce them by 7.5%?

⁹⁰ The unfolded acronym SMART that I use here is one of several found in the literature. I have chosen this one, having considered it the most useful.

This way of thinking is very damaging for companies. Subordinates usually know much better than the boss what is possible and what is not. Therefore, if they consider a task to be impossible to perform in a fair way, they may adopt one of the two strategies of action.

First strategy: it is not possible anyway. If our task is to do the impossible, we will not try at all. We will do as much as possible without making much effort and we will put all our efforts into explaining to the boss why we could not have done any more. This is the best scenario. The worst, and – unfortunately also the most frequent – scenario consists in falsifying measurements, concealing errors, shifting responsibility onto others, and thousands of other gimmicks, i.e. bypasses (section 8.3) or a war game (section 8.12.2).

Second strategy: the price does not matter. We know from practice that many unachievable goals can, in fact, be achieved for a short time (!) if we disregard the costs. Even a reduction of costs (here and now) can be achieved by increasing costs elsewhere or later. While the first strategy leads to the failure of taking advantage of the company's potential, the second one leads straight to destruction.

So what should be done to motivate employees to the most effective work when we do not know in advance what can be achieved? The simple answer is: before formulating a task, consider with the employees what is possible to achieve and how to do it. In order to do this effectively, a number of quite complex conditions must be met. The team must enjoy an atmosphere of collaboration and trust, remuneration must not depend on the completion of the task, and – at least in certain situations – it is necessary to be able to assess the statistical nature of the phenomenon we are dealing with. Answers to the question of how to achieve it all can be found in the subsequent sections of the book.

Operational tasks are also associated with the problem that meeting all SMART conditions does not always guarantee the completion of the task. In order to explain this, I will use an example from a domain of everyday life. Let us imagine that we decided to lose 3 kg within the next six weeks. This task meets the SMART criterion, because:

S – we know precisely what is to be achieved,

M – the lag measure is known (body weight),

A – the task is certainly not beyond our means,

R – accomplishment of the task contributes to the improvement of our health, which is the basic objective of the task,

T – is limited in time.

Unfortunately, even though this task meets all the conditions of SMART, it is enough to look around to see that, despite the most sincere intentions, it is often not completed. This is due to the fact that although its *lag measures* (body weight) have been determined, the so-called lead measures have not (both concepts were proposed by Chris McChesney, Sean Covey, and Jim Huling [58]).

Lag measures determine how far we are from our goal. Fulfillment of the SMART condition of measurability guarantees the existence of a lag measure.

Lead measures determine whether we have met the conditions that contribute to the achievement of the objective. In the case of fighting overweight, this could include a requirement to run at least 5 km daily and not to consume more than 2000 Kcal. Lead measures will therefore include the number of kilometers travelled and calories consumed. These measures must be defined in such a way that the tasks associated with them meet two conditions:

A. their implementation is entirely within our reach,

B. their implementation guarantees that we will be approaching the goal.

Objectives	Tasks to perform
Make sure that the cheesecake is cut evenly	Adjust the pitch frame and slider to cut the cheesecake.
We need to try to make sure that pastry sold by weight has smaller weight dispersions	Introduce scales for weighing each piece of raw dough with a tolerance of $\pm 5\%$ of the standard. Register the weights of the pieces of baked pastry on the control sheets in order to analyze the process.
We need to keep order on our production benches	Introduce hangers and toolboxes and determine where each tool is to be located; assume a principle that a tool that is not currently in use is immediately put back.

Tab. 9.11-1 Objectives and tasks

Sometimes the lead measure is formulated by indicating the steps to be taken to achieve a given objective. Table 9.11-1 explains this situation, using the example of tasks and activities given to confectioners at A. Blikle Company.

9.12 Violence and ethics in business

Immanuel Kant proclaims in his categorical imperative⁹¹:

*Act only according to that maxim
whereby you can, at the same time, will
that it should become a universal law.*

According to Kant, ethics is a practical knowledge, because ethical behavior always pays off in the long run. Unfortunately, life teaches us that in the short term it can be quite the opposite: it is cheaper to steal than to buy. Fortunately, for most of us, the need for values outweighs the need for profits. The dignity dissonance (section 7.6) will tell us to buy rather than to steal.

However, the choice is not always as simple as between “stealing” and “buying”. After all, we don’t rob the customer when we encourage them to buy, when we offer them a gift, a discount, or an additional benefit. Maybe for a moment it will cross our mind that the customer doesn’t really need what we want to sell them, but in the end it’s the customer who makes the decision. He or she does not have to buy anything, if they do not want to. We do not force them, we only persuade them. The fact that the customer pays for the purchase with company money and receives the gift for their own use is no longer our business. And so – most often involuntarily – we become the executors of the dignity dissonance equation:

⁹¹ Kant, Immanuel, *Grounding for the Metaphysics of Morals*, translated by James W. Ellington, (3rd ed.), Hackett, 1993, p. 30

aggressive bonus scheme + short time horizon
 = *dignity dissonance*

The discourse on the profitability of ethics in business revolves around the tacit assumption that although, in principle, we should act ethically, the “invisible hand of the market” forces us to act dishonestly. Of course, nobody speaks out against ethical attitudes, we all want to be honest, but unfortunately the world of business is what it is, so in this world ethics is not a practical thing. It is also not uncommon to hear an opinion that we cannot afford ethics in “today’s times of crisis”.

Meanwhile, it was not the crisis that led to unethical actions, but the other way round – unethical actions led to the crisis. It was the fraud of Lehman Brothers’ employees that started the domino effect in 2008, leading to the biggest modern financial crisis. Today, many experts believe that this state of affairs was caused not by the bad economic or monetary policy of governments, but by a deficit in business ethics. At the same time it turned out that the period of market prosperity does not guarantee ethical conduct at all.

Immanuel Kant, quoted above, proclaimed that ethics is practical, and Janusz Czapiński captures this by stating that trust, which is after all a derivative of ethical behavior, significantly reduces business transaction costs. The practice of many generations of entrepreneurs, including today’s generation, confirms this thesis. Naturally, in the short term it is still cheaper to steal than to buy, but whoever builds a company for years will certainly not try to prosper on ill-gotten gains.

The view that it pays to be honest can be supported by much evidence, both individual and statistical. The former is discussed e.g. in the book *Moral Capitalism* by Stephen Young [83]. Statistical evidence is provided either by the Gallup Institute’s well-known studies summarized in the twelve attributes of a good company (section 6.6) or by Paul Herman’s HIP stock index [37]. The latter is based on measures of the company’s ethical conduct towards employees, customers, suppliers, society, and the environment. As it turns out, companies with a high position in the HIP index generate higher profits than companies with a low position.

So where does the belief that ethics in business is not worth the effort come from? Naturally, out of ignorance. For some people this knowledge is not really necessary because ethics is part of their internal code of conduct. But when the group of owners (shareholders) is anonymous and management boards change every two years, when the company’s stock market quotations are determined by computer algorithms designed to see only increases and decreases in profitability, it is good to know that ethics is worth the effort and it is also good to understand why.

In my opinion, the reasons for the profitability of ethical attitudes and actions are divided into two groups: reasons external and internal in relation to the company.

External reasons primarily concern rich societies and are related to the growing interest of these societies in ethical values. In the United States, for example, 65% of consumers want to buy products and services that serve the social good expressed in an honest approach to the employee and the environment, and not – according to the already quoted Herman – in charitable donations and CSR. This is exactly the reason to which we owe the high correlation of the HIP index with market success, on the one hand, and the image devaluation of activities under the catchphrase of corporate social responsibility, on the other hand.

Internal reasons are related to the motivational mechanisms described above. Companies that behave ethically towards all their stakeholders enable employees to satisfy their dignity

needs, which creates a positive work ethos that translates into a good product and low costs. In turn companies which act unethically destroy this ethos and make employees feel released from the moral imperative of treating their duties fairly. The work becomes sloppy and the costs are high.

A company that wants to act ethically should also take care not to put its employees into temptation (section 7.6), when people are made to choose between profit and value.

What is then the way of a company that wants to act ethically and make high profits? The answer to this question is: it must act ethically and wisely. And although, as I tried to show, “wisely” also means “ethically”, the opposite is not the case. Lack of ethics leads to failure, but ethics without wisdom does not guarantee success either. Today, management is a vast and fast-growing field of knowledge, of which I have tried to reveal only a small part in this book.

10 Management without a budget

The budget is the bane of corporate America.

Jack Welch, former CEO of General Electric⁹²

The reader should not be surprised that financial management is discussed in the part of the book devoted to leadership. After all, salaries are only seemingly a financial topic. Naturally, they make up costs, but as we have already found out, the way in which the company spends money on salaries is more important than how much it actually spends.

I based this section mainly on the book by Jeremy Hope and Robin Fraser *Beyond Budgeting. How Managers Can Break Free from the Annual Performance Trap* ([38]). The authors created this book as a result of a survey they conducted in several dozen corporations that have abandoned budgetary management of their finances. All numbers, facts, and quotes in this section come from this book unless explicitly indicated otherwise. It is also the source of many of the opinions presented below, but for all of the latter I take personal responsibility.

10.1 How it started

In 1973, the number of IBM's planning staff reached 3,000 people, and the length of the annual budget cycle was 18 months. This planning power largely determined the company's key position in the area of industrial and office IT. The future was predictable; it just needed to be quantified for the action plan to be ready. The only thing left to do was to ensure the plan's precise implementation. Therefore, salaries of the management were made dependent on the implementation of the budget.

In the second half of the 1970s, an energy crisis forced a rapid revision of costs in all companies, including IBM; then, the first personal computers appeared on the market, for which IBM was completely unprepared. The era of predictable market behavior came to an end for all companies. An alternative way of planning action and financial management was required.

Before discussing this new method further, let us consider why it took so much time for IBM (and many similar companies) to draw up an annual budget. Fig. 10.1-1 shows the process of creating an annual budget. Firstly, the board of supervisors establishes the mission and the main strategic directions; then the management board comes up with a strategy to be approved by the supervisory board. This stage is relatively short because, in the conditions of a stable market, the mission and strategy do not change too much, if at all.

Once the strategy has been established, the management board begins to construct a central budget. Usually, the first step is to create a preliminary estimate, which is distributed among all hierarchically arranged business units of the company. This process is known as *cascading*. The head of each unit receives a budget estimate from their superior in the hierarchy, who in turn has received one from their own superior. In this way, the estimates reach all units. Each estimate is the result of a sequence of predictions and assumptions made at the successive levels, usually based on the assumption that tomorrow will be the same as yesterday, with some adjustment of revenues and costs.

⁹² [40] p. xvii

Once the periodic reports have been collected, the central budget is sometimes updated and then cascaded down, but this time without negotiation as this lengthy process cannot be restarted yet again.

This mode of operation does not pose too much danger as long as the market is predictable and growing, but it does become a significant burden when the market falls or starts to behave in ways unforeseen by anyone at the company. The company should react quickly, but a frozen budget does not allow for this.

In the 1980s, some international corporations began to realize that market predictability became once and for all a thing of the past. Accordingly, they started searching for financial management models that would provide an alternative to traditional budgeting. Incidentally, such models were already in existence (although they were few), and they worked very well. For example, the bank Svenska Handelsbanken (600 branches, 11,000 employees and \$2 billion of income in 2002) abandoned traditional budgeting as early as 1972. Jan Wallander, the bank's honorary chairman, said that "budgeting is an unnecessary evil".

However, managing without budgeting is a departure from traditional thinking of a magnitude comparable to abandoning the carrot and stick approach (section 8), so the new models only took off in the second half of the 1990s. In 1997, an international research consortium Beyond Budgeting Round Table was established; within six years, it brought together 60 corporations from all over the world, including:

- AC Nielsen.
- Barclays Bank,
- British Telecom,
- Deutsche Bank,
- DHL,
- Ernst & Young,
- European Bank for Reconstruction of Development,
- KPMG Consulting,
- PricewaterhouseCoopers,
- Siemens,
- Texas Instruments,
- USB.

10.2 Contractual budget

A contractual budget⁹⁴ – which is usually simply called a budget – encompasses three elements:

1. The expected receipts and expenses as well as revenues and costs throughout the planning period.
2. Milestones and associated bonuses.
3. Actions planned to achieve the milestones.

The original intention behind budgeting was to protect the interests of shareholders by defining the expected receipts and acceptable expenses for each business unit of the company. The goal

⁹⁴ I have introduced the term "contractual budget" in order to make a clear distinction between traditional financial management and alternative management, which I later refer to as *financial navigation*.

was to provide each manager in the company with the knowledge of the financial limits within which they could operate in order to satisfy the interests of the shareholders.

In companies where the budget is treated solely as a forecast – as is often the case in small family businesses, which I know from my own experience – it fulfils its function well. It serves both as a compass to plot the company's course and as a tool to correct the course when the winds shift without warning. The problem only starts when this budgetary forecast becomes a contract that cannot be modified despite the changing expectations and reactions of the market.

The idea of a contractual budget is underpinned by a lack of trust – people cannot be trusted because they are incompetent and dishonest. Unfortunately, this always results in problems and losses for the company. When the contract cannot be fulfilled, either the process or the measurement must be deceived (section 19.2). This most often leads to unethical behavior, many examples of which are presented in sections 6 through 10. Below is a list of such behaviors forced by contractual budgets:

- ❖ If there is a risk of cost overrun, then:
 - we buy cheaper, but worse raw materials and services;
 - we reduce the stock of warehouses below secure levels (let the production manager worry about it);
 - we do not pay any invoices (section 8.7).
- ❖ If it seems that we will spend less than planned, then we do our best to spend the remaining money anyway; the savings will be lost to us anyway, and, in addition, we will get less funding next year.
- ❖ We achieve our sales quotas in accordance with “keep your head down” principle:
 - if the quota is at risk of not being met, we use sales pushing (section 8.7),
 - if the quota is going to be exceeded, we limit the sales – otherwise next year's quota will be increased; with next year's quota in mind, we also keep a “hot customer”. (section 8.7).
- ❖ When considering return on investment (ROI) and similar “fractional indicators”, we follow the rule that if the numerator cannot be increased, then it's time to come up with ways of reducing the denominator.

Increasing return on investment

Return on investment is the ratio of annual profit to the value of the company's assets, i.e. (roughly) the amount invested in the company. Naturally, it is a very important indicator, because if its value is lower than that offered by banks for keeping our funds in their accounts, then the company's operation does not make any business sense. It should, therefore, be systematically monitored. Many companies, especially listed companies, make sure that it grows systematically. The problem starts – as the reader probably guesses – when we promise the management board bonuses for increasing this indicator. This was the strategy adopted by the supervisory boards of large American companies in the second half of the 20th century: as a result, many management boards sold considerable parts of their companies' assets and then leased them from the new owners. Return on investment was increased by several thousand percent, even though profits fell slightly due to previously absent lease costs.

Of course, not all these symptoms always occur at the same time, but occurrence of some of them borders on certainty.

In the intention of its creators, the contractual budget was to serve two purposes:

1. Forcing (lazy, incompetent, and dishonest) subordinates to achieve planned goals.
2. Allowing supervisors to periodically check whether their subordinates are acting correctly and honestly.

A superior cannot control a subordinate by following and analyzing all their decisions, because the time needed for this would be comparable to the time devoted by the subordinate to making and implementing these decisions. This leaves us with the milestones, i.e., periodic thresholds to be reached. And if these thresholds cannot be reached, the blame on the subordinate: after all, they voluntarily signed their contract.

Obviously, the subordinate is aware of the consequences of signing the contract, which prompts them to apply the following strategies during its negotiation:

- Always negotiate the lowest targets and the highest bonuses.
- Never give priority to the customer's interest over the sales target.
- Never share your resources and information with other teams. They are your enemies. The NIH (Not Invented Here) syndrome.
- Demand more resources than you need, because if you run out in the course of the year, you won't get more and you'll be blamed for inadequate planning⁹⁵.
- Do not share your predictions or any other information that may help you achieve your goals with your supervisors.
- Never take risks.

As Jack Welch said ([38], p.21):

Making a [contractual] budget is an exercise in minimalization. You're always getting the lowest out of people, because everyone is negotiating to get the lowest number.

Scheduling an IT project

This is what one of my readers, Mr. Michał Stachura, wrote to me: "Personally, I encountered a similar situation in the context of »scheduling IT projects«. Each such annual schedule requires 2-3 months of work. The product of this work starts going out of date around March, becomes outdated in June and turns out to be obsolete and useless in September. The only effect is that:

- additional work is required during the "explanation stage" to identify the causes and culprits of the delays,
- there is no flexibility to react to solutions introduced by our competitors... because we have to stick to our own schedule,
- software errors are being concealed, because the only priority is to keep up with submission deadlines,

⁹⁵ Therefore, if you need 80, you must get 100, and in order to get 100 you must put 150 into the budget because you know that the higher-ups will cut 30%. And they will do that because they know that you know that they will make the cuts, so you end up demanding more than you actually need.

- Halfway through the year, the IT department starts suffering from fatigue and frustration from all the delays and having to explain them”.

10.3 Navigation forecast

Once you break away from the constraints of budgeting, you begin to focus on the more important questions.

— Anders Forsberg⁹⁶

A *navigation forecast*⁹⁷ is the expected revenue and expenses of a company in a given period. A forecast is a prediction, not a commitment! It is not a contract, but a tool for setting operational goals for business units and the company as a whole. To use a sailing metaphor, one can say that a navigation forecast is the sailboat’s course plotted by the captain when leaving port. Such a course is not set in stone. Twice per day, the current position of the sailboat is established, and the course is corrected, so that the sailboat may ultimately reach its destination in spite of the changing currents and winds. It is worth noting that, unlike the captain of a sailboat, who usually strives to reach a specific destination, a captain of a company can change the port of destination multiple times during the journey.

At the heart of the idea of a navigation forecast is the trust in the company’s employees. We trust that they will do their job as well as possible and, as the management board, we try to help them do so.

The management board’s assistance starts at the forecasting stage and consists in distributing forecasts of customer expectations and supplier behavior down the company’s chain of command. These projections come from global market research, which is usually more readily available to the board than to the operating units. On the other hand, the “bottom ranks” are in direct contact with the customer, which complements the information provided by the board.

After receiving predictions concerning the company’s business environment – i.e., market forecasts, information on the economic situation, etc. – the operating units send their forecasts up the chain. From these local forecasts, a global forecast emerges, providing the management board with indications of what revenues and costs can be expected. Naturally, forecasts are not negotiated, because they are only predictions. Goal implementation is not expected to conform completely with the forecasts, because not everything can be predicted. Notwithstanding, forecasts can be used to identify potential pitfalls and weak spots as well as areas where we can succeed. They also show us how much money we can safely spend and what we definitely cannot afford. This information now travels down the chain. Revised local forecasts become the starting point for the development of operational plans. Each such plan is a sequence of tasks to be performed, focusing not on how much we will sell, but on what we will do to reach the sales targets.

Although operational plans could be turned into contracts – after all, it could be expected that the planned actions will be carried out – this does not happen because everyone in the company understands that if the market situation changes, which is more than likely, the plans

⁹⁶ Financial controller of the SKF group (Svenska Kullagerfabriken AB). Sales in 2012: €7.6 billion; [38], p. 107

⁹⁷ This term comes from me.

will need to be revised. Nonetheless, all employees are expected to be guided by the following principles when developing forecasts and action plans and when implementing the latter⁹⁸:

1. Satisfy your shareholders by achieving sustained competitive success.
2. Find and keep the best people for your company.
3. Be innovative.
4. Operate with low costs.
5. Satisfy your customers profitably.
6. Maintain effective governance.
7. Promote ethical reporting.

During the implementation of operational plans, each unit's actions are analyzed and assessed not in terms of compliance with the forecast, but rather in terms of one or more of the following comparative indicators (benchmarks):

- A. Compliance with market expectations.
- B. Comparison of the unit's performance with its performance during a previous period (e.g. year-to-year).
- C. Comparison of the unit's performance with the current performance of similar units in the company.
- D. Comparison of the unit's performance with the performance of its key competitors.

The goal of this analysis is not to penalize or reward employees, but to identify areas where the plans may need revision. It is most often carried out internally by the unit itself and not by the entities responsible for its supervision. In turn, during the implementation of the plans, compliance with the following principles is being ensured:

1. Provide a governance framework based on clear principles and boundaries.
2. Create a high-performance climate based on the disclosure of success indicators (points A to D above) at each level of management.
3. Give local managers the freedom to make decisions as long as they are consistent with the established management principles and strategic goals.
4. Make teams (rather than individual managers) responsible for creating value.
5. Let the teams focus on client expectations.
6. Support an open and ethical system of information flow.

Such principles of plan implementation allow managers to focus on medium- or long-term objectives (rather than short-term objectives, as in budget management) and, crucially, make them unafraid of setting ambitious goals. Another principle is that the objectives to be achieved are less financial and more operational at lower levels of management.

Before introducing navigational management, it took the Franco-English chemical corporation Rhodia⁹⁹ six months to prepare the annual budget. The year 1999 saw the introduction of new planning and management principles:

- I. **Long-term navigation** – action plans for two to five years ahead are set annually on the basis of the current state of affairs and on forecasts.

⁹⁸ These are the principles applied in companies studied by Jeremy Hope and Robin Fraser [38].

⁹⁹ In 2011, the employment was more than 14,000 employees and the revenue – of € 6.17 billion (data from the company's website).

- II. **Short-term navigation** – similarly, plans for the next five to eight quarters are made each quarter.
- III. **Bonuses** do not depend on conformity with the forecast, but on external and internal benchmarks; they are awarded to managers by committees of managers.
- IV. The company is a **federation of small independent teams** with full access to financial and market information (homogeneous for the whole company).

According to all Rhodia managers, navigation management provided them with a much better foundation for decision making and saved 95% of the time previously required for planning. As can be easily calculated, this time was reduced from six months to just nine days!

10.4 The models compared

Let us go back for a moment to the sailing metaphor, as it seems to explain well the basic difference between the contract model and the navigation model. Fig. 10.4-1 shows a symbolic representation of a sailboat's route from the *Start* point to the *Finish* point. Setting sail from the port at 7:00 a.m., the sailboat's captain plotted the course for the finish point. It was a straight line as there were no islands to bypass along the route. It had been agreed upon that the sailboat should be at the point referred to as the *Milestone* at 7:00 a.m. on the next day.

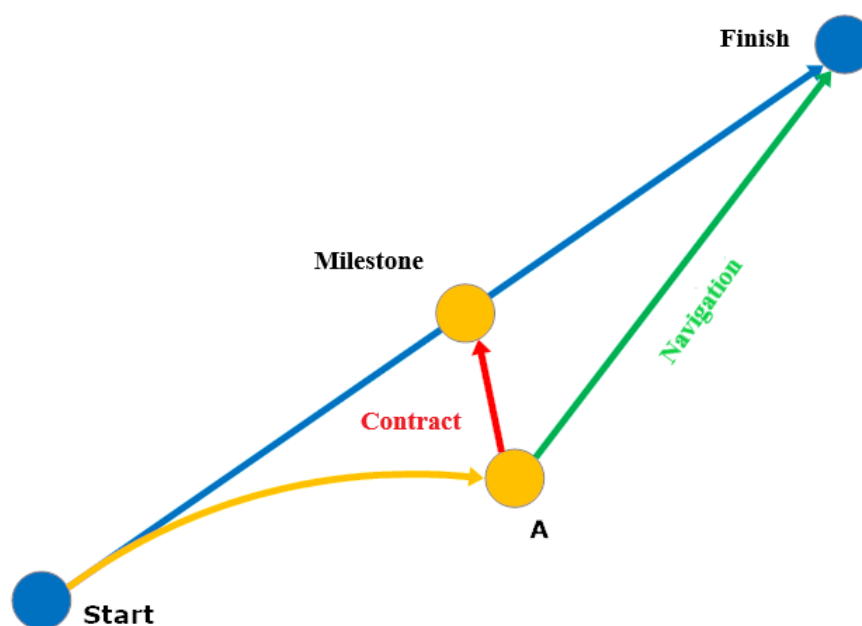


Fig. 10.4-1 Sailboat's route

However, a strong western wind rose during the day, causing the sailboat to drift eastwards. The next day at 3:00 a.m., the captain realized that the sailboat was at the point marked as *A*. If the captain had a contractual agreement with the ship owner, they would now have to sail to the milestone, because their salary would depend on it. However, if they enjoyed the trust of the ship owner and had a free hand in choosing the course, they would choose the course marked as *Navigation*.

Let's now compare the two discussed models in terms of their underlying principles (Tab. 10.4-1):

Contractual budget	Financial navigation
Lack of trust, we will control you.	Trust, we will support you.
A contract expressed in numerical financial indicators.	A baseline forecast based on the current knowledge of the company's business environment.
Milestones linked to bonuses.	We believe you will do the best you can, and you believe that a committee of your colleagues will judge you fairly according to the established benchmarks.
We will regularly measure and evaluate your work.	We believe you will regularly provide reliable forecasts of your performance.
Resources are allocated once per year, so at the beginning you have to negotiate as much as possible.	You are confident that you will always get the resources you need as long as you can justify this need.
The contract defines your pre-determined obligations to external and internal partners.	We believe that you will establish rules of cooperation with the partners on an ongoing basis in order to optimize activities in the face of changing market needs.
You follow the voice of the boss.	You follow the voice of the client.
If the business environment changes, you are helpless.	You are able to adapt quickly when necessary.
You behave irrationally and unethically; you lose the sense of your work's value and self-dignity.	You behave rationally and ethically; you build a sense of dignity and self-esteem.
You achieve a final result that is in accordance with the contract, but is not optimal.	You achieve a final result that does not conform with the forecast, but is optimal.

Tab. 10.4-1 The most important differences between the culture of contracts and the culture of navigation

Tab. 10.4-2 shows how this translated into operational activities and consequences of these activities in companies surveyed by Jeremy Hope and Robin Fraser.

Contractual budget	Financial navigation	Consequences of navigation
Contractual numerical goals set for the year in advance.	Numerical result forecasts for the board; fewer numbers and more operational tasks for lower ranks of management.	Reduction of planning time from months to days. Plans do not need to be redefined during the year, because they contain benchmark expectations.
Individual bonuses dependent on the financial objectives achieved. Typical MBO.	Bonuses for teams based on benchmarks.	Elimination of playing for bonuses and irrational or unethical behavior. Rewards are given for skills in building the company's value and not for skills in negotiating the contract.
Annual planning cycle. Only 20% of companies modified their plans during the year, even though the conditions of	Intermediate and lowest levels of management are responsible for quarterly plan updates in accordance with the changing	First line teams focus on creating value, adjusting their actions to their own forecasts of opportunities and threats. The

plan implementation differed from expectations.	conditions of the business environment. Constant monitoring and analysis of these conditions.	management can concentrate on the distribution of resources, which reduces wastefulness.
Resources are negotiated and allocated to the goals of the contractual budget. Their yearly allocation is made in advanced and cannot be changed.	Resources are allocated dynamically based on the needs reported by the teams. Quick decision-making pathways. Internal market of resources.	The company is quicker to react to market expectations, while managers use resources more responsibly. Less wastefulness.
Each year a central plan is established, supplemented with regular supplier-recipient contracts. There is a tendency for local optimization without regard for the interests of other teams.	Action plans are updated locally to follow changing client expectations and forecasts of these changes.	The direction of operational activities follows the changing demand. Less wastefulness, including less "production to stock."
Measurement of budgetary slippage and appropriate corrective action. The planning horizon in 77% of companies ends at the end of the current year.	One repository of information for all levels. Focus on forecasts and trends (future) rather than performance evaluation (past). Multidimensional benchmark measurement to assess the current situation.	All managers know the performance results of all others. The measurements are objective as the reasons to manipulate them are gone. Decisions are made on the basis of credible evaluation and serve the interest of the company and not local optimization of results.

Tab. 10.4-2 Cultural differences translated into operational activities

Finally, here are some additional examples of successes achieved by switching from a contract culture to a navigation culture:

Company	Contractual budget	Financial navigation
Carnaud Metal Box. French-British packaging company.	1982: losses. Company valued at \$19 million.	1989: Company valued at \$3 billion. One of the best European companies of the 1980s according to Fortune Magazine.
Group Bull. French IT company.	1990: losses in the amount of FF5.5 billion	1993: FF600 million of profit. Successful privatization in 1997.
Fokus Bank. Norway.	1997: worst bank in Norway.	1999: The highest return on capital among Norwegian banks. Bought by Den Danske Bank for three times its value from 1997.

Tab. 10.4-3 Examples of successes achieved by switching from a contract culture to a navigation culture

10.5 Some conclusions

The readers who had read sections 6 through 9 were probably not surprised by the statement that a culture based on trust is more effective than a culture of distrust. However, what is important in the considerations and examples above is the fact that this conclusion has been reached by a group of companies that are not associated (at least not consciously) with either the TQM culture or, even more significantly, the teal culture. It is also worth noting that the companies that abandoned contract budgeting stopped halfway due to their incomplete knowledge of the culture of dignity management. Employees are still being remunerated for their performance, although it is the teams, and not individuals, that are the object of evaluation; evaluation is no longer based on fixed indicators, but rather on benchmarks, and is carried out not by superiors, but by panels of managers. Therefore, it seems that even though the companies began to be managed without budgets, they could not free themselves from the conviction that remuneration should depend on the quality and efficiency of work.

Nine years after the book on which I based this section was published in 2003, Jeremy Hope and another author, Steve Player, published a book titled *Beyond Performance Management* [39]. It follows the same idea as the previous one and presents a comparative analysis of the 40 best-known techniques of management in budgetary and navigation versions, including:

- strategic planning,
- balanced performance cards,
- benchmarking,
- sustainable growth,
- management of intangible assets,
- customer relationship management,
- TQM (which is, unfortunately, equated with ISO),
- reengineering of business processes,
- lean production and lean services,
- lean accounting,
- key performance indicators,
- profit distribution schemes.

11 Remuneration system

In our numbers-oriented approach to measuring results and recognizing people, you can lose sight of the great advantage you could have when a motivated organization enjoys what they are doing, believes in what they are doing, and are doing it in an environment of integrity and leadership, and in a culture that they enjoy working in.

- Russell E. Palmer¹⁰⁰

11.1 Developing a system of remuneration

No one needs to be convinced that wages are a pivotal mechanism for shaping interpersonal relations in a company. Unfortunately, wages are often used to manipulate those who receive them; sometimes this is done in good faith, sometimes in bad, but always with equally negative effect. Also, if the company uses the carrot-and-stick method, the primary role in the application of this method is played by the payroll system with a system of premiums, commissions, or bonuses. So what are the principles that should guide the development of an effective remuneration system? This is what Alfie Kohn [47] recommends:

1. Pay your employees generously and do your best to make sure that they feel neither exploited nor manipulated by money.
2. The employee evaluation program should not be used to construct rankings or determine remuneration, but should:
 - a. help identify areas in which the supervisor can assist the worker;
 - b. provide information on how the worker views the supervisor and the company and identify areas in which they expect assistance;
 - c. be a continuous process, rather than a periodic event.
3. Create conditions for authentic motivation: look, listen, talk, analyze.
4. Follow the 4C rule (section 9.2)

These are the basic principles, but what about practice? How to implement these principles in a specific company, in a specific situation, and with regard to people for whom this would constitute a radical change in their system of concepts and values?

First of all, we should realize that, although many theoreticians and practitioners recommend following these principles, pointing out that they are much more effective than the traditional system, no one argues that they are simple and easy to apply. It requires gaining knowledge, often completely new knowledge, mainly by managers, but also by ordinary employees. It also involves overcoming many mental stereotypes rooted in us from childhood. Effectiveness must be paid for with increased efforts in the field of teaching and mentoring. It is not easy, but it is possible. However, we should not expect to see results from day to day or from week to week. As creators of our company's new landscape, let us feel like foresters rather than gardeners.

¹⁰⁰ [63], p. 195

What follows are two statements on remuneration systems and employee motivation, made by practitioners and published in a special issue on motivation of the 'Harvard Business Review Polska' [36] (pages 48 and 52).

Dariusz Kraszewski, Partner in Andersen Business Consulting:

For years we have been distributing questionnaires among our employees to evaluate job satisfaction. It turns out that the most important factors influencing their job satisfaction are: the opportunity to gain knowledge, the level of people with whom they collaborate, and the prospects for developing their careers. Remuneration came only fourth, followed closely by the working atmosphere, confidence in being assessed fairly by superiors, and the possibility of maintaining a balance between work and private life.

Marcin Śniegocki, Sales and Distribution Director in Philip Morris Polska:

Our internal research debunks some myths, such as the widespread belief that, for sellers, financial motivation is the most effective. Nothing could be further from the truth. Although the amount of remuneration is important to them, it is sufficient for it to remain competitive. An increasingly significant role is played by development and career opportunities in the structures of the Philip Morris capital group. It is not just about vertical promotion, but also horizontal promotion, which involves a change in responsibilities.

(...) Nothing is more discouraging and demotivating than absurd goals that are impossible to achieve. For this reason, the system of remuneration for our sellers is not linked to commissions based on sales volume. The company is interested not only in the number of contracts signed, but also in the seller's ability to work with customers, promote the brand, and build long-term relationships. These factors ultimately influence effectiveness, and so they are taken into account in the annual evaluation of the employee's competence, which is linked, among other things, with revision of their salary. We check and analyze what caused the situation. We don't blame the employee right away. People know about this and are more comfortable at work. Still, it does happen that people leave - not everyone can be promoted at a given moment.

A very interesting remuneration system was also introduced in the company Egon Zehnder International, which I described in section 2.4.3.

11.2 Example of a remuneration system

The remuneration system presented below is similar to the one that was used in Toyota plants in the UK during the 1990s¹⁰¹. It is certainly not perfect, if only because there is no such thing as a perfect system. Notwithstanding, I believe that it is better than many others I have come across and that it effectively supports the implementation of comprehensive quality management. That is why I introduced it in my own company in 1997.

Let us begin with the assumption that the following general principles should guide the development of any specific model of remuneration for employees:

1. Remuneration rules should be as simple and uniform as possible for all positions.
2. The amount of remuneration should depend only on the position and seniority in the company, while the position – on the expertise, skills, and work flexibility of the employee.

¹⁰¹ Perhaps it is still being used today, but I heard about it from the CEO of the plant at one of the conferences organized by the British Deming Association at that time.

3. As long as the financial condition of the company allows it, the total amount of remuneration for any position should be competitive in relation to the current labor market.

These general rules are then put into practice by means of the following specific rules:

1. Job descriptions of all positions should state the knowledge and skills they require, as well as the types of tasks and responsibilities involved. The positions described in this way are assigned *basic salaries* without a "spread". Every employee who starts working for the company receives a slightly reduced salary during the probationary period (e.g., 80% of the basic salary), which is increased to 100% after the end of the probationary period. A worker already employed at the company who is promoted to a new position receives 100% of the new salary for this position from the start.
2. If the company's finances allow it, all basic salaries are increased periodically (e.g., annually) by the inflation rate, and the entire wage grid is modified along with them.
3. Within the same pay cycle, individual salaries are increased by a percentage that is the same for all, called *the seniority allowance*. In Toyota UK salaries grew by 2% every year. This is not much, but after many years this results in very clear differences. For example, after 10 years the salary grows by 22%, and after 25 years – by as much as 64%.
4. In accordance with points 2 and 3, the remuneration of each employee consists of a basic salary (identical for all persons employed at a given position) and the seniority allowance (based on the duration of employment in the company). When employees move to other positions, the seniority allowance follows them, i.e., is added to the new salary.
5. Individual negotiations between the employee and the company regarding the amount of remuneration are not possible either at the time of recruitment or during the course of employment. However, it is possible to negotiate a position.
6. If the conditions of the labor market so require, the supervisory board may decide to increase the basic salaries allocated to selected positions in the grid. This means that all employees in these positions receive equal pay rises.
7. There are no bonuses, commissions, or occasional awards. In particular, the remuneration of sellers does not depend on the value of sales achieved by either themselves or their teams, accountants do not receive any balance sheet bonuses, etc. However, cash prizes and diplomas are awarded to employees who have worked in the company for more than ten years, and then after every five years.
8. When the new remuneration system is introduced, the removal of bonuses and commissions does not reduce remuneration. All previously paid allowances are added to the basic salary after averaging¹⁰².
9. For higher managerial positions (heads of departments and above), the accounting of working time becomes task-based. In other jobs, we apply flat-rate remuneration plus any overtime pay.

As mentioned earlier, abandoning bonuses and special prizes does not mean that, in exceptional and unforeseen circumstances, where clearly excessive work has been done, no appropriate additional remuneration can be offered to employees. In particular, we agree to overtime and pay the employee appropriately where justified. The point is to not award special bonuses for tasks that are predictable, repetitive, or performed without exceeding the statutory working

¹⁰² This can usually entail a rather serious increase in the company's salary budget.

time, such as bonuses for accountants for the submission of balance sheets or bonuses for waiters for opening the outdoor section of a café.

The adoption of rules 1 through 5 is intended to minimize subjective evaluations by superiors and to avoid situations where employees get the impression that the amount of remuneration depends on ‘connections’, ‘understandings’, or personal ability to negotiate higher rates with the management. They also entail a decoupling of wages from productivity, but in no way does this mean that we treat the issue of productivity as irrelevant, as I have already discussed in section 8.6.

The employee’s working conditions as a whole, i.e., their remuneration in cash, material non-cash benefits, and the working environment (satisfaction of emotional needs, as discussed in section 7.1), as well as the implementation of the 4C principle (section 9.2) should be shaped in such a way that both the employee and the employer appreciate their justification on the basis of the current labor market. The employee should be convinced that they will not find better working conditions elsewhere with their professional qualifications, while the employer must feel that they will not find a better employee on the labor market for what they offer. The disruption of this mutual sense of balance inevitably causes one party to feel undervalued and start looking around for a different partner.

11.3 Updating the remuneration system

The remuneration system described above may – and should – be subject to periodic analysis and modification based on two factors:

- company growth,
- current labor market conditions.

The company’s growth may require an increase in responsibilities in certain positions and, consequently, an increase in salaries. It can also lead to the creation of new positions, unforeseen in the current structure.

It also cannot be excluded that increasing the efficiency of labor, i.e., reducing the share of wage costs in turnover, will allow the company to afford a global increase of all wages by a certain percentage or that the market value of certain professions will rise rapidly in the labor market price, which would necessitate an increase of wages in this group of employees.

We should also be prepared for situations in which salaries have to be reduced, for example due to difficult economic conditions of the company, industry, or region.

11.4 Difficult period of transformation

With a change of the pay system going as far as the one described above, it is worth appreciating that the full transition period consists of four stages:

1. Preparatory training.
2. Designing the system.
3. Introduction of the system.
4. Maintaining and strengthening the system.

The first three steps have already been described, so let us move straight to the fourth one.

Any change gives rise to anxiety, which can become a source of irrational behavior. Revolutionary changes give rise to even greater anxiety, especially among all those who need to

change their conduct and way of thinking. How am I to do my job if not the old-fashioned way? Can I handle it? How do I get around the new rules without anyone noticing?

As the common saying goes: “For every rule, there is an exception.” This argument is most often used by those who believe that the currently adopted rule does not match the objective pursued at the moment. They go on to argue that “one has to be flexible”, “theory is one thing and practice is another”, and “there are more convenient ways of doing this.” And all this in order to satisfy the needs of some “Billy” who cornered us with his problem in our moment of weakness.

Of course, it may happen that Billy is actually right. In such a scenario, however, it is the rules that should be changed. We should consider the frequency with which we can expect to encounter cases like the ones raised by Billy because the new rules should apply to everyone, rather than single Billy out.

*In management, there should be no exceptions to the rules.
When there is a need to make an exception,
consider changing the rules.*

Alternative rules can (and should) be designed to anticipate various scenarios and recommend different solutions for each of them.

All operational decisions made by each company’s management team, including but not limited to payroll decisions, should result from certain general principles adopted by this team. This so-called *systemic thinking* is one of the foundations of modern management methods. It protects the management team from having to consider dozens of minute problems on a daily basis, which often leads to giving in to fleeting pressures when there is not enough time for deeper reflection.

Careless decisions can often result from external pressure, because absence of well-thought-out general principles makes it difficult to argue against someone's determined persuasion. Making decisions in this fashion usually leads to organizational chaos as arrangements made by different individuals and in different circumstances without the foundation of systemic rules to base them on are often contradictory.

Therefore, we should keep in mind that the design and introduction of the remuneration system is followed by a very difficult period of its implementation. Many people, including the builders of the new model, will look for ways to go around it. This is a natural tendency – it should not come as a surprise, but neither should we surrender to it. We should show understanding to all in whom the new principles have sown doubt whether they can handle the new reality. We should help them by being fully prepared to discuss the existing system and by being open to making warranted changes. Notwithstanding, we should never allow the adopted rules to be broken.

11.5 Staff reactions

A bonus-free remuneration system was introduced in the A. Blikle company after several months of team work involving the entire upper and middle management (about 15 people). Characteristically, on the one hand, the introduction of the system freed the managers from the difficult and often unpleasant burden of splitting the bonus pool every month, which used to

expose them to accusations that the division was made unfairly, but on the other hand, they felt deprived of the basic mechanism of influencing their subordinates. Above all, it gave rise to the question: why shouldn't better workers receive better pay? I tried to answer this question in section 8.6.

It was quite typical that the lack of bonuses was felt most keenly by those who used to award them and to a much lesser degree by those who used to receive them because when the bonuses were abolished they were averaged and added to the salary. This was evidenced by a study, discussed below, which was carried out some time after the introduction of the new rules.

The study was conducted using *affinity diagrams*, a method described in section 15.2. A group of about 20 employees from various departments, mainly non-managerial, were asked what conditions should be met by a good and fair remuneration system, and more specifically – what should remuneration depend on.

	Description of the principle	Weight	Share
1.	Flat-rate pay, i.e. fixed salary instead of hourly remuneration	129	11.7%
2.	Transparent wage grid	97	8.8%
3.	Commitment to what you do	86	7.8%
4..	Own initiative	79	7.2%
5.	Work flexibility	70	6.4%
6.	Additional remuneration for working nights, Sundays, before public holidays, etc.	53	4.8%
7.	Versatility	52	4.7%
8.	Remuneration for similar positions in other companies	43	3.9%
9.	Progress in upgrading professional skills	43	3.9%
10.	Occasional prizes / premiums, e.g., in the form of bonuses	43	3.9%
11.	Ability to work in a team	40	3.6%
12.	Ability to organize work	39	3.5%
13.	Premiums	39	3.5%
14.	Seniority in the company	31	2.8%
15.	Opportunity to achieve higher wages	30	2.7%
16.	Professional qualifications – education	29	2.6%
17.	Type of work performed	27	2.5%
18.	Productivity	25	2.3%
19.	Promotion in senior positions should primarily involve the company's own employees	24	2.2%
20.	Seniority in the profession	23	2.1%
21.	In the case of flat-rate remuneration: very precise definition of responsibilities	23	2.1%
22.	Clear and transparent promotion system	22	2.0%
23.	Position	13	1.2%
24.	Personality and usefulness of the employee	11	1.0%
25.	Quality of the work	9	0.8%

26.	Hourly remuneration	8	0.7%
27.	Additional skills	6	0.5%
28.	Introducing the practice of presenting employees with letter of recognition	5	0.5%
29.	Exchanging catering for cash	0	0.0%
30.	Motivating pay for junior workers	0	0.0%
	TOTAL	1.099	100.0 %

Tab.11.5-1 Answers to the question: “What should remuneration depend on?”

Once all the responses had been collected, they were ordered hierarchically by means of a ranked referendum. The results are presented in **Tab.11.5-1**. As we can see, bonuses came only in the 13th place, while the first place was taken by flat-rate pay. It is also worth noting that no one voted for the last two answers, not even their authors, who apparently came to the conclusion that other issues were more important.

A bonus or a raise?

Some years after we stopped awarding bonuses and commissions in my company, a few employees came to me asking whether it would be possible to reintroduce the old system. I replied, somewhat tongue-in-cheek:

– Why not? But let's talk about the details. What would you suggest the proportion should be between the basic salary and the bonus? For instance: would you be happy with a bonus in the amount of 100% of your basic salary?

They were a little taken aback.

– That much?

– It makes no difference to me, but let me explain what this would mean. If the highest bonus is to equal 100% of the basic salary, then starting next month the basic salary will be cut in half, so that the other half can become the optional bonus.

– Well... that's not really what we had in mind.

– How's that?

– We thought the basic salary would stay the same, and the bonus would be extra.

– Oh, I see. But this means that you are actually expecting a raise, and not a change in the wage system. So let's talk about a raise, but this requires us to consider what we can do to help the company make more money; how to increase the sales and reduce the costs?

11.6 Symmetrical relationship between the company and the employee

In order to facilitate partnership relations in a team of employees, the relationship between the company and the employee or between the supervisor and the person under their care should be as symmetrical as possible. What I mean by that is explained in **Tab.11.6-1**.

EMPLOYEE	COMPANY
needs a workplace.	needs work to keep the workplace operating.
offers their work, creates added value	pays remuneration, satisfies dignity needs, implements the 4C principle
offers assistance in managing the company	expects help in managing the company
expects assistance in carrying out the work	offers assistance in carrying out the work

Tab.11.6-1 Symmetrical relationship between the employee and the company

The symmetry of this relationship does not mean equality of rank, but rather that the employee needs the company as much as the company needs the employee. One cannot live and function without the other. In order for such a relationship to arise and last, two conditions must be met:

1. In tangible terms, the employee receives as much money as they are worth on the labor market, and in intangible terms, they receive all that is due to them on account of their humanity: trust, respect, loyalty, access to knowledge, development opportunities, feedback, and so on. They also receive the opportunity to satisfy all their needs discussed in section 7.1.
2. The company receives the best work the employee can offer, and the supervisor receives from the employee all that is due to them on account of their humanity: trust, respect, loyalty, feedback, etc.

Let us also remember that partnership, about which I have written so much already and which is the basis for maintaining a balance between the company and the employee, is a relationship in which each party supports the other equally, but also one in which both parties have mutual obligations to each other.

12 Compendium of process management

In any organization with more than one member, we encounter the need to synchronize activities between the performers of a common task. The point of this synchronization is to ensure that partial tasks do not collide with each other and that the required resources (such as raw materials, components, tools, financial resources, or even performers, i.e., people) are delivered in a timely fashion. In a traditional hierarchical structure, all this is ensured by a host of managers; in a teal structure, this responsibility belongs to the task performers. However, this requires us to define some principles of self-organization, i.e., mutual communication and exchange of resources.

In this section, I will present one of the possible models of self-organization, which I call the *process-based model*. It combines two ideas – quality management and knowledge management. Inspired by the ideas of Edwards Deming, I developed this model for my company and implemented it in the late 1990s. Today I think that it more or less reflects the mechanisms of self-organization employed in some teal organizations. For example, I found some features of this model in the Morning Star company that I mentioned in section 2.4.1.

Full implementation of a process-based model requires all the company's processes and the links between them to be described in detail and a procedure manual to be created. As this "process bureaucracy" does not make for a captivating read, I decided to discuss it in part VI for those readers who decide to implement a process-based model in their companies.

12.1 Hierarchical organizational structure

In the early days of capitalism, larger manufacturing companies were organized in the form of groups of craft workshops, each of which produced a company product (such as a shotgun or a horse-drawn carriage) from start to finish. This began to change at the turn of the 19th and 20th centuries thanks to Frederick Winslow Taylor, who introduced the idea of a production line. Skilled craftsmen manufacturing complex products were replaced by semiskilled workers, each of whom was trained to perform only one type of a very simple activity. Many of them were illiterate, many (like the first-generation immigrants in the USA) did not know the local language; as a result, they had no grasp of the whole production process. As the knowledge of each worker was limited to a single activity, they were strictly prohibited from making changes to performance procedures. Thinking was the management's job, and the line workers were to stick to production. They were supervised by foremen, who were, in turn, supervised by managers and directors. Companies were organized like armies because it was the most familiar model for managing large groups of people.

In a military structure, decisions are made by a relatively small group of decision makers occupying positions in the upper strata of the power hierarchy. The arrows in Fig. 12.1-1 indicate the direction in which commands are issued, indicating who reports to whom in this relationship.

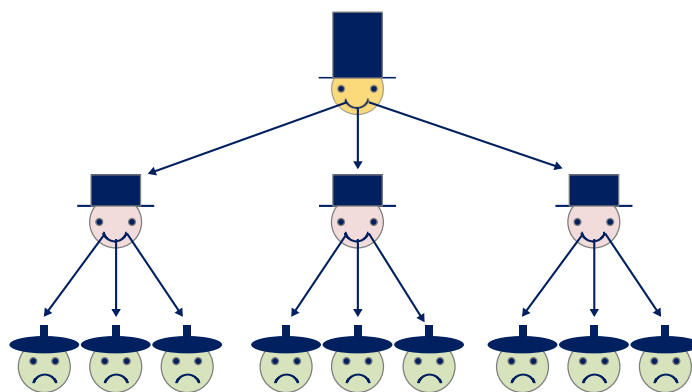


Fig. 12.1-1 Hierarchical organizational structure

Thanks to the invention of the production line and the described organizational structure, the productivity of American industry increased more than 50-fold during the 80 years around 1900.

12.2 Knowledge management

The rapid increase in labor productivity during the second half of the 20th century in North American and European countries as well as parts of the Far East led to growing prosperity and, with it, to far-reaching changes in the level of education in these societies. The rising level of education facilitated the process of technicizing, automating, and, finally, computerizing the economy; once again productivity spiked, and demand for knowledge and skills on the part of rank and file employees increased. It also became clear that, under the new conditions, it was no longer the company's productivity¹⁰³, but rather the quality of its offer that determined its ability to stay on the market. In this way, the developed countries of the world began an evolutionary transition from the Taylor era of striving for productivity to the Deming era of striving for quality. Concepts such as *knowledge-creating enterprises*, *knowledge economy*, and *knowledge society* have emerged. Managers are starting to realize that employee knowledge is yet another of the enterprise's resources, just like capital, material equipment, technology, or the market. Businesses of the new era began to take on previously unknown features:

1. Knowledge becomes a company resource, which should be managed just like any other resource – it can be purchased (though to a limited extent)¹⁰⁴, created and nurtured, used and disseminated.
2. Basic activities performed by employees at any position require increasingly specialized knowledge.

¹⁰³ Productivity has obviously not ceased to be important, but it no longer determines the competitiveness of enterprises in developed economies, as all enterprises of note have achieved similar heights of productivity. The situation is different in less developed countries, where productivity can still be a factor that determines competitiveness.

¹⁰⁴ In every company, there are two layers of knowledge. The first includes general knowledge about technology, management, finance, psychology, and many other topics. This knowledge can be acquired – either in the form of various educational materials or in the form of training provided by experts. However, in order for general knowledge to be applied in a company, it must be tailored to the company's specific character, which is most often achieved by translating it into the language of procedures, norms, and standards. The latter kind of knowledge usually cannot be bought and must be created by the company on its own.

3. In addition to their core activities, every employee increasingly performs activities belonging to areas of knowledge that are removed from their core area, which gives rise to the need to establish a group of teachers and trainers who are linked not to teams, like traditional superiors, but to areas of knowledge.
4. Apart from the hierarchical organizational units (“teams”), there appears a new type of supra-departmental units (“processes”) connected with specific types of activities performed and corresponding areas of knowledge.
5. Processes do not form a hierarchical structure, and the relations between them pertain not to the transmission of orders, but rather to activities such as: sending products for further processing, providing tools, passing on expectations concerning product quality, and sharing knowledge (in short: broadly understood support of one process by another).
6. There appears a need (and an opportunity!) to include the company’s suppliers and customers in the area of management, which was previously unavailable to them in the hierarchical model.
7. The concepts of *internal customers* and *internal suppliers* emerge as links in the chain of quality that connects the external supplier, through internal performers, with the external customer.

12.3 Process-based organizational structure

An alternative to the hierarchical organizational structure is the process-based structure presented in Fig. 12.3-1.

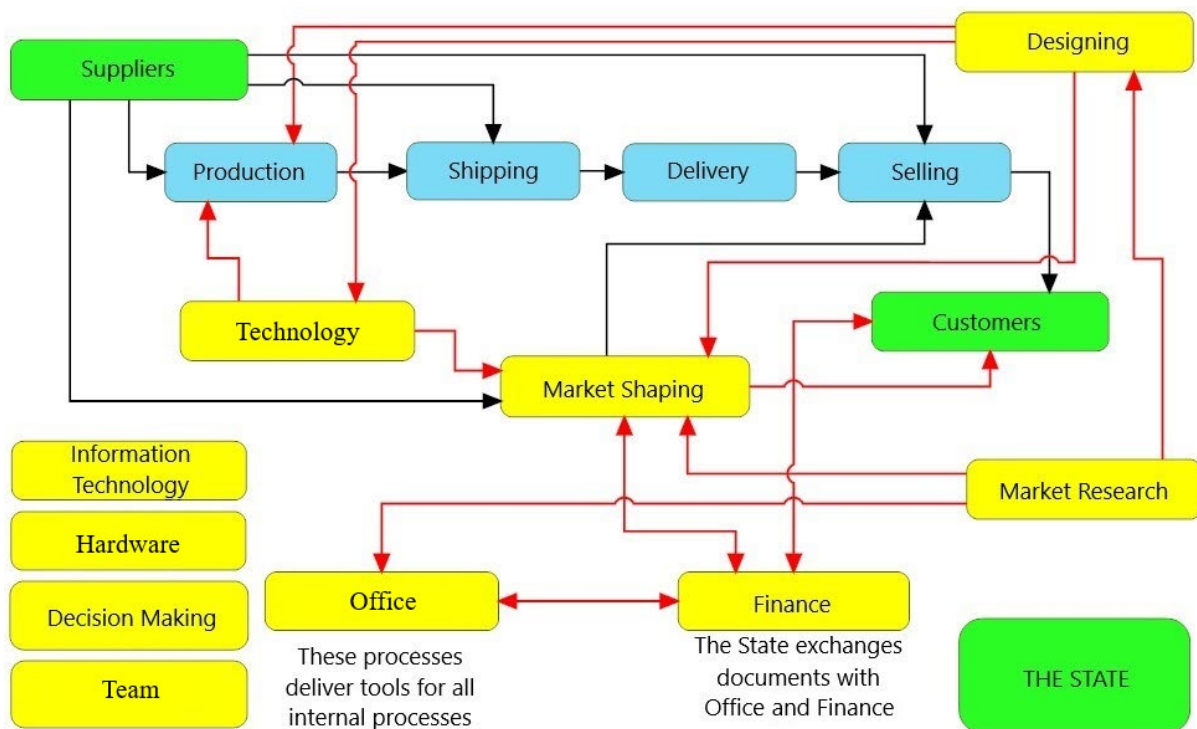


Fig. 12.3-1 A simplified example of a production company’s process map

In this structure, which I call the *process map*, the arrows describe the supplier-customer relationship, indicating who sends their products to whom for further processing, i.e., who is the customer and who is the supplier. The red arrows indicate that the product supplied by the

supplier is not a raw material or a component for further processing for the customer, but rather a tool to be used. For example, the *Technology* process provides the *Production* process with tools, not raw materials.

Taking into account the great number of flow paths between processes, I use some drawing conventions to reduce the number of arrows and improve map readability. For example, an arrow with arrowheads at both ends replaces two parallel arrows pointing in opposite directions, and for processes that supply their products to many other processes (e.g., IT, Hardware, and the State), I do not draw arrows at all, but instead replace them with a comment explaining where they lead. I also use color codes to mark processes belonging to different categories. For example: in Fig. 12.3-1 the processes belonging to the core group known in Japanese as *gemba* are marked in blue, support processes – in yellow, and external processes – in green.

What one process passes on to another is always a product for the supplier, but – as we have already noted – it can be either a material (raw material) for further processing or a tool for the recipient. Some processes (e.g., Production) provide their recipients solely with materials for further processing; others (e.g., Design) provide only tools. To offer an example, a design of a wedding cake in the form of a drawing, which is a product of the *Design* process, is not a material for further processing for the *Production* process, but rather a tool (the drawing will be used to make a specific cake). Similarly, machines and equipment delivered by the *Hardware* process are tools.

Generally speaking, the important difference between a material and a tool is that a material disappears when it is processed into a new product (flour, eggs, yeast, and water disappear when used to produce dough), while a tool can be reused.

In the examples presented above, determining whether a product is a material for further processing or a tool for the recipient is relatively simple, but there are situations that may require additional consideration or even a contract. For example, the processes *Office Automation* and *Finance* most often exchange information materialized in the form of documents (paper or electronic) or database contents (states) (e.g., accounting or personal databases). Should this information be treated as materials for further processing or as tools? The latter seems more appropriate as the recorded information usually does not perish after being used. On the other hand, if the HR department makes entries to the accounting database concerning, e.g., the number of hours worked by individual employees, the relevant HR process may be considered to receive a certain database as an input and release another one as an output because the latter is modified with new data. So here we have an example of a “product-to-product” transmission. In most scenarios, however, support processes provide tools. It should also be noted that while distinguishing whether the transmitted product is a material or a tool for the recipient process is significant from the point of view of conceptual discipline, it is not as important (as we will see in a moment) from the perspective of knowledge and quality management.

Finally, a general remark: drawing a process map of an organization should not be perceived as the creation of a process structure, but rather as its description. It consists in describing the structure that already exists in each organization, just like geographical terrain has a certain structure, regardless of whether or not it has been mapped.

Every process has its own supervisor called the *process owner*. Their most important tasks include (see sections 12.9 to 12.12 for more details):

- continuous acquisition of knowledge relating to a given process;
- making this knowledge available to employees who need it;

- ensuring collaboration and communication with all suppliers and customers of a given process;
- establishing quality standards expected by the customers and measuring quality in accordance with these standards.

In a company organized in this manner, no one issues commands to anyone, and process owners act as mentors rather than managers or overseers. What a given employee is to do and when is decided not by their superior (there is none), but rather by the customer placing the order and defining the standards of quality. This resembles the way in which multicellular biological organisms are organized (Fig. 12.3-2) as already mentioned in section 2.3.3.

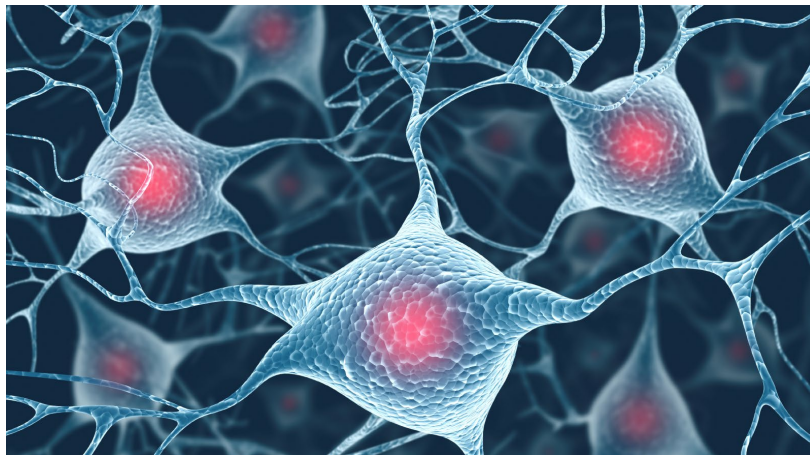


Fig. 12.3-2 The process structure of a biological organism

A process-based structure differs from a hierarchical structure by another very important feature, namely the development paradigm. A hierarchical structure develops through the construction of an increasingly deeper and wider hierarchy, as shown in Fig. 12.3-3.

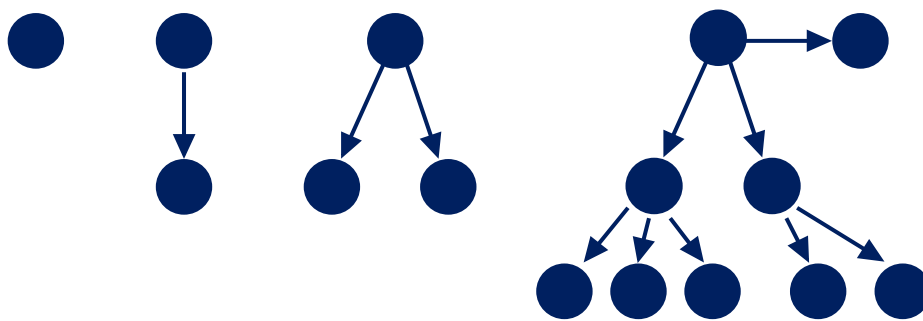


Fig. 12.3-3 Growth of a hierarchical structure

As the structure grows, new types of positions and related responsibilities, decision-making areas, and communication channels are emerging. The functional complexity of the structure is increasing; the number of staff at the headquarters and intermediate management levels is rising; the path from the performer to the decision maker is getting longer; budgets have to be cascaded to more and more levels; the number of offices and secretaries keeps growing.

Multicellular biological organisms grow differently. At birth, they already have the structure of an adult individual. They do not grow new limbs or organs, only new cells that are copies of existing ones. There are no changes in communication channels or types of signals; what changes is the growing number of recipients and senders. Concurrently, the organism learns, gains experience, and takes up new executive functions. Organizations with a process-based structure grow in a similar fashion (Fig. 12.3-4).

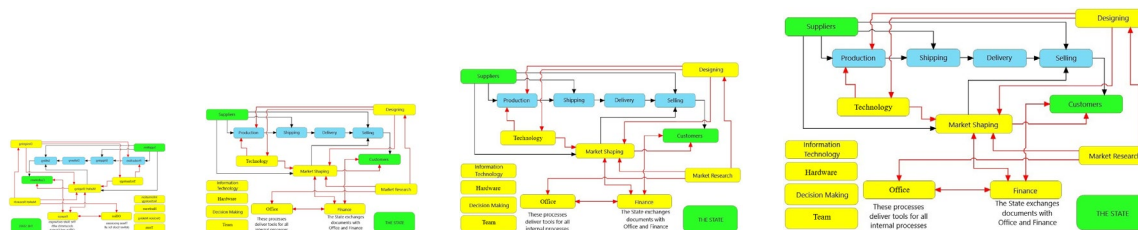


Fig. 12.3-4 Organic growth of a process-based structure

12.4 The concept of a process

Due to historical reasons, the word ‘process’ in management theory is used in two completely different meanings. The entirety of Part V, which discusses random processes, is devoted to the first of these meanings, derived from the language of mathematical statistics. In this section, however, we will deal with processes in a completely different sense, the source of which should be sought in the theory of production organization and computer science. Edwards Deming was probably the first to introduce it into management theory, so one can say that they are, to some extent, *Deming processes*. To begin with, let us adopt the following definition of a process:

A process is a set of activities which transform products of a similar nature and refer to a common area of knowledge.

As we will see a little later, this definition enables us to describe all types of processes occurring in an enterprise, from the most “obvious” (such as: Production, Sales, Finance, IT) to the more abstract (Training, Market Shaping or Management¹⁰⁵).

The type of a process can be determined by the type of the product created by its activities as well as the type of knowledge required to perform these activities. For example, the Production process transforms raw materials and semi-finished goods into finished products, and its performers must be familiar with relevant technology and engineering; the Finance process transforms financial documents, and its performers apply their knowledge of accounting, economics, and financial law. The Training process changes the state of knowledge of a group of

¹⁰⁵ I use capital letters for the names of the processes because I treat them as proper names.

people, thus changing, formally speaking, the group itself: it takes an untrained group as an “input”, and returns an “output” in the form a trained group¹⁰⁶.

Binding the concept of a process with areas of knowledge entails that process-based management in the form described below includes a very important paradigm of *knowledge management*, which is a practical implementation of the idea of a knowledge society (described in sections 1.2 and 12.2) in companies and non-business organizations. Many management specialists believe that the competitive advantage of enterprises in this day and age is determined by their ability to continuously acquire and apply knowledge.

The concept of a process that we will be using is, therefore, quite removed from both the common understanding of the word and its definitions adopted in sciences such as information technology or production management. Perhaps a word other than “process” should be introduced in this context, but I will stick to this term because its use has a longstanding tradition in the literature on quality management. After all, the word already has many different meanings in both Polish and English.

Each activity in a process should increase the value of the processed product, i.e., create its added value. If we are not sure whether a given activity belongs to a given process, we should consider whether it increases product value from the point of view of the process’s customer¹⁰⁷. For example, sellers do not in any way increase the value of the sold products by writing cash reports, so this activity is not part of the Selling process even though it is performed by members of the sales department. However, it does increase the value of financial data¹⁰⁸ submitted by the sales centers to the accounting department, which makes it part of the Finance process. In turn, the value of a product in the Selling process increases when it is wrapped in a box with a ribbon, so this activity does belong to the Selling process.

12.5 Hybrid transition model

If the process-based model of self-organization does not arise organically with the company’s inception, but is being implemented in an already existing organization with a hierarchical model, then the transition between these models must be gradual. As abolishing the existing managerial functions overnight and introducing process-based functions in their stead would be an unbearable shock, my suggestion is to divide the transformation from managerial hierarchy to process-based self-organization into two stages:

1. Implementation of the process-based model in parallel with the existing hierarchical model.
2. Gradual discontinuation of the operational role of managers in favor of their process-based roles.

¹⁰⁶ I realize that describing the inherently humanistic process of education in this way may seem amusing or even inappropriate to some readers. However, understanding the ideas of process-based management is facilitated by mastering this language, which allows for a uniform description of seemingly very distant phenomena. In no sense should the use of these technical terms be associated with dehumanizing our perception of man.

¹⁰⁷ In a poorly organized enterprise, there may be activities that do not add value to the products. These activities should simply be eliminated. Organizing the company along the lines of a process-based structure facilitates the identification of such activities.

¹⁰⁸ Naturally, it does not increase the data’s economic value, but rather its value from the point of view of its user. In this sense, e.g., reams of data recorded on printouts from cash registers have less value than an analytical report prepared on their basis.

During the first stage, process owners appear alongside team leaders. Initially, their roles are completely separate. Team leaders answer the question: “Who should do what and when?”, while process owners focus on the question: “How to do it?” Team leaders organize work, process owners teach. Over time, the coordinating role of team leaders is taken over by customers, both external and internal. They are the ones telling us what to do and when to do it by placing orders with their suppliers. Thus, team leaders are freed from the burden of issuing operational instructions, which allows them to focus on their most important role, which is ensuring good communication, partnership, and trust within the team. Formally speaking, they become proxies (more on that later) of the Team process, the task of which is to take care of the mentioned attributes in the team consisting of all employees in the organization. In this way, their managerial role is discontinued in favor of a process-based role. This is how I implemented process-based management in my own company between 1998 and 2010.

Below, I describe mainly the hybrid model, i.e., a model in which a hierarchical structure coexists with a process-based one.

12.6 Flows between processes

After these general remarks, we can proceed to examine the classification of the types of flow between processes, which is very important from the standpoint of process-based management. In fact, the supplier-recipient relationship determines as many as nine types of flow, arranged in three groups corresponding to products, product knowledge, and orders (Fig. 12.6-1).



Fig. 12.6-1 Types of flow between processes - supplier and recipient

1. Products

- 1.1. Product flow – from supplier to recipient.
- 1.2. Flow of information about the expected standard of product quality – from recipient to supplier.
- 1.3. Flow of information about the currently observed quality of products – from recipient to supplier.

2. Product knowledge

- 2.1. Flow of information (knowledge) about the product – from supplier to recipient.
- 2.2. Flow of information about the expected quality standard of the knowledge provided – from recipient to supplier.
- 2.3. Flow of information about the currently observed quality of knowledge (training) – from recipient to supplier.

3. Orders

- 3.1. Order flow – from recipient to supplier.
- 3.2. Flow of information about the expected standard of order quality – from supplier to recipient.
- 3.3. Flow of information about the currently observed quality of orders – from supplier to recipient.

I will now discuss all nine types of flow. Please note that this applies not only to the company's contacts with external customers and suppliers, but also to all supplier-recipient contacts within the company.

First of all, let us notice an important regularity. In each of the three groups, we are dealing with the flow of some *object*, which is associated with two derivative flows serving to manage the quality of this object:

1. **The first** serves to inform the supplier about the recipient's expectations of quality, i.e., about the expected standard of quality.
2. **The second** provides the supplier with feedback on how the quality of the currently shipped items is assessed.

In the case of products and knowledge (the first two groups), the objects flow from the supplier to the recipient; in the case of orders, the direction of flow is reversed.

The first group of flows relates to products. Products produced by a process flow from the supplier to the recipient, while information about the quality of these products flows in the opposite direction. Usually the expected standard of quality is established at the beginning of cooperation between the supplier and the recipient.

Since it is the customer who informs the supplier about the quality they expect, the information about the expected quality standard flows in the opposite direction to the flow of products, i.e., from the customer to the supplier. This applies to all external and internal customers. In this manner, the standards determined by the expectations of the end customer as well as the information about the current quality cascades to all processes and, within the processes, to all relevant activities within the activity network. However, this information should reach each workstation (activity) in a form that is suitable for use in the performance of activities at this workstation. Therefore, someone has to translate the quality standard from the customer's language into the supplier's language. This someone is always the product's supplier due to their familiarity with the employed technology. But, of course, they also need to understand the language of their customer.

To illustrate the described mechanism, let us consider a standard for the quality of a doughnut (Fig. 12.6-2). The customer of the confectionery defines this standard by their purchasing behavior. Some doughnuts they will purchase, while others they will stay clear from; they approve some products and criticize others. On this basis, sellers construct standards that are valid at the "input" of the *Client* process (and the "output" of the *Selling* process). This standard

defines the texture and flavor of the dough, the size, shape, and color of the doughnut, the characteristics of the glaze (glossy and dust dry), the flavor of the marmalade used as the filling, as well as the quantity, quality, and distribution of orange peel on the surface of the doughnut. The seller's standard continues unchanged to the *Delivery* process (transport) and then to the *Shipping* process (preparation for dispatch) because it is sufficiently understandable for all workstations in these processes. The *Shipping* process transfers this standard to the *Production* process, where it is (internally) transmitted to subsequent workstations. First, it is sent to the glazing station, where the portion concerning glazing is isolated from the rest and converted into a standard defined in terms of features relevant at this station, e.g., composition, temperature, and viscosity of the liquid glaze. Then the standard flows to the frying station, where the information about the color of the doughnut is converted into lard temperature and frying time. Next (still going “against the current” of the arrows in the network of activities), the standard is expressed in the technological parameters of raw yeast dough and the weight of a single raw doughnut. All these standards will be translated into the technological parameters of flour, glazing, and lard at the warehouse level, before being passed on to external suppliers of raw materials.

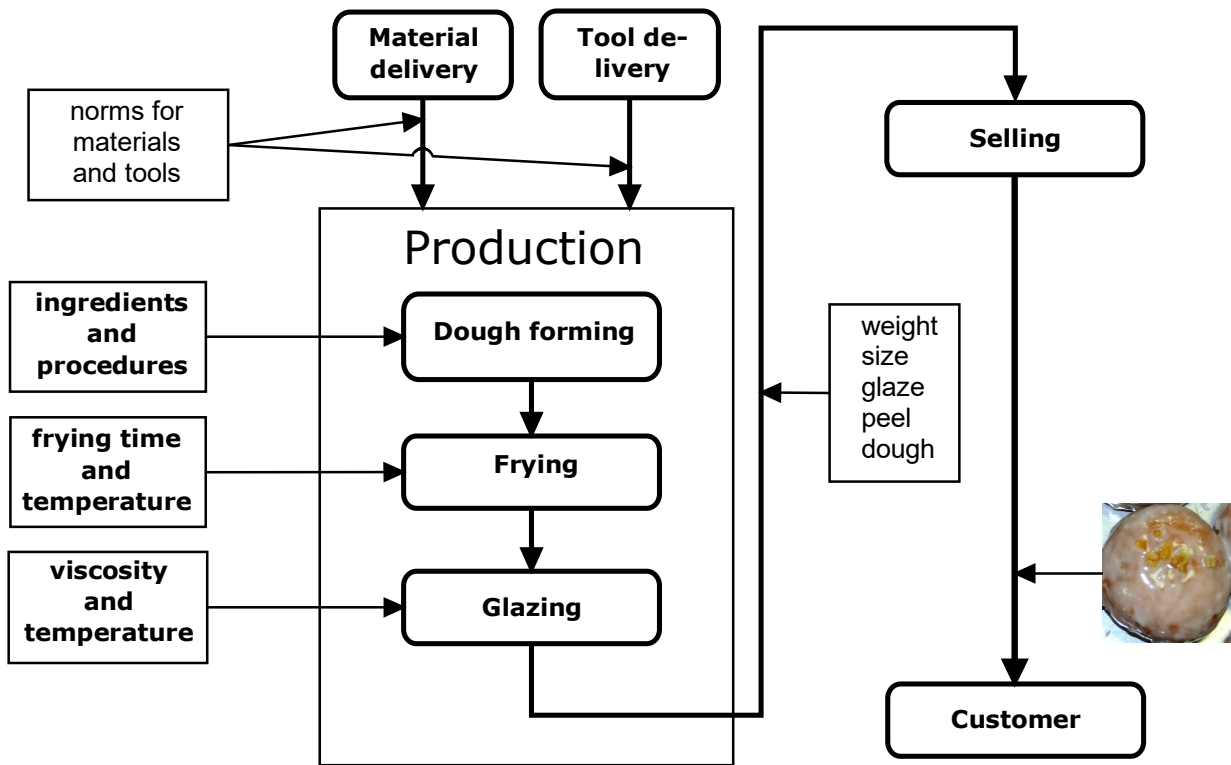


Fig. 12.6-2 Flow of information about quality from customer to supplier

Naturally, regardless of the course of information about the quality of semi-finished products and raw materials at individual workstations, the workstations may have their own expectations concerning the quality standard for tools in consequence of the appearance of the new standard for doughnuts. The glazing station will expect the glazing machine to maintain the appropriate viscosity of the liquid glaze, the fryer needs to measure the frying times correctly and maintain the expected lard temperature, and the dough kneader must be able to achieve appropriate rotation to ensure the desired texture of the raw dough. Quality expectations may also apply to intellectual tools, such as the raw material compositions of semi-finished products delivered by

the Technology process or the product's expected appearance (delivered by the Design process).

It should also be noted that the quality standard required by the customer may be subject to periodic changes due to the process of product improvement, technological innovations, or changing consumption habits. These changes are a crucial element in the implementation of the continuous improvement principle (section 13.6).

After the establishment of the quality standards expected at each workstation comes the phase of contract execution. The creation and shipment of products results in the appearance of information concerning the compliance of the supplied products with the expected standard. This information – both generated by the customer and resulting from evaluations made by the supplier – is distributed to workstations in the same way the quality standard was distributed. Of course, this is not a one-off exercise, but a continuous one, in accordance with the principle of continuous improvement.

The second group of flows encompasses preparing the recipient to handle the product, i.e., providing them with product knowledge. This includes all kinds of instructions, which in more advanced cases take the form of training. In the case of straightforward products for the external mass customer, these instructions may be printed on the packaging or on a leaflet accompanying the product to provide the customer with information concerning, e.g., the product's ingredients, storage methods, and use-by date, as well as the presence of allergens.

Even with a product as simple as a doughnut, product knowledge can be not only important to the customer, but also nonobvious. For example, a confectionery customer may be under the impression that, since many food products are stored in refrigerators, doughnuts should be subject to the same rule. Meanwhile, refrigerated doughnuts quickly become stale, and their glaze becomes wet and sticky. Doughnuts should preferably be stored at room temperature, and in winter it is best not to leave them in a parked care for too long. In order to share this knowledge with our customers, in 1991 the A. Blikle company introduced special leaflets with the slogan "Doughnuts don't like cold".

Formally speaking, product knowledge is part of the product itself and should, therefore, also be subject to quality management. Good understanding of a product translates into its proper use and, consequently, into customer satisfaction. Hence the two types of flow listed under points 2.2 and 2.3 above. In this context, it should be noted that while it has become fairly common for companies to appreciate the need to obtain customer feedback about product quality, their appreciation of the quality of the knowledge provided to the customer remains in a rather preliminary phase. Hence the widespread complaints about the quality of all kinds of product manuals. Oftentimes they are unclear, incomplete, or describe some previous version of the product instead of the current one. The situation is particularly bad when it comes to IT applications, e.g. on PCs or on mobile phones¹⁰⁹.

¹⁰⁹ One of the reasons for this situation is the unjustified conviction of system users that using a computer requires some kind of secret knowledge that can only be mastered by a "computer wizard". While car mechanics or plumbers are simply referred to as specialists or experts, an IT technician with a similar level of training is being called a wizard. Has anyone ever heard of a "car wizard"? In the minds of "computer wizards", the conviction of their own genius translates into the belief that their clients are idiots who should be spoken to as seven-year-olds or that it doesn't matter what they write to the clients because the latter will not understand anything anyway. This conviction can sometimes be seen to be reflected the titles of the textbooks, which in English are formulated

The third type of flows encompasses supply *orders*. Naturally, orders flow from the customer to the supplier. They are not always formal in nature, but can sometimes take the form of paper or electronic documents or even extensive contracts. This flow is included in our model because the quality of the order may largely determine the quality of the delivery. To put it a bit allegorically, the supplier turns to the customer saying: “If you want me to supply you with products of the desired quality and in accordance with the orders you submit, the orders must meet certain conditions. For example, they must be complete, unambiguous, and timely.” The supplier thus defines the standard for the quality of orders submitted by the customer.

Recapitulating: in order for the customer to be able to expect the supplier to meet the customer’s expectations concerning the quality of the delivery, the customer must meet the supplier’s expectations concerning the quality of the order. This is particularly apparent in situations where the customer is not anonymous and the product is custom-tailored to their needs and specifications (e.g., when a customer orders a house from an architect, a ship in a shipyard, or an IT system for their company). In cases in which the product is headed for the mass market and the customer is anonymous, the customer’s obligations towards the supplier are assumed by a market research agency hired by the supplier. The agency identifies the functional features of the product expected by the customer, which are used as a quality standard equivalent. For example, automotive market research may suggest that customers expect low-powered low-budget vehicles to come with a price tag that does not exceed EUR 10,000 as well as a no-fault warranty for 100,000 km.

12.7 Process stakeholders

The stakeholders of a given process include all individuals from the company (and sometimes also from outside the company) who either influence the functioning of this process (performers and suppliers) or are affected by it (recipients). This group also includes the *process owner* and their *proxies*. Process stakeholders are, therefore, divided into the following four groups:

1. The process owner and their proxies.
2. Process performers: main and auxiliary.
3. Product recipients: performers and owners of recipient processes.
4. Suppliers of components and tools: performers and owners of supplier processes.

As can be seen from this classification, each of the company’s employees will usually be a stakeholder in several processes, either as a performer or as a recipient or supplier. One employee can also perform activities belonging to multiple processes. To offer an example, salespersons working in A. Blikle confectioneries sell goods (Sales), run promotions (Market Building), write cash reports (Finance), decorate displays (Visual Art and Ergonomics), archive files on computer disks (IT), exchange burnt light bulbs (Hardware), decorate tart cakes with fruit (Basic Production). Their main process is Sales, while the other processes are accompanying processes.

A group of employees performing the activities belonging to a given process will be called a *process performance team*. As can be gathered from the discussion above, process performance teams are not separable, which means that one employee generally performs activities

in a particularly blunt fashion. For example, in the USA there is a series of textbooks titled The Complete Idiot’s Guide to Microsoft Word 97, The Complete Idiot’s Guide to Excel, etc. (their Polish translations were a little more subtle, e.g.: *Excel not only for eagles*).

belonging to many different processes. However, each process is linked with a group of its *main performers*. For example, salespersons are the main performers of the Sales process, while confectioners are the main performers of Basic Production. In general, each employee belongs to the group of main performers for only one process.

12.8 Obligations of process performers

The obligations of process performers can be roughly divided into two groups:

- I. Performing process and process-related activities.
- II. Adhering to the rules related to the process organization of the company.

Process performers carry out the following activities:

1. Process activities belonging to a given process; examples of these are described in section 21.4
2. Process activities belonging to other processes (as above).
3. Process-related activities:
 - 3.1. Obligations to their own process:
 - 3.1.1. Improving activities and procedures to increase:
 - 3.1.1.1. Product quality.
 - 3.1.1.2. Work efficiency.
 - 3.1.1.3. The quality of working conditions.
 - 3.1.2. Acquiring and improving their knowledge of the process.
 - 3.2. Obligations to recipient processes:
 - 3.2.1. Receiving orders and delivering products, determining order quality.
 - 3.2.2. Providing the knowledge needed to handle the supplied products and providing advice in this regard.
 - 3.2.3. Obtaining information on the product quality expected by the recipients.
 - 3.3. Obligations to supplier processes:
 - 3.3.1. Relaying information on the current and expected quality of the received products.
 - 3.3.2. Complying with supplier recommendations for the use of their products.
 - 3.3.3. Complying with supplier expectations regarding the quality of orders.

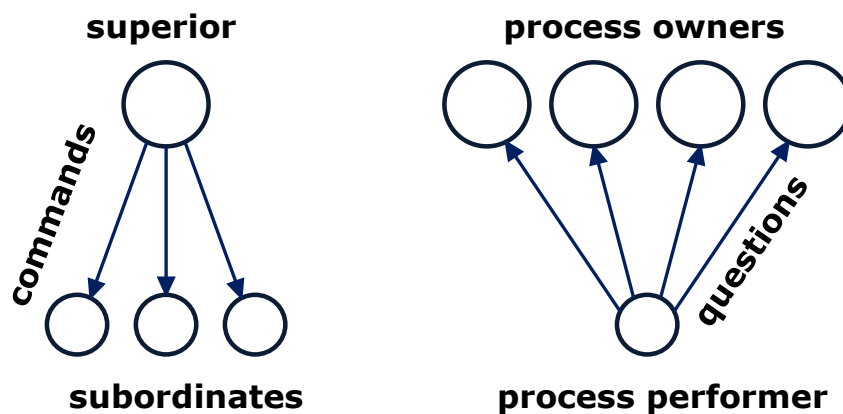
Determining other obligations of process performers requires a thorough reassessment of notions related to the superior-subordinate relationship. The traditional understanding of this relationship is no longer valid, because instead of a single superior who issues instructions on what should be done and how, there are three sources of knowledge on how the work should be done:

1. Standards, instructions, and procedures which should describe all complex routine activities; these descriptions are developed by process owners.
2. Advice by process owners pertaining to the subject matter in non-routine situations.

3. Operational decisions of team leaders in current situations; over time this function is taken over by customers.

At the same time, all employees become managers of their own workstations, which involves using the three sources of knowledge listed above. Team leaders should be their guardians (more about this later), and process owners should be their teachers. In Fig. 12.8-1 we see two communication paradigms: traditional hierarchical communication (in which subordinates obey their superior's commands) and process-based communication (in which employees seek answers from the owners of appropriate processes).

It may seem that employees in the described structure are deprived of any initiative – they must follow instructions, procedures, and standards while obeying their team leader and, usually multiple, process owners.



**Fig. 12.8-1 Two communication models:
commands (hierarchy) and questions (processes)**

In reality, however, only now can we talk about the emergence of a space for truly creative initiatives because one of the most important principles of process-based management states that:

*Standards and procedures should be subject to continuous improvement,
and this improvement should involve, first of all,
the direct performers.*

Therefore, the employee's initiative is not expressed through freedom at the level of the activity, but through the analysis and improvement of standards, procedures, instructions, and regulations. At this point, it is worth reminding that the idea of basing the company's activity on standards created with the participation of those who are to later follow them was pioneered by Frederick Winslow Taylor (section 1.2).

12.9 Obligations of the process owner

A *process owner* is a knowledge manager responsible for all things related to the process under their care. The process owner's obligations include:

1. Managing within the process structure (see section 21.2.10 for more details):
 - 1.1. Ensuring appropriate level of knowledge on the part of the process performers.
 - 1.2. Ensuring that procedures/instructions/standards concerning both the process's products and the tools used to create these products are developed and followed.
 - 1.3. Ensuring proper flow of products from the supplier to the recipient and proper flow of quality expectations from the recipient to the supplier; in particular: determining the criteria for quality within the process.
 - 1.4. Ensuring proper implementation of the process.
2. Managing the process structure:
 - 2.1. Determining (in consultation with the owners of other processes) which activities belong to a given process and which do not¹¹⁰.
 - 2.2. Assigning each activity with a corresponding scope of knowledge, covering both general knowledge (e.g. confectionery technology) and company-specific knowledge (procedures, instructions, quality standards).
 - 2.3. Assigning each activity to appropriate workstations.
 - 2.4. Establishing supplier-recipient relationships between process activities (activity graph).
 - 2.5. Establishing supplier-recipient relationships between their own process and other processes.
 - 2.6. Adding new activities or subprocesses as needed and, conversely, eliminating unnecessary elements of the process.

Of course, the assumption that the process owner is to ensure that all the obligations associated with their process are met does not imply that they must fulfill all these obligations in person. One of the basic principles of process-based management is the delegation of rights and obligations to the people under one's care, for whom the process owner should be primarily a teacher. Hence the concept of a process owner proxy described in more detail below (section 12.12).

The introduction of the process owner position is a far-reaching revolution in management. First of all, all employees – including managers – learn that, in addition to their direct supervisors, they are overseen by the owners of all the processes in which they are involved. Secondly, the managers, whose involvement in the processes has so far been informal and often unwitting, now extend their area of management, which previously included only the process's main performers, to all stakeholders. E.g., if a financial director becomes the owner of the Finance process (which is the most common scenario), their area of responsibility for employee knowledge, which was previously limited to accountants, is extended to include the remaining performers of the Finance process, i.e., all individuals creating any financial documents (e.g., invoices and cash reports), all individuals making any purchases (because they receive invoices), as well as all individuals who should be able to read financial reports with understanding. This latter group may even include all employees if the company decides to pursue a policy of openness in the area of finance in accordance with the fully participatory model of management described in section 2.

¹¹⁰ In most cases, this is an easy task, but some cases may be more challenging and require negotiations. For example: is the creation of the monthly payroll part of the Finance process or the Office process?

Section 2.4.4 describes a company that is a sales pyramid consisting from a head office and 1.8 million “independent cosmetic consultants”, where the only management structure is the mentor hierarchy. The (co)workers are each other’s managers, and the function of the head office is limited to organizing the flow of knowledge and the supply of products.

12.10 Whose knowledge should be ensured by the process owner

Process owners are knowledge managers ensuring the knowledge and skills of all principal and auxiliary performers of their processes. For example, the owner of the Finance process should ensure not only the knowledge of the accountants, but also of all other employees of the company who come into contact with financial documents.

The process owner should also make sure that appropriate level of knowledge relating to the scope of their process is also provided to performers of its recipient processes. E.g., all sellers in the A. Blikle company should have basic knowledge of production (which supplies the Sales process) in order to be able to provide the customer with an explanation why an ordered cake cannot be made overnight; they should also have basic knowledge of technology in order to be able to answer questions concerning the product’s ingredients (especially if the product contains any allergens¹¹¹). Confectioners should be familiar with the operation of electric cream mixers (supplied by the Hardware process) because they use them every day. Employees performing administrative tasks should know how to create documents using the IT tools provided to them by the IT process.

The owner of a given process should also make sure that the performers of any supplier processes have appropriate knowledge concerning the process in question.

To illustrate these principles with an example, below I present a list of the employee groups in the A. Blikle company whose knowledge should be ensured by the owner of the Production process:

1. Main process performers – confectioners.
2. Auxiliary process performers – salespersons decorating the products at the confectioneries.
3. Recipients of products – all other salespersons as well as customers (that’s right!).
4. Suppliers of raw materials (flour, eggs, fruit products, etc.).
5. Tool suppliers – technicians supplying and servicing the tools used for confectionery production (machines and equipment).

As can be seen, process-based management prioritizes the transmission and acquisition of knowledge. Many employees are involved in the transmission of knowledge, and all are involved in its acquisition and deepening.

The activity of acquiring and transmitting knowledge is no longer occasional, but becomes an everyday activity that should be permanently included in the work schedule. In modern companies, working without continuous learning could be compared to running with an empty wheelbarrow, which no one has time to load due to the excessive workload.

¹¹¹ Allergens are ingredients (such as nuts, eggs, or chocolate) that can cause allergic reactions. Food safety regulations require information on the main allergens contained in the product to be made available to the consumer.

Process owners are entrusted with the creative task of constantly making organizational, technological, and hardware improvements to all processes. In particular, they are responsible for ensuring that employees performing a given process are familiar with relevant knowledge.

12.11 Rights of the process owner

One very important principle associated with the educational role of the process owner is that the process owner is not entitled to issue operational commands to employees, i.e., to tell them what to do and when to do it. Such commands can only be issued by team leaders and (at a higher stage of the process-based model's implementation) by customers placing orders. And so, instead of telling people what to do, the process owner provides answers to questions regarding the way in which things can be done. In very specific scenarios, in which improper performance of a job by an employee may endanger someone's life or health, or another vital interest of the company, the process owner may instruct the employee to stop the activity. In such cases, however, the immediate supervisor of that employee should be notified as soon as possible.

This very strict separation of the process owner's and the team leader's jurisdictions serves, among other things, to prevent situations in which the employee receives contradictory instructions. It also serves to enable the team leader to assume responsibility for the tasks assigned to their team.

12.12 Process owner proxies

Process owners have many tasks to perform, and their personal area of activity involves many (if not all) of the company's employees. Taking this into account, they should delegate their responsibilities and decision-making privileges to proxies. Such proxies may be appointed both horizontally (processes) and vertically (teams).

Proxies in a horizontal structure are individuals responsible for the sub-processes of a given main process. For example, at the A. Blikle company, the owner of the *Basic Production* process can appoint proxies for sub-processes such as: *Production of Yeast Products*, *Production of Cakes*, *Production of Ice Cream*, etc. These proxies will be the owners of these sub-processes with all the didactic and organizational responsibilities of the main process owner, just on a smaller scale.

Proxies in a vertical structure are individuals responsible for the implementation of the sub-process in a given team. For example, the owner of the *Basic Production* process may appoint proxies to each confectionery where finishing work on selected products is carried out. Another example is team leaders, who, due to the scope of their duties, are natural proxies for the owner of the *Team* process in the areas of their teams.

In addition to the obvious organizational function, the appointment of proxies also has a very important motivational role. In principle, any employee has a chance to become a proxy of some process owner, i.e., a specialist in a specific area of knowledge and an advisor to other employees in this area. This means that anyone can perform new, inspiring, non-routine, and creative activities in their work, such as analyzing and improving standards, measuring quality, and spreading knowledge.

12.13 Team leaders

As mentioned earlier, the introduction of a process-based structure in a company does not necessarily eliminate its management structure. If the managerial structure is kept in place on a permanent (or even temporary) basis, then each manager is in charge of a team, and their duties include:

1. Creating a friendly working environment, promoting amiable and open relationships and teamwork ethos.
2. Taking measures to ensure employee development; coordinating training workshops.
3. Assisting employees in professional, social, and personal matters; resolving conflicts between team members.
4. Making operational decisions: deciding what should be done when and by whom.
5. Taking organizational steps to ensure that procedures and instructions established by process owners are followed by the team.
6. Determining the type and number of roles in the team (based on data received from process owners).
7. Providing tools and equipment to workstations (based on data received from process owners).
8. Assigning workstations to team members.
9. Evaluating and coordinating the processes carried out by the team.
10. Managing work rosters, holidays, substitutions, etc.
11. Recruiting employees, establishing work roles, promotions, transfers between roles, etc.
12. Temporarily standing in for absent employees in emergency situations where no other substitution is possible.

Team leaders are entrusted with the creative task of constantly improving the team, its interpersonal relations, and the working environment in general. Team leaders also coordinate the work of other employees, assigning them positions and tasks to be carried out, and ensure that procedures are being followed.

Understood in this fashion, team leaders serve as proxies for the owner of the *Team* process within the area of their teams. Anyone who has a defined team of people under their care is a team leader, from the chairman of the board of directors to the foreman.

As the managerial model is discontinued, the duties of managers are divided among three groups:

- duties 1, 2, and 3 are taken over by the *Team* process owner's proxy for a given team;
- duty 4 is taken over by the recipients of a given team's processes;
- the remaining duties are taken over by the team members, either individually (e.g., self-responsibility for following procedures) or collectively (e.g., hiring new people).

12.14 Duty officers

In a traditionally organized company, team leaders, especially those leading teams that occupy lower positions in the management hierarchy, perform many day-to-day auxiliary activities that are not managerial in nature. Examples of such activities include: emergency job assignments when someone is absent, preparing daily store cash reports, calling technicians when there is a malfunction, closing the premises after the last employee has left, handling complaints when a customer wishes to “talk to the manager”. Carrying out these tasks requires team leaders to be physically present with their teams; in practice, this often means that a team leader must have one or even two deputies. In the process-based model, this role is performed by a *duty officer* whose responsibilities include:

1. Handling malfunctions: making calls, calling for assistance, as well as receiving customer complaints.
2. Performing team-specific routine tasks; e.g., writing production instructions in a production workshop or preparing cash reports in a confectionery.
3. Assigning employees to roles for one shift, especially in the event of emergency absences.
4. Assigning unexpected non-routine activities to employees in the event of emergencies.

In addition to these responsibilities, each *duty officer* performs their own routine tasks related to their permanently assigned position.

The role of a duty officer is not permanent; it is assigned to an employee for a strictly specified period of time (e.g., one shift or a few days), which is entered into the work roster. Obviously, the employee should have relevant skills in order to be able to perform this role.

Each team should include several members who are able to carry out the responsibilities of a duty officer in order to ensure that the team's work can continue smoothly without the need for the team leader to be constantly present.

The skills required for the role of a duty officer are determined by the team leader together with the owners of the processes carried out by the team. The role is only established in teams in which it is required, which is usually the case in lower-level teams. For example, duty officers are indispensable in sales outlets and production facilities, but are probably redundant at the level of departments and above. We should also keep in mind that a duty officer does not, in principle, perform the team leader's basic activities belonging to the *Team* process. These activities are performed primarily by the team leader. However, they do not require the team leader to be constantly present with the team, allowing them to go on holiday or sick leave without neglecting their responsibilities in this area.

In teal teams, duty officers can be appointed on a rotational basis to perform tasks 1 and 2. Tasks 3 and 4 are carried out spontaneously thanks to good cooperation between team members.

12.15 Process-based management vs. traditional management

Introducing process-based management in an enterprise is a revolution that is challenging to implement. The nature of this challenge is both organizational (because it introduces new management structures such as processes) and psychological (because it assigns new roles to practically all of the company's employees).

It is only natural for people to be wary of change, especially when the consequences are not sufficiently clear. Therefore, it is necessary to make sure that first the management of the

company and then all its employees understand exactly what the process-based model entails and why implementing it is worth the substantial effort it requires. The table below shows how questions relating to fundamental management issues are answered from the standpoint of traditional and process-based management (Tab. 12.15-1):

Question	Traditional management	Process-based management
What measures are taken to improve the quality or productivity of work?	Appeals to employees to do a better job. Systems of rewards and penalties, bonuses and warnings.	Analysis and optimization of the process with the participation of its performers. Setting quality standards and taking regular quality measurements.
What is the object of quality improvement?	The final product, the one that goes to the customer.	All products and their components, tools for their production, and production procedures.
Who takes care of quality?	Quality assurance department.	All employees, suppliers, and even the customer.
From the perspective of an individual employee, who sets the quality standard for their work? Who evaluates this quality?	Immediate superior.	Immediate recipients (i.e., internal or external customers) and process owners (each within the scope of relevant activities).
How are the rules of conduct for the performance of work duties defined?	They are defined by the immediate superior. They are often not described, subject to changes and interpretations that are unclear to the employee and depend on the current needs of the superior.	They are defined by procedures created with the participation of their future performers. Procedures are official documents, and changing them requires analysis and discussion with the interested parties.
What is more important: collaboration or competition?	Competition: rankings, best seller awards, local optimization, everyone looks after their own interests, win–lose.	Collaboration: organization and optimization of cooperation, win–win, competition is eliminated.
What is the degree of employee independence?	Employees execute commands issued by superiors.	Employees manage their own workplace, participate in establishing standards, and make use of advice provided by process owners.

Tab. 12.15-1 Comparison of traditional and process-based management

At this point, the reader may be under the impression that many of the attributes of process-based management, such as the existence of standards and procedures, can be found in traditionally managed companies. And indeed they can. Today's companies have been evolving in the process-based direction since at least the second half of the 20th century even though this evolution has only recently begun to be named and analyzed. Although they are probably still in the majority, enterprises built on purely Taylorian principles are now fewer than at the start of the 20th century. Let us then summarize the most important features of enterprises managed in a process-based manner:

1. Processes are the object of management, while people are its subject. In order to improve the company's operation, we analyze and improve the processes and educate the people.

When something goes wrong, we seek the cause in the process first rather than looking for an employee to blame.

2. Improving a process entails improving not only its structure (the supplier-recipient relationship), but also the tools and equipment as well as the knowledge of process performers.
3. Knowledge is clearly referred to as a resource that should be managed, i.e., multiplied and nurtured. The company implements the concept of a knowledge-creating company.
4. The company has managers (process owners) responsible for the whole area of the process and related knowledge, not just for the area of one team.
5. Process owners appoint proxies, which significantly extends the opportunities for substantive promotion for employees at all levels. In fact, every employee has a chance to hold a process-based leadership position, which allows for their much greater involvement in the work and makes the work more attractive.
6. Team leaders are relieved of the (completely unrealistic) obligation to be experts in everything that the members of their team do. In substantive matters, employees turn to process owners.
7. The market quality standards are set by external customers. When using the supplier-customer relationship, these standards permeate into the company's interior and are then written down for individual workstations.
8. The fact that the supplier-customer relationship dictates the functional structure of the company determines the basic principle of relations between teams of performers. This principle is collaboration instead of horizontal competition or vertical control.
9. Activity optimization concerns the process, not the team, and the external conditions of this optimization are determined by the quality standard specified by the customer of that process. Thus the negative phenomenon of local optimization is avoided. In traditionally managed companies, sellers with commission-based remuneration optimize their operations locally, which usually runs against the global long-term interests of the company as a whole. I described this issue at length in section 8 when discussing the archetype of violence.
10. All routine activities are described using standards in the form of procedures, instructions, regulations, quality norms, etc. These standards are developed with the participation of their later users – changing the standards requires analysis and discussion among the users, which ensures that they are emotionally involved in the subsequent compliance with these standards.

To conclude this analysis, we can describe process-based management as a type of management that takes into account the (objectively existing) process structure of the company as well as contemporary knowledge about motivations that prompt people to work and operates in accordance with the convictions that the sum of local optimizations (competition) will most often be worse (and never better) than global optimization (collaboration) and that quality should be decided by the customer.

Process-based management is to traditional management as modern medicine is to medicine from the era before bacteriology. Process-based management is certainly more challenging than traditional management, and it requires managers to master areas of knowledge with which they were completely unfamiliar before. Hence the frequent resistance to this method, which closely resembles the situation from the period of Louis Pasteur's early activity, when many physicians

refused to acknowledge the existence of bacteria. I believe that process-based and, subsequently, teal management will become the standard of the future, just as Pasteur's findings became a cornerstone of contemporary medicine. It is, therefore, worthwhile to start thinking about it today.

12.16 Employee career model

One of the key differences between organizations using the hierarchical structure and the process-based structure concerns the employee's career model. In a hierarchical structure, promotion consists in advancing to successive levels in the hierarchy of power. It is also the only path that allows the employee to achieve subsequent levels of remuneration. In a process-based structure, there are many more paths of promotion as their number is determined by the number of process owners and their proxies. These paths can also be selected in accordance with the employee's various professional abilities and predispositions. A comparison of these two career models is presented in Tab. 12.16-1 (I recommend reading it line by line).

Managerial hierarchy	Process-based structure
Promotion means advancing to managerial positions; therefore, it is generally available only to individuals with managerial skills.	Promotion means taking the positions of process and sub-process owners, so it is available to individuals with diverse abilities.
There are few managerial positions. Pressures and interest groups arise.	Positions associated with processes (or sub-processes) are much more numerous and can be assigned to all interested parties.
Promoting a specialist in a given field to a managerial position most often reduces the use of their expertise.	Promoting a specialist in a given field to a corresponding process-based position provides them with better opportunities to develop in their field while sharing their knowledge with others.
Moving an employee to a lower management position is a demotion and is, therefore, done very rarely. The employee either stays in their position despite lacking competence (Parkinson's law) or leaves the company.	Transferring a staff member to another process-based position is not a degradation, so it is easy to correct mistakes in filling positions.
Assessing the employee's managerial skills relevant for a given position is difficult before promoting them to that position.	Process-related skills of an employee are easier to assess before promoting them to the position of a process owner.

Tab. 12.16-1 Comparison of promotion systems

In traditionally managed companies, there is an unwritten rule that a superior must earn more than their subordinate. This stems from the (also unwritten) assumption that the superior is by definition "better" than the subordinate.

The principle that remuneration increases along with the employee's rise in the hierarchy is also based on the conviction that the level of remuneration builds authority. I have heard on many occasions that the superior's authority will suffer if their subordinate earns more (or even as much) as them. Following this principle, a restaurant would not be able to employ an

outstanding chef whose wages would be higher than those of the restaurant manager, a hospital would not be able to hire an outstanding surgeon earning more than the head of their hospital department, and a theater would not be able to employ an outstanding actor earning more than the theater's manager. Sometimes companies deal with this problem by placing an outstanding expert in a managerial position. However, this means that, instead of applying their specialist skillset, the expert is forced to perform administrative duties, for which they are usually unprepared.

The only sensible solution to this problem is to abandon the utterly false conviction that the level of remuneration builds authority. It is not only false, but also deeply damaging. When superiors believe that authority is built in this way, they do not try to build it in the way they should, i.e., through personal growth, improving their knowledge and skills, and shaping positive relations with co-workers. They often allow themselves to be arrogant, convinced that this underscores their position. As a result, they ruin their authority and then are at a loss as to why their dependents become passive, deceitful, or even hostile.

Part IV: A PATH TO QUALITY

13 Fundamental principles

13.1 Quality philosophy and teal philosophy

The first formalized principles and tools of *Total Quality Management* (TQM) appeared in Japan at the start of the second half of the 20th century thanks to Edwards Deming and his American and Japanese colleagues (section 13.3). In the second half of this half-century, they began to permeate into the United States and from there into Europe. Although their ideological focus was the improvement of products and services – meant to, above all, provide companies with a market advantage – from the very beginning they stressed the fundamental role of leadership based on good communication, partnership, trust, and collaboration. Having set out toward purely mercantile goals, the creators of TQM came to the conclusion that the best way to achieve these goals is leadership based on partnership. It was none other than Deming who proclaimed in the 1970s that *salary dependence on quality and productivity of work, however understood, is the most powerful inhibitor for the Western economy* (section 8.6).

Since then TQM has been implemented in hundreds of thousands of companies around the globe; wherever this has been done, it has brought measurable financial benefits as well as improved working conditions. Unfortunately, TQM is still not as popular as it deserves to be; the reason for this lies not in the complexity of its procedures and tools, but in the difficulties associated with implementing partnership-based leadership. The readers of this book need no further explanation of the challenges and effort required by such a change. Moreover, I am familiar with examples of companies where TQM or similar procedures and tools were formally included in the scope of responsibilities of all employees, but “despite this” there was no improvement in quality or efficiency (while bureaucratic responsibilities clearly increased). In fact, this lack of improvement was not despite the introduction of TQM principles, but precisely because of its solely formal nature. Edwards Deming repeatedly stressed that the implementation of TQM must first and foremost involve people’s genuine commitment to improve their work.

Experience shows that teal philosophy and culture are an excellent foundation for the establishment of a quality management culture. It is only natural to complement them with TQM, as it provides the employees of teal companies with tools that have been tested for over half a century. Pure teal, if we can call it that, brings genuine commitment, which is the most important fuel for any organization. However, fuel without an engine remains only a potential. The engine in this case is the foundation of knowledge and skills on the part of the employees. The addition of cross-industry knowledge on how to improve products and services is a natural extension of this foundation.

13.2 A few words of introduction

Comprehensive quality management is a universal method of improving team efficiency. Though it is still most frequently used in the management of enterprises, the scope of its application is much broader and includes institutions of public administration¹¹² and local government, education, health care, and even the police and the army.

¹¹² For example, in 1998 the European Quality Award, granted by the European Foundation for Quality Management, went to an English company collecting taxes on behalf of the state treasury, employing over 1000 people and serving 7 million taxpayers and 26 million accounts [27].

We come across the concept of quality when products or services are being discussed. Good or bad quality can pertain to a TV set, a car, or a doughnut, as well as to customer service in a restaurant, bank, court of law, school, or hospital. In principle we all agree that the quality should be good, but we are not always quite sure how to assess it (what tools should be used to measure it) and how to achieve it. The People's Republic of Poland (in the years 1945-1989) familiarized my compatriots with some of the typical contemporary methods of promoting quality: posters in production halls, banners on fences, a system of model workers (Stakhanovites), and finally, here and there, quality control units conducting random checks of the quality of production. The quality of services was a nonissue.

Of course, all these “methods” mentioned above failed to contribute to the improvement of quality, which continued to depend on the commitment and skill of production workers. Sometimes they wished to strive for quality, but couldn't because they were not provided with appropriate conditions; sometimes conditions were right, but the people had no incentive to improve quality, because they were evaluated based on quantity, not quality. Similar mistakes were also made in Western Europe and the USA, but the technical level of production there was much higher, as were the market's demands, which forced manufacturers and service providers to improve their quality. However, a true revolution in quality took place in Japan with the help of a certain American.

13.3 Edwards Deming in Japan

Japanese cars have occupied top positions in international rankings for the most reliable passenger cars from around the year 1980. Since then the roads of Europe and the Americas have seen a surge in the number of Japanese cars and motorcycles. Japanese cameras, calculators, TVs, and music equipment have been pushing local products out of the market on these continents. The term “Japanese product” has become synonymous with the highest quality.

It was the summer of 1950 when Edwards Deming (1900-1993), an American expert in management, came to Japan. He was a member of a group of experts who, as part of the aid offered to Japan by the United States after World War II, were tasked with helping the Japanese people build a competitive industry¹¹³. Deming – as I have already mentioned in section 1.2 – had himself contributed to America's victory over German fascism as he was largely responsible for developing the shipbuilding and optical industries to the scale that was required for the US to wage war on the distant European continent. To these industries, as well as to the armaments industry, he introduced his own quality management principles, the very principles to which my book is devoted. Thanks to him and his methods of statistical process control (Part V), the ships supplying the American army in Europe (the so-called *liberty ships*) stopped sinking “for no apparent reason”, as the American media put it, which happened on several occasions at the beginning of the war.

¹¹³ Edwards Deming (PhD in physics) worked in Japan as an advisor to the *Japanese Union of Scientists and Engineers* (JUSE). Based on a transcript of his lectures conducted in the summer of 1950, a book was published for which Deming received a fairly substantial fee from the JUSE. He returned the fee to the JUSE with the aim of promoting quality in Japan. It became the foundation for the establishment of the Japanese Deming Prize. In 1960, Deming received the Order of the Sacred Treasure (Second Class) from the Emperor of Japan for improving the quality and excellence of Japanese industry through statistical quality control.

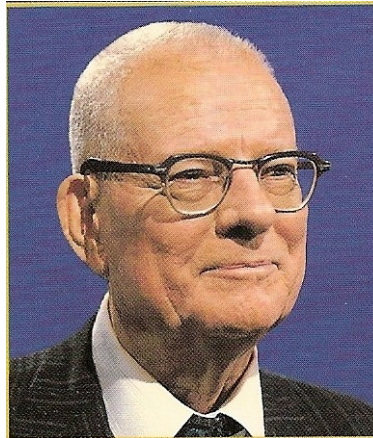


Fig. 13.3-1 Edwards Deming

Unfortunately, the American industry lost interest in Deming's methods right after the war. Improving quality was no longer necessary as, even without it, American companies faced little competition in the post-war reality. Therefore, Deming travelled to Japan because he understood that this country, bruised and battered by defeat like no other, needed support in building a competitive economy.

Few people today remember that at the beginning of the 1950s Japanese industrial products were considered junk. The Japanese did not dare to dream of entering the American and European markets. The country was ravaged by war, and the society was emotionally crushed by defeat. So what has transformed Japan so radically from a third world country into a country whose industry is now respected by the greatest economic powers?

Deming started his first meeting with the heads of Japanese industry with words along the lines of: "I have come to teach you modern methods of business management. However, I will not show you the management methods that are used in my own country today, because US companies are managed poorly. I will teach you how to manage well, and I predict that, if you follow the path I show you, your economic development will outrival that of the United States in about a quarter of a century".

Deming's prophecies came true with great accuracy. In the second half of the 1970s, Japanese cars and electronic and optical equipment began to make gains in the European and American markets. This was truly shocking for the Americans as they had never experienced competition with foreign cars¹¹⁴, calculators, hi-fi equipment, or cameras on their own market. It also turned out that the USA, which for years had topped the ranking of gross domestic product per capita, now fell to seventh place, while the first place was taken by Japan (Fig. 13.3-2).

¹¹⁴ The triumphant entry of Japanese cars into the American market did not end there. Their progress is well illustrated by the quote by E. Russell Palmer ([61], p. 58): "I lived in Detroit for a number of years and worked on the audits of two of the auto companies. In general, I found that they had very top-down organizations where the top leaders felt they had most of the answers. At that time, in the late 50's and early 60's, the Big Three had the lion's share of the market for automobiles in the United States. Today the situation has changed dramatically: in January 2007, GM, Ford, and Chrysler accounted for a little more than 50% of U.S. auto sales, while the Asian companies – both Japanese and Korean – accounted for more than 40%. Many experts expect this trend to continue."

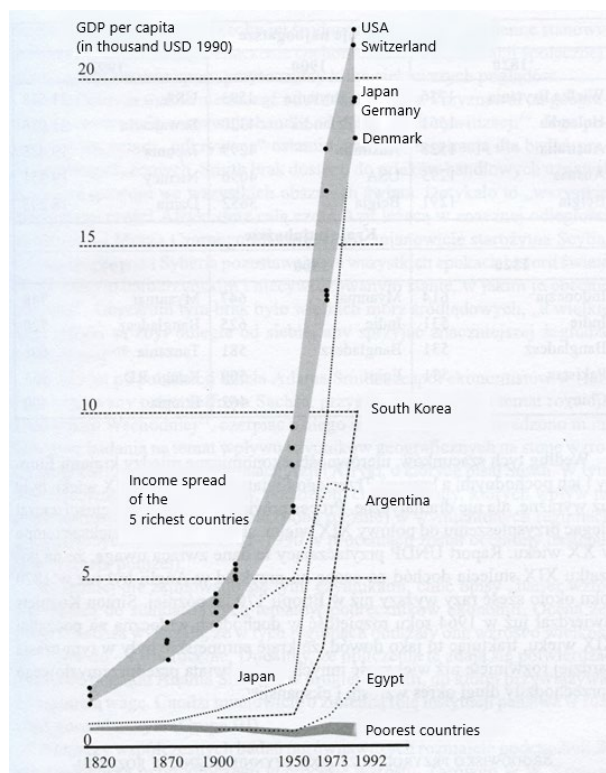


Fig. 13.3-2 Growth of GDP per capita¹¹⁵

A feverish search for the sources of Japanese success began in the American press. Interviews with the heads of the largest Japanese companies clearly pointed to Edwards Deming. During this time he returned to the United States, where he lectured at one of the universities. NBC journalists found him in his office, which was located in a basement, indicating that Deming was not as revered in his own country. A few days later, on June 24th, 1980, NBC broadcast the famous *If Japan can... why can't we?* documentary, which prominently featured Deming and his ideas. The response was overwhelming: thousands of requests for program recordings and meetings were submitted. Deming became a celebrity overnight and began to collaborate with large corporations. A very interesting account of his collaboration with Ford Motor Corporation is contained in the diary of one of the company's CEOs, Donald Petersen [63]. At the time Deming also organized his famous four-day TQM courses, which were attended by hundreds of listeners. Two of them later published a book (William Latzko, David Saunders [53]) with notes from these lectures, featuring an abundance of anecdotes and real-life examples. Among them was the following anecdote, which aptly illustrates the differences in approach to quality in the United States and Japan at the time.

Four defective items

A certain American computer manufacturer grew dissatisfied with one of his American suppliers. He, therefore, decided to try cooperating with the Japanese. He wrote in his order that he expected that for every 10,000 items there would be no more than 4 defective items on average, which was in line with the military standard 105D used in the USA at the time. The Japanese accepted the order. After some time the equipment was delivered along with a letter: "We Japanese find it difficult to understand the

¹¹⁵ Source: [53].

North American way of doing business. The four defective items out of the 10,000 were delivered separately. We hope that you will find this to your satisfaction.”

13.4 The Doctrine of Quality

Today, more and more companies around the world are introducing Deming’s Japanese-American method into their daily practice. Apart from manufacturing companies, which pioneered this method, these organizations increasingly include service companies, such as banks, hospitals, and schools, institutions of public administration and local government, as well as, in some countries, the police and army. Here are some examples from around the world: Toyota, Honda, Sony, Philips, General Motors, Ford, Royal Dutch Shell, the British Treasury, the United States Navy, and the US public administration. In recent years, Fiat has officially adopted the so-called *Toyota Way* in all its plants around the world. Several examples can also be found in Poland: Zelmer, Polmo Łomianki, some high schools and middle schools, some local government offices, and even the police. Of course, there are scores of other companies and institutions (e.g., secondary schools and universities) that have followed this path. For the time being, they are in the minority, but their significance and position are growing.

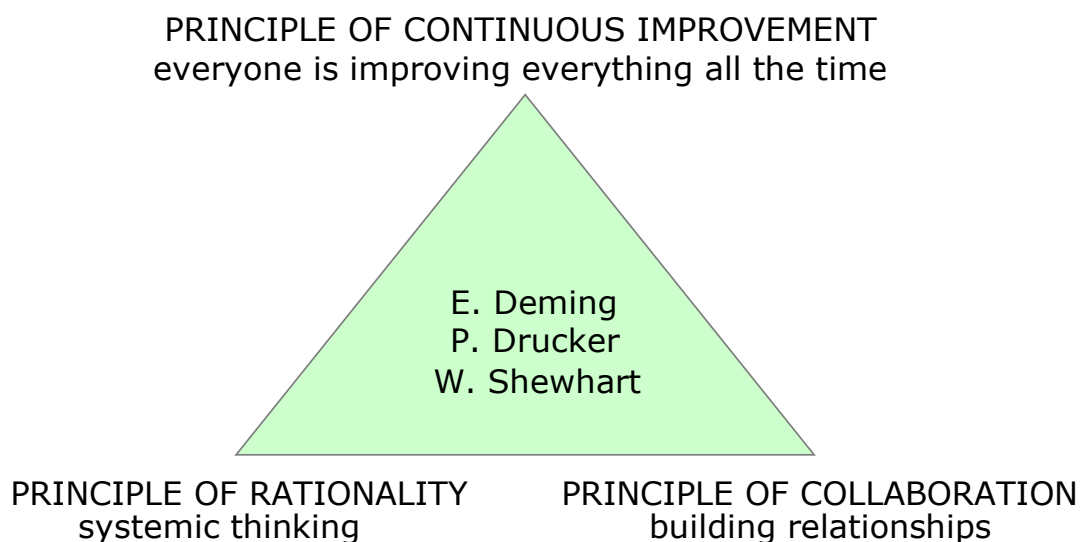


Fig. 13.4-1 The three principles of the Doctrine of Quality

What is this method that transformed Japan from an economically backward country into a global economic leader and has been evolving for more than 30 years in all the advanced economies of the world? The idea behind it can be boiled down to the three basic principles presented in Fig. 13.4-1, which, taken together, I once called *the Doctrine of Quality*¹¹⁶, and the name stuck. In the next section I will try to explain briefly where these principles came from

¹¹⁶I coined the term *Doctrine of Quality* to refer to the common trend in the group of comprehensive quality management methods associated with the persons of Edwards Deming, Peter Drucker, and Walter Shewhart. The PWN computer dictionary of Polish (PWN 1998) states that a doctrine is “a set of views, claims, assumptions from a specific field of knowledge (philosophy, theology, politics, etc.) that are characteristic of a given thinker or school (...)”. I capitalize the term because I consider it a proper name .

and how they should be interpreted. I will start with a certain vivid analogy coined by Edwards Deming.

13.5 Defects are like germs

The simplest definition of good quality is lack of defects. And defects are like germs – they are transmitted from product to product, from company to company.

Imagine trying to combat germs in the operating room with traditional methods: hanging “Protect yourself from germs” posters on the walls and hiring a sanitary inspector to perform random checks of the number of germs on surgical instruments, remove the instruments where there this number is too high, and file requests for penalties or rewards for the crew depending on the number of bacteria detected in a given month.

Probably everyone would find this approach completely pointless, if not idiotic. Firstly, it does not lead to an improvement in sanitary conditions, and secondly, it embitters the employees, who have not been prepared to fight germs and are now being punished for this very lack of preparation. Nonetheless, this is what many companies are doing to reduce the number of defects in their products.

So what should be done to effectively control the problem of germs (errors, defects)? Here is some pretty obvious advice:

1. Care of the sanitary conditions in the operating room should be exerted not occasionally by the sanitary inspector alone but by everyone at all times (**constant improvement**).
2. Attention should be paid to the sanitary status of all items in the operating room, not just surgical instruments. The presence of germs on the instruments cannot be avoided when there are still germs on the aprons, gloves, operating table, etc. (**perfecting everything**).
3. Ensuring proper sanitary conditions must consist in adopting and following appropriate procedures guaranteeing a specified level of sanitation. External audits (if we are not yet a teal organization) should be concerned solely with the observance of procedures. Performing the measurements should be entrusted to the employees of the operating room; if they are to be responsible for the sanitary conditions, they should be the ones to monitor the sanitary level on an ongoing basis (**systemic thinking**).
4. In order to ensure measurement reliability, the operating room staff’s evaluation and remuneration cannot depend on the sanitary conditions in the operating room because this could make them inclined to conceal unsatisfactory results. This does not mean, however, that their supervisors should not bother with the sanitary conditions – they should make sure that appropriate training is organized and provide the staff with continuing assistance and support in their work on sanitation (**principle of cooperation**).
5. We should keep in mind that what is really important to the patient is the (minimum) level of sanitation that we can guarantee at all times, not the (maximum) level that we sometimes manage to achieve. Only a sufficiently high minimum level guarantees patient survival. The maximum level’s only relevance is that it can show us the way to raising the minimum level (**systemic thinking**).
6. It is not enough to deal with germs only in the operating room. We should also think about reducing the number of germs throughout the hospital (universal cleanliness) and, perhaps, throughout the city (cleanliness and prevention) or even the whole country (**systemic thinking**).

7. The operating room staff should be continuously trained in methods of fighting germs and measuring the sanitary conditions. The training must be provided on a continuous basis rather than at a single point in time, as new germs and new methods of combating them are appearing constantly (**continuous improvement**).
8. In the struggle to eradicate germs, all members of the operating room staff should cooperate both among themselves and with other teams in and outside the hospital. It is not competition (which team has better results) but cooperation that can guarantee good sanitary conditions. Better results can be achieved when, instead of complaining to the hospital director that the aprons coming back from the laundry are poorly washed (let their bonuses suffer!), we engage in a conversation with the laundry workers to identify what the problem is (**building relationships**).

Following this advice could be called *the Doctrine of Cleanliness*. Everyone takes steps to ensure cleanliness, which applies to all objects within the scope of our workstation and the workstations of our collaborators. These steps are taken on a continuous basis, not just once. If we replace “sanitary conditions” with “quality” in the list of recommendations above, we will get a practical interpretation of the three basic principles of the Doctrine of Quality:

1. Principle of continuous improvement.
2. Principle of cooperation.
3. Principle of rationality.

13.6 Principle of continuous improvement

One can always remain average. But what kind of a prospect is that?

– the White Raven Academy in Wrocław¹¹⁷

This principle consists of three recommendations. Firstly, in order for the work on the quality of the final product (or service) – i.e., the product (or service) that reaches the customer – to be effective, it cannot be limited to work on the quality of that product alone. It must encompass everything we do and how we do it, including: raw materials, semi-finished products, tools, processes, work organization, working conditions, as well as the knowledge and skills of the company’s employees. This so-called *chain of quality* should also extend to suppliers and co-operators. This can be illustrated by a simple analogy: it is impossible to clean the waters of a river only by its right bank. For the water to be clean in this area, the entire width of the river must be clean.

Secondly, all employees in the company (not just “quality assurance specialists”) should be involved in the process of maintaining and improving quality. Everyone must personally ensure the quality of their work because little can be achieved without their involvement and participation. Assuming that someone else will take care of the quality of our work would be as absurd as believing that someone can take care of our health by exercising and going to the swimming pool every morning in our stead. This does not mean, however, that the employee should be left alone on their “path to quality”. The work on quality must be a team effort; most often – especially in the initial stages of implementing the Doctrine of Quality – this effort should be

¹¹⁷ [22] page 17 of Polish edition.

supported by the knowledge and experience of specialized trainers. If our production process requires advanced technologies, we may also need a specialist laboratory.

Thirdly and finally, the work on quality never stops. There is no such point in time when we can say that the quality in our company does not need further improvement, just as there is no such point in life when we no longer need to look after our health. Quality improvement should be a continuous process, conducted in parallel to the production and organizational activities throughout the entire life cycle of the company. Of course, we can always stop this process, but this means giving up rather than achieving the goal.

13.7 Principle of cooperation

In order for quality to be improved, it must be constantly measured so that we know whether progress is being made and in what direction it is heading. The first order of business is, therefore, to teach everyone how to measure quality. This task is relatively simple as knowledge of quality measurement is technical knowledge that everyone can acquire quite easily within the scope of their professional field. It is much more challenging to motivate everyone to actually want to perform the measurements and be ready to share the results with their colleagues and superiors. Notwithstanding, it is essential as every employee has their own suppliers on whom the quality of their work depends as well as recipients depending on this quality work.

Generally speaking, quality measurement boils down to measuring the number of defects in products or services. The fewer the defects, the higher the quality. Many companies “motivate” their employees to ensure quality by linking remuneration with the quality of work understood in the way we just described. The fewer errors you make, the higher your “quality bonus” will be. However, can we expect that the employees in this scenario will measure quality eagerly and thoroughly? Can we expect them to discuss problems with quality openly? Even the most honest will wonder whether the error in their work is not the result of a previous mistake on the part of the supplier – if this is the case, then the supplier should be the one to include the error in their report! This will give rise to suspicions, accusations, and misunderstandings. Cooperation will be replaced by conflict.

The problem seems unresolvable – and indeed it is as long as the seemingly reasonable principle of paying more for better work and less for worse work is applied (section 8.6). And so, as we can see, these basic considerations concerning the measurement of quality lead us to teal management.

13.8 Principle of rationality

The principle of rationality states: “If you wish to change the course of a phenomenon, first make sure you understand the underlying mechanism properly and fully.” Many would respond: “Well, that’s pretty obvious. After all, if I don’t understand how a computer works, I’m not going to try to fix it with scissors.” Indeed, in the case of a computer this is obvious because we all learned physics for a few years at school and maybe some more at a university, so in this area we know what we don’t know. In this scenario, we are on the second of the four levels leading from complete ignorance to complete knowledge:

1. **I don't know that I don't know** – my grandmothers didn't know that they didn't know how to operate a computer.
2. **I know that I don't know** – my parents knew that they didn't know how to operate a computer.

3. **I know that I know** – I and my children know that we know how to operate a computer.
4. **I don't know that I know** – my grandchildren don't know that they know how to operate a computer; for them it is as natural as walking or breathing¹¹⁸.

As it turns out, when managing a company – and more generally, when managing a team – there are many situations when we do not know that we do not know. For example, many managers today do not know that they are unfamiliar with the principles of social psychology (a science of fundamental importance for building interpersonal relationships), the intricacies of using Shewhart's control charts for statistical process control, the definition of the growth archetype, and so on. Without all this knowledge, they may believe the world to be much simpler than it is in reality. So they set out to solve problems without knowing their obscure nature, which condemns their undertaking to failure.

Fortunately, all of this can be learned. However, in order to start learning, one must first part with certain myths and thought habits that have accumulated for generations, such as that you should expect perfection from yourself and others, that people are best managed with a stick and a carrot, that competition contributes to increasing the team's efficiency, or that quality costs money, so it is not worth raising above a certain level.

13.9 What is quality?

Contrary to appearances, the problem of defining the concept of quality correctly is not just a matter of academic theory. A company that wants to control the quality of its offer in a way that is in line with the expectations of the market must first of all define this quality adequately for its own use. The most common mistake made by companies is to define quality according to their own convenience (though it may happen to correspond with the expectations of the customer).

Air conditioners at Café Blikle

In the early 1990s, air conditioning units in the form of wall-mounted panels were installed in our café by a certain company. Unfortunately, after a few days it turned out that, in addition to cooling the temperature, the panels also produced small shards of ice, which they would occasionally eject straight at the heads of our customers. Sometimes they would even manage to land these icy bullets behind someone's collar or on their plate. After some complaints, I asked the panel manufacturer to remedy the situation immediately. The lack of any response prompted me to write an "angry letter" to the company's CEO. This time, I received a reply stating that I should not talk about matters that I do not know the first thing about. According to this CEO, the fact that ice accumulated on the radiators only proved their high efficiency. After all, their job was to cool the temperature. Therefore, I had no grounds for questioning the quality of the service I was provided.

One of the most apt definitions of quality, in my view, is as follows¹¹⁹:

¹¹⁸ In the first edition of my book in 2014, I used the future tense in this sentence. Today I realized that I need to change it as my granddaughter is ten years old and my grandson is twelve.

¹¹⁹ I heard this very accurate definition of quality from the late Professor Leszek Wasilewski, one of the pioneers of quality management in Poland and one of my first TQM mentors.

Product quality is a measure of the absence of defects in a product (the fewer the defects, the higher the quality), while a product defect is any negative feature of the product – negative from the customer's point of view – that the customer may reasonably not expect.

For example, a customer buying a fridge may reasonably not expect it to pour condensate on the floor, a customer buying a doughnut may reasonably not expect the doughnut to be stale, and a customer purchasing a dental service may reasonably not expect receiving a staphylococcal infection as a bonus to the seal.

The quality of a product is, therefore, a feature that should always be referred to in a certain context. When someone presents us with an object of an unknown purpose, we are not able to judge its quality. Marketing specialists noticed this a good while ago and introduced the concept of the *marketing mix*, also known as the *4 Ps*: *product, place, promotion, and price*.

The product's marketing mix consists of four elements, the first of which is the product itself, while the other three determine the marketing context in which the product is offered to the customer:

1. *Product* – an object (material or intellectual) or a service, e.g., a doughnut, car, computer program, license, restaurant service, or medical or legal services.
2. *Place* – the location where the product is offered for sale, e.g., a shop, restaurant, office, or the Internet.
3. *Promotion* – all the information that the customer (product user) receives about a given product; this may include explanations offered by the seller, descriptions printed on the packaging, brochures with instruction manuals, advertising messages, opinions about the product by other customers (so-called personal recommendations), or what is commonly known about the product.
4. *Price* – the amount paid by the customer for a given product.

The place, promotion, and price form the context in which the quality of a product can be assessed. In other words, the concept of quality can only be applied to the whole mix and not to its first element alone. The table below shows examples of two high quality products whose quality would surely be considered totally unacceptable were it to be assessed out of context.

Product	Place	Promotion	Price
A camera that is not fit for use after the first 24 photos have been taken	Kiosks in tourist attractions	A disposable camera that we buy when we want to take a holiday picture but forgot to take the camera from the hotel ¹²⁰ .	\$10
Spoiled raw meat with sand	Zoo	The diet of certain carnivorous animals (such as lions) must include this meat.	\$1.5/kg

Tab. 13.9-1 Examples of seemingly poor quality products

¹²⁰ A note to younger Readers: this example comes from the forgotten era when phones were not yet equipped with cameras.

As we can see, quality cannot be treated as a property of a product without appropriate context.

13.10 Quality and value

Another mistake related to the understanding of product quality is to confuse the concept of *quality* with the concept of *value*. In fact, these are two completely different and independent concepts. There are both high value (luxury) products that have poor quality and low value (common) products that have high quality (Fig. 13.10-1).

For example, the Trabant automobile, once produced in the German Democratic Republic, was a common high-quality product, while many complex and expensive IT systems are low-quality products.

The Trabant was ugly, cramped, noisy, hot in the summer, and cold in the winter; and its exhaust pipe would emit acrid smoke. However, its price was relatively low, and the customers knew exactly what they were buying. Moreover, the car ran on the cheapest gasoline, and used little of it to boot; replacement parts and maintenance services were not expensive either. So nobody complained about the Trabant, and all its users believed that they got what they expected. “What you saw was what you got.” – as Leszek Wasilewski used to say.

The situation is different with many IT systems and tools. Despite the fact that their price is often quite steep, these systems can only be purchased if the customer waives all claims against the manufacturer for damages caused by system malfunctions. What is more, fixing these malfunctions is done at the customer's expense under the innocent-sounding name of “servicing”.

An example of a product of equally high value and quality can be found in the Swiss Rolex watch, while examples of products and services of low value (we don't expect much from them) and low quality (and we get even less) can still unfortunately be found among the supercheap

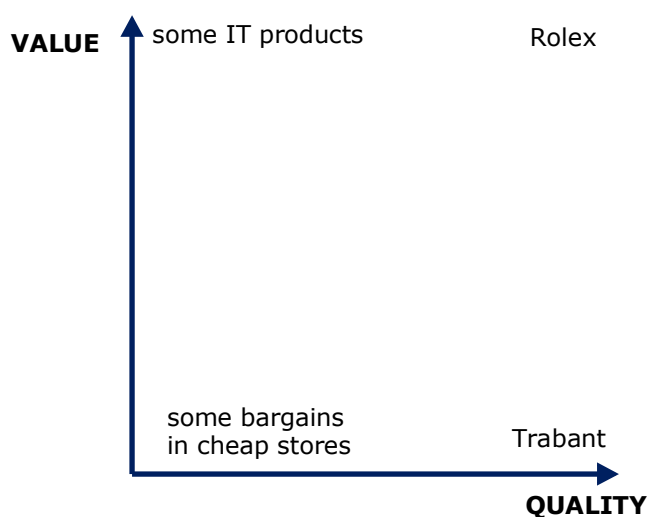


Fig. 13.10-1 Quality and value

wares of some shops. For example, a friend of mine bought several pairs of remarkably cheap tights. She assumed that even if each pair would need to be thrown out after just one day of wearing, the deal would still pay off. Unfortunately, the tights were not suitable for wearing even for one day, because the lengths of the legs differed by 10 cm.

While the quality of a product is determined in relation to its marketing context, its value (level of luxury) is determined by comparing its properties with other similar products on the market. With some simplification, one may say that:

*The more the product promises the customer, the more luxurious it is;
the greater the extent to which these promises are fulfilled,
the better the product's quality.*

In this context, it is worth stressing that the company's choice of whether its product is to be of low or high value is a question of marketing strategy. The product we offer can be cheap and sold in bulk or expensive and meant for a market niche. In the first case, we equip the product with only basic features, we produce and sell a lot of it for a low price, and we must have an extensive sales network and spend a lot of money on advertising in the media. In the latter case, we equip the product with many unique features, we produce it on a smaller scale and for a higher price, the number of sales outlets is relatively small, and the methods of reaching the customer are more individualized. We do not need to commit as much capital to our venture as in the first case, but we will never achieve as much profit, even though our profitability will probably be higher.

In contrast, the product's high or low quality is not a matter of strategy at all. A decision to maintain poor product quality is simply a cardinal management error, which I will discuss in the next section.

13.11 Low quality is costly

We can often hear managers say that quality costs money, so raising it above a certain level yields no additional benefit for the company. Such a view is a misunderstanding that usually stems from one of two sources (or both):

1. Confusing the concepts of quality and value (as mentioned above).
2. Believing that everything that is a cost to the product or service provider is quality for the customer.

Let us consider the following example. A manufacturer of luxury Swiss mechanical watches guarantees that its chronometers can run slow or fast by no more than 15 seconds per month. This guarantee determines the watch's value, and the fact that this promise is kept – its quality. Suppose now that the same manufacturer intends to reduce the potential inaccuracy of their watches to 1 s per year. This would, of course, cost a lot of money, but would not improve the quality of the product for the customer, because they simply do not need such accuracy¹²¹. We should keep in mind that the quality and value of a product are only associated with the product's features that are or may be expected by the customer.

¹²¹ Of course, we are talking about customers buying watches for everyday use. Collectors of expensive watches (I have seen some of those) are willing to pay for them as much as €20 million. But such a watch is a completely different product for a completely different market.

On the other hand, low product quality always comes at a serious cost to the company because it means that the product reaching the customer does not live up to their expectations. Then one of the following scenarios takes place:

1. The customer requests the product to be repaired or replaced and any losses incurred as a result of the product's defectiveness to be reimbursed (unless it is an IT system). This is associated with a certain cost for the company, but offers them a chance to keep the customer.
2. The customer leaves the company for good, discouraging current and future customers, and perhaps triggering a press campaign against the company. Although the company does not incur any visible (accounting) costs as a result, the true losses are usually much higher than in the previous case.

It is also worth remembering that:

The cost of eliminating the consequences of a defect in a product increases rapidly with the number of production and commercial stages between the stage at which the defect occurs and the stage of its detection.

The computer software industry exemplifies the above statement particularly well. In this industry, if correcting an error at the stage of conceptual design costs one unit, then correcting it at the stage of technical design costs 100 units, at the stage of software coding – 10 thousand units, at the stage of software testing – 1 million units, and the cost is even higher after the software is released.

An error in an Intel microprocessor

In 1995, a user of a PC with an Intel microprocessor discovered that multiplying two numbers he selected gave an erroneous result. If there were two such numbers, then there could be many others; therefore, all multiplication results became questionable. This flaw could have been prevented had proper mathematical analysis of the multiplication algorithm been performed, the cost of which, including the training of programmers, would have probably amounted to several hundred thousand dollars. However, this was not done, and the company had to then spend hundreds of millions of dollars to replace defective microprocessors in their customers' computers. In addition, customer trust in the company's products dropped for a few years, which probably resulted in reduced sales.

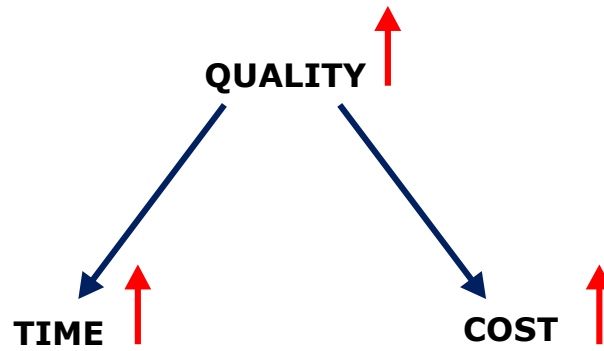


Fig. 13.11-1 The traditional relationship between quality, time, and cost of production

The view that high quality costs money also originates from the traditional method of quality control, i.e., carrying out statistical checks by selecting products at random from each batch, assessing the samples, and, on that basis, allowing or rejecting the whole batch. Indeed, ensuring quality in this manner costs money, and a lot of it. Hence the traditional view that quality control is both time-consuming and costly. This way of thinking is clearly illustrated in Fig. 13.11-1: in order to increase the quality of a product, the time and cost of production must increase.

The traditional method of statistical quality control assumes that we have little influence on the errors made in the production process, and that eliminating these errors takes place only at the stage of quality control. After examining the quality of a batch sample, we either reject the entire batch with many defect-free products or release the batch with a certain number of defective products to the market. This approach corresponds to the traditional way of looking at quality assurance presented in Fig. 13.11-2.

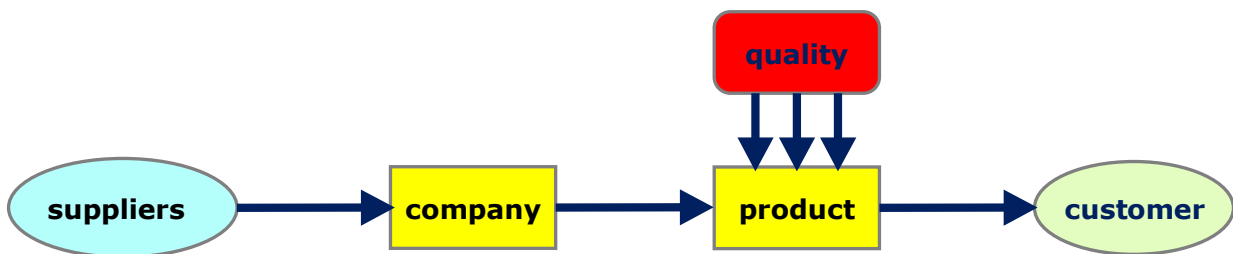


Fig. 13.11-2 Traditional quality assurance model

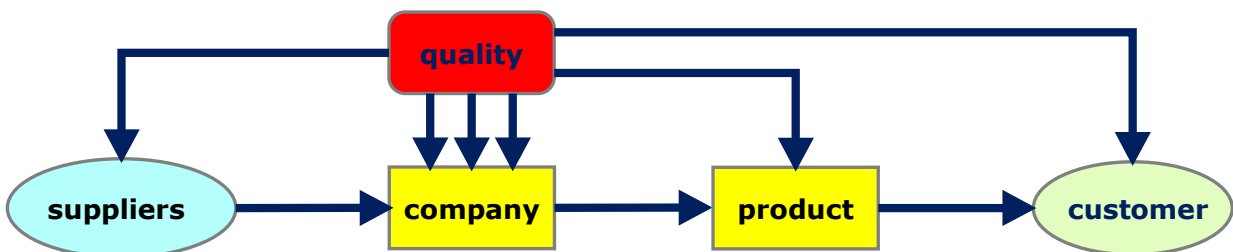


Fig. 13.11-3 TQM quality assurance model

In the traditional model, we focus on product quality, and additionally, if we apply statistical quality control, most of our pro-quality activities take place when the product is ready. This goes against the already described principle of continuous improvement. Improving the end product will not deliver the expected results if we do not improve the raw materials, tools,

processes, and the entire environment in which the product is manufactured. The principle of continuous improvement is illustrated in Fig. 13.11-3.

In the TQM approach, we look after the entire chain of quality starting with the supplier and ending with the customer. Within the company itself, we first of all improve the manner in which the product is created along with the entire broadly understood work environment. With

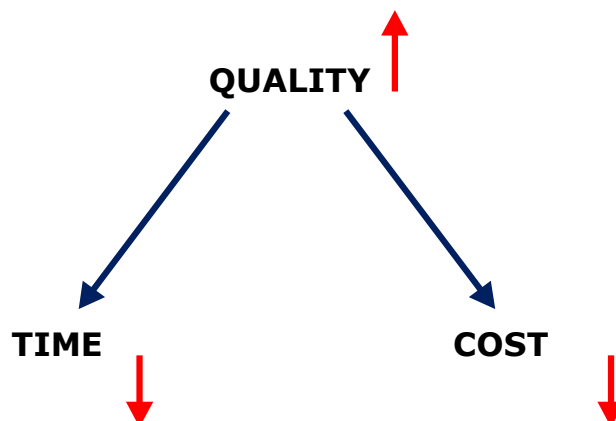


Fig. 13.11-4 TQM relationship between quality, time, and cost of production

this approach to quality, the directions of the arrows from Fig. 13.11-1 change: increasing quality is accompanied by savings in time and money, as shown in Fig. 13.11-4¹²².

The time spent on manufacturing a product is shortened because we improve manufacturing processes by eliminating unnecessary activities. This is known as *streamlining* or making the processes *lean*, as discussed in section 14.2. The cost is reduced because we have streamlined the processes, reduced waste and made sure that fewer defective products are delivered to the customer, which leads to savings on the cost of warranty services. However, the greatest savings come from reducing the costs associated with losing customers. Losing a customer means a reduction in revenue (which reduces profitability) or having to bear the cost of acquiring a new customer (without increasing revenue), or (most often) suffering both of these consequences at the same time.

13.12 Light work is good work

It is a long-standing belief that the person who works well is the person who works hard, but the truth is that hard work is always less productive than light work. The crowning example of this is the slave labor of prisoners in Soviet gulags. The construction of the White Sea-Baltic Canal claimed hundreds of thousands of lives and certainly entailed huge logistical costs, but the results were dismal. The canal was created, but it was never navigable for ships.

If we take two control groups of employees performing the same activities – e.g., the first and second shift at the same production line – and instruct one group to increase productivity and quality of work and the other to improve the working conditions by identifying and removing everything that hinders their work, then the increase in productivity and quality will usually be more pronounced in the second group. This is because the second group applied the most appropriate way of increasing work efficiency, which is the elimination of barriers. The

¹²² Helmut Gläser provided me with the concepts for all the drawings in this section, for which I extend my warmest thanks.

foremost task of so-called *quality incubators* (section 15) is, therefore, to analyze the barriers that hamper the work the most and try to remove them. Quality incubators are also equipped with tools for identifying and removing such barriers.

In the vast majority of companies in the world, the potential for worker productivity is sorely underutilized and dampened by inadequate work organization and bad interpersonal relationships precisely because hard work is less productive than light work. As demonstrated by numerous studies as well as my own experience, productivity, entrepreneurship, and employee innovation in a significant majority of companies are inhibited primarily by a poor working atmosphere resulting from discordant interpersonal relationships, including those between superiors and subordinates. This is the reason why I devote so much attention to these issues in this book.

13.13 Do not expect perfection – expect progress

While this slogan may sound strange to a European reader, it is the main motto of managers who have adopted *kaizen* (the Japanese equivalent of TQM) as their management philosophy.

The *kaizen* followers say: “Do not expect perfection because you will never achieve it, and the awareness of this failure will cause you to disapprove of yourself and others. Do not expect perfection because if you ever thought you had achieved it, it would be the end of your development.

But do expect progress! There is always room and time for progress. Progress is always possible. It is as possible as perfection is impossible. So instead of waking up every morning brooding that you are not perfect, bow to the rising sun to give thanks for the opportunity to be better every day.”

In the company’s everyday practice, supervisors should not expect the employees under their care to never make an error; therefore, they should not impose punishments for errors, nor issue rewards for lack thereof. Instead, they should ensure that continuous progress is being made in eliminating the causes of errors and that the company and its employees are able to cope with the errors that do occur. It is the lack of progress in quality, rather than the presence of errors, that should be a red flag for the supervisor, signaling that something wrong is happening in the team.

At Toyota, a good manufacturing or management process is not one that is free of errors, but one that assumes that errors may occur and, therefore, has appropriate procedures to deal with them ([55], p. 282 of Polish edition).

13.14 Systemic thinking

The entrance exam for the scuba diving course at Club Méditerranée includes the task of swimming for 50 m with the face submerged under water, with no water goggles, but with a breathing pipe. The candidate must not hold their nose or plug it in any other way, and to ensure that they do not succumb to the temptation, their hands must be raised above the water. People who are unfamiliar with the exercise usually try to breathe very carefully so as not to inhale water through the nose. After a few meters, all of them without exception have their noses full of water and have to stop the exercise. I have experienced such a failure myself at one time.

This story is a typical example of a situation where in order to deal with a problem it is necessary to understand the mechanism of the system within which we operate. Non-systemic thinking offers us the most intuitive solution: “Breathe carefully if you don't want to draw water

into your nose.” Only by analyzing and understanding the system is it possible to discover the correct approach, which is contrary to the intuitive one: “Breathe very intensively as this will increase the air pressure in the entire respiratory tract, which will prevent water from entering your nose.”

Another example is the struggle of a swimmer drawn into a whirlpool. A non-systemic (intuitive) solution is, of course, not to get pulled in, and to swim away from the vortex as far as possible. Unfortunately, you can only win against a weak whirlpool with this approach: against the strong ones you don’t stand a chance. Sooner or later, the tired swimmer will be pulled in and drown. The correct (systemic) solution is to draw air into your lungs at the very beginning (when you still have strength) and let yourself be carried in without a struggle (or even dive as deep as possible). At the base, the whirlpool loses its power, so you can free yourself from the trap with little effort.

Thinking that is not systemic and stems only from intuition that is not founded on sound knowledge often leads us to false solutions. Representatives of exact sciences and technology know this well, but managers often believe that a “head for business” is sufficient for making the right decisions. A typical example for this is a fast-growing enterprise which suddenly encounters a so-called *growth barrier* (Fig. 13.14-1). At first, everything is going swimmingly. Marketing expenses result in growing sales, and growing sales allow for marketing expenses to be increased. This cycle, called *the growing loop*, has worked flawlessly and drives itself, but only until a certain point. Then the sales start to decline despite the increasing expenses on advertising. So we spend even more on adverts and promotion and achieve some short-term growth. Unfortunately, after some time, the sales figures again drop below their pre-growth levels, and the profit rate is also falling as a result of the increased spending. Why is this happening?

In most systems, apart from the growth loop, there is also a so-called *limiting loop*. Advertising drives sales, and growing sales enable us to increase expenditure on advertising. However, increasing sales can also be associated with negative side effects: reduction in the quality of products caused by the conviction that everything is going to sell anyway, market saturation, or the company’s tendency to increase prices excessively. Factors beyond our control may play their role as well, such as competition or a general economic downturn. These are all elements of the limiting loop. In addition, it is not uncommon the limiting loop to be associated with delayed reactions of the market to changes. For example, the quality of a product has deteriorated, but it usually takes some time for the customers to notice. At the same time, the factors limiting demand continue to intensify, but the company fails to counteract them as demand has not decreased yet.

The systemic recommendation for companies that have encountered a growth barrier is therefore:

Stop tending to the growth loop!
Instead tend to the limiting loop, i.e., the factors that limit growth.

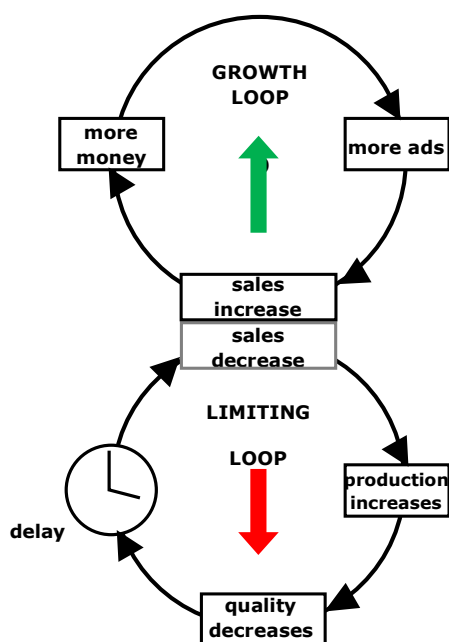


Fig. 13.14-1 The Limits to Growth archetype

Take a look at the quality and prices, think about innovations and new markets. Win your client's trust back.

The situation described above is typical and repeats itself in different variants in many companies. It corresponds to a pattern called *the "Limits to Growth" archetype*¹²³. Several of the most important archetypes occurring in enterprises were described in Peter Senge's excellent book [70]. Archetypes are an extremely important tool for systemic thinking because they allow us to understand the essence of many phenomena.

Another typical archetype is *Shifting the Burden*. This archetype (Fig. 13.14-2) can be illustrated by the situation of a company that does not have the resources to make necessary investments. A common mistake in such scenarios is to give up investing. This solution eliminates the symptom of the phenomenon (the shortage of funds is no longer apparent because investments have been abandoned), but it does not eliminate its cause – funds for necessary investments are still lacking.

Such an approach also fuels a deficit growth loop (in this case, growth is a negative factor): less resources leading to less investment, leading to even less resources. Its side effect can be a growth loop: *lowering goals* – once you learn to give up, it becomes a habit.

The alternative to eliminating the symptoms is, of course, eliminating the root causes of the phenomenon, which may include waste, poor cash management, and unnecessary expenses. So instead of eliminating the symptoms, we should counteract this phenomenon. This is the lesson coming from the *Shifting the Burden* archetype¹²⁴.

¹²³ Source [70] p. 95

¹²⁴ Source: *ibid.*

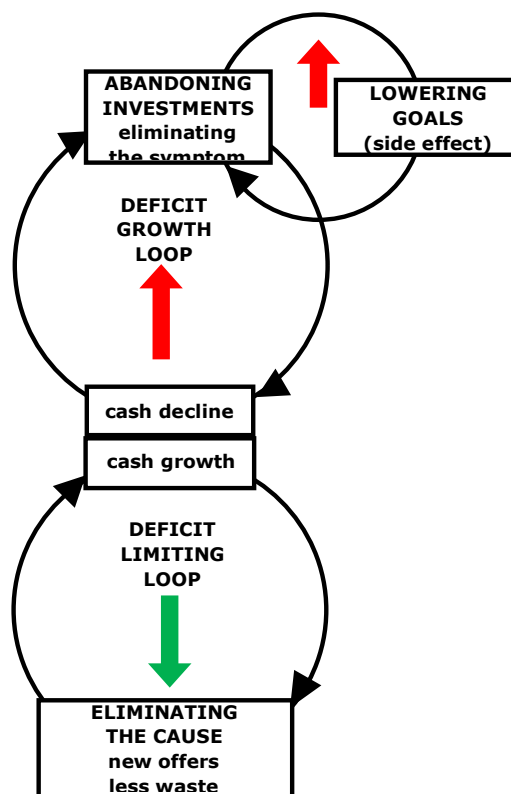


Fig. 13.14-2 The Shifting the Burden archetype

Another situation that requires us to understand the underlying mechanisms of a phenomenon is conflict resolution. Once in our company, during a meeting of a group of employees taking part in a quality instructor course, a heated exchange of opinions occurred after an accusation was made by the employees of the sales department to the employees of the production department. The charge was: “When are you going to stop sending defective merchandise to our stores?” Of course, this triggered a sharp reaction from the production workers, to which the sellers reacted no less strongly, to which the production workers responded, to which the sellers replied, and so on. After some time, a war between the two teams seemed imminent.

This mode of discussion is a classic example of non-systemic thinking, based on two erroneous mistakes, namely:

1. That the person on the other side of the table is an opponent (not a partner) who deliberately acts in bad faith.
2. That the problem is simple and homogeneous and can be solved easily.

Instead of continuing the discussion, which was not leading anywhere, we used *the fishbone method* (discussed in detail in section 15.7) to identify the reasons why faulty products sometimes ended up in the stores. As a result of the analysis, we identified eight groups of subproblems of our main problem, grouping together 26 potential causes. It became clear to everyone that there was no sensible answer to the question “When will you finally stop...?” because the problem was much more complex than it had initially seemed.

The final example of systemic thinking that I would like to share is the observation made by Edwards Deming and Joseph Juran, who came to the following conclusion based on numerous studies carried out in Japan:

*85% of quality problems result from system errors
and only 15% can be attributed to employees.*

After conducting similar research in the USA, Deming later increased the share of system-related problems to over 95%. These discoveries were fundamental in the search for the sources of errors and failures. Therefore, in most cases we should focus on fixing the system instead of punishing and “fixing” people.

13.15 The fourteen principles of Edwards Deming

During his first visits and lectures in Japan in the 1950s, Edwards Deming formulated the famous 14 principles that make up one of the canons of quality management. These principles were later repeatedly published by various authors, leading to a multitude of formulations that often differ quite significantly from one another. The following text comes directly from Deming ([16], p. 23).

Condensation of the 14 Points of Management

The 14 points are the basis for transformation of American industry. It will not suffice merely to solve problems, big or little. Adoption and action on the 14 points are the signal that the management intends to stay in business and aims to protect investors and jobs. Such a system formed the basis for lessons for top management in Japan in 1959 and in subsequent years.

The 14 points apply anywhere, to small organizations as well as to large ones, to the service industry as well as to manufacturers. They apply to division within a company.

- 1. Create constancy of purpose toward improvement of product and service, with the aim to become competitive and to stay in business, and to provide jobs.*
- 2. Adopt the new philosophy. We are in a new economic age. Western management must awaken to the challenge, must learn their responsibilities, and take on leadership for change.*
- 3. Cease dependence on inspection to achieve quality. Eliminate the need for inspection on a mass basis by building quality into the product in the first place.*
- 4. End the practice of awarding business on the basis of price tag. Instead, minimize total cost. Move toward a single supplier for any item, on a long-term relationship of loyalty and trust.*
- 5. Improve constantly and forever the system of production and services, to improve quality and productivity, and thus constantly decrease cost.*
- 6. Institute training on the job.*
- 7. Institute leadership. The aim of supervisions should be to help people and machines and gadgets to do a better job. Supervision of management is in need of overhaul, as well as supervision of production workers.*
- 8. Drive out fear, so that everyone may work effectively for the company.*

9. *Break down barriers between departments. People in research, design, sale, and production must work as a team, to foresee problems of production and in use that may be encountered with product or service.*
10. *Eliminate slogans, exhortations, and targets for the work force asking for zero defects and new levels of productivity. Such exhortations only create adversarial relationships, as the bulk of the causes of low quality and low productivity belong to the system and thus lie beyond the power of the work force.*
11. (a) *Eliminate work standards (quotas) on the factory floor. Substitute leadership.*
 (b) *Eliminate management by objective. Eliminate management by numbers, numerical goals. Substitute leadership.¹²⁵*
12. (a) *Remove barriers that rob the hourly worker of his right to pride of workmanship. The responsibility of supervisors must be changed from sheer numbers to quality.*
 (b) *Remove barriers that rob people in management and in engineering of their right to pride of workmanship. This means, inter alia, abolishment of the annual or merit rating and of management by objectives.*
13. *Institute a vigorous program of education and self-improvement.*
14. *Put everybody in the company to work to accomplish the transformation. The transformation is everybody's job.*

13.16 Six deadly diseases

In addition to the 14 positive points that should guide the management of any company, Edwards Deming also described seven deadly diseases that destroy many American companies (cf. [16] p. 97 and [53], p. 118). I will discuss the first five, leaving aside the sixth (excessive costs related to employee health protection) and the seventh (excessive legal costs) because they are not that relevant for Polish enterprises. In their place I added another one, about which Deming also wrote a lot, although he did not include it in his list of seven diseases.

13.16.1 Lack of constancy of purpose

According to Deming¹²⁶:

*The lack of a defined direction of action
 does not resemble the common cold or flu.
 It is not a benign disease.
 It is a deadly disease that leads companies to collapse.*

¹²⁵ This somewhat strange numbering comes from E. Deming, so I decided not to change it. Perhaps he wanted to add new content without changing the number of principles because the term “Deming’s fourteen points” was already established in TQM.

¹²⁶ Source: [53] p. 119 in Polish edition.

One of the causes for this disease is the lack of a clear definition of the company's purpose. In one company, several individuals from top management were asked to indicate what they considered to be the company's main objective. As it turned out, each respondent had a different answer. For the chief accountant, the goal was to achieve the greatest possible profits; for the marketing director – to generate the largest possible sales; for the vice-president for operations – to deliver goods to customers on time; and for the president – to develop the company in the long term and increase its market share. Could such an enterprise have functioned properly with everyone having different goals? Certainly not. This is what happened in the company according to one observer¹²⁷:

Fifteen years ago, we were rich. Instead of reinvesting in our core activities, we began to diversify our business. Five years later, after entering many new areas, we were not making any profits. Practically speaking, we were unfamiliar with these new areas. We found that we had bought other people's problems. Over the next five years, we began to reduce costs in a futile attempt to transform our new acquisitions into viable subsidiaries. Now we are trying to sell these subsidiaries. In this way, we may recover money, buy back our stock, and set ourselves up to prevent others from taking over our business against our will. Who are we, after all? Managers or big children playing with the fate of our employees and shareholders?

The first step to avoid such situations is, therefore, to clearly define the goal that the company intends to achieve¹²⁸. The second is to establish tactical tasks for the whole company, which will facilitate achieving this goal over the next few years. The third step is to place each of the tactical tasks on a list of operational tasks with a shorter time horizon and to assign them to specific organizational units in the company. In organizations with hierarchical management structures,¹²⁹ this process is most often carried out as a cascade, starting from the management board, continuing through divisions, departments, and sections, and ending with the lowest units and individuals.

13.16.2 Emphasis on short-term profits

According to Edwards Deming ([53] p. 121), “*we are plagued by a disease called ‘entrepreneurship on paper’. Heavy pressure comes from Wall Street¹³⁰ for short-term quarter-by-quarter gains. These ignore variation, and each quarter they must go up. So managers rely on creative accounting, mergers, acquisitions, tax schemes, foreign currency swaps, and all sorts of finagling- to boost the short-term profit. This disease, unchecked, will ruin our economy.*”¹³¹.

A well-known example of such a scenario was the Enron scandal, which happened several years after this quote was published in William Latzko's book [53]. The company's supervisory board expected the management to increase profits from quarter to quarter, offering them fabulous bonuses for meeting this goal. As a result, when the management faced a drop in profits for a given quarter, they would transfer costs to subsidiaries whose profitability had no bearing

¹²⁷ *ibid*

¹²⁸ In principles 11 and 12 (section 13.15) Deming very explicitly recommends abandoning the so-called *management by objectives*. Here, in turn, he recommends defining the objectives that the company intends to achieve in a clear manner. Contrary to appearances, there is no inconsistency in this. Management by objectives entails linking several objectives assigned to an individual employee to his or her salary. Such a “motivational” system invariably leads to a contest between the company and the employee, which the company is bound to lose. This topic is discussed extensively in section 8.7.

¹²⁹ Not all organizations have a hierarchical structure, as I described in detail in sections 12 and 21.

¹³⁰ I.e., company shareholders.

¹³¹ The financial crises of the first decade of the 21st century demonstrated how prophetic these words were.

on the bonuses. Of course, they hoped that, in periods of prosperity, they would transfer profits to these companies to cover the costs. For some time, this strategy was working, but one day the debt of the mother company to her daughter companies grew to such an extent that it could no longer be concealed. It was then that the public and the company's shareholders found out what was really going on.

Another example is the Bethlehem Steel Mill in Baltimore. When the global steel industry went into recession, the company started to cut costs rapidly. Thousands of professionals were laid off, and most of them left the industry for good. The management made this decision under pressure by shareholders who, despite the declining sales, expected continuous dividends, i.e., profits. When the recession came to an end, Bethlehem Steel proved unable to compete for the market.

Faced by the same situation, the Japanese chose another course of action. Anticipating that the recession was temporary, they did not lay off anyone, but drastically reduced the wages (by as much as 50%) and started to invest in the future. They sent their engineers to the largest foreign steel markets to explore the needs of the current and future customers there. At the same time, they started to build a state-of-the-art furnace for continuous production. When the recession ended, they simply took over the global markets. In this context, it is worth quoting a statement by Dr. Yoshi Tsurumi (published in the "New York Times" on May 1st, 1983 and quoted by Deming in [16]):

Part of America's industrial problems is the aim of its corporate managers. Most American executives think that they are in the business to make money, rather than products and service... The Japanese corporate credo, on the other hand, is that a company should become the world's most efficient provider of whatever product and service it offers. Once it becomes the world leader and continues to offer good products, profits will follow.

13.16.3 Personnel reviews, productivity-related remuneration

Many companies conduct periodic employee evaluations, the results of which are used as the basis for promotions or layoffs. Once a year or every six months, the terrified employees are evaluated by their superiors, usually on the basis of surveys that are prepared in advance. This is a very difficult time for everyone. Here is a description of one such action by one of its participants ([53], p. 123 on Polish edition):

We devote many hours to evaluating effectiveness and to preparing and implementing this evaluation. We discuss the subject endlessly. How should we treat people? How will they react? What will be the extent of their outrage? Employees usually hide their pain and bitterness. Most of them do not show any emotions. However, mental obstacles are unknown and unrecognizable. People sometimes drown their pain in alcohol or drugs. How will they explain their low grades to their families?

As I have already mentioned (quoting W. E. Deming and J.M. Juran in section 8.6, if the assessed employee's work is found inefficient and features errors or defects, then in 85-95% of cases the cause lies with the system, i.e., with the way work is organized, for which the employee's superiors are responsible. To illustrate this phenomenon, Deming uses the following symbolic equation:

$$FE = IE + SE + IE * SE,$$

where:

FE – full employee effectiveness in their position,

IE – individual employee effectiveness,

SE – effectiveness (quality) of the system,

*IE * SE* – symbolic representation of the interaction between the employee and the system.

During the evaluation, superiors try to identify the value of *IE*, while knowing the value of *FE*, but without knowing the value of *SE*. In addition, they (or their own superiors) are most often the ones responsible for the value of *SE*. Therefore, when evaluating employees, the superiors in fact assess themselves, while giving the scores for their own performance to the employees. This is what Deming himself thinks of personnel reviews ([53], p. 123):

In practice, annual reviews are a disease that undoes long-term planning, breaks down teamwork, encourages competition and internal strife, harasses and destroys people, drives them to despair, makes them incapable of working for weeks after finding out the results.

And here's what Thomas Gordon thinks about periodic evaluations ([31], p.238)

In over 25 years of consulting with many kinds of organizations, I never saw an performance evaluation system that people liked – either leaders who administered it or group members on whom it was used. Typically performance evaluation causes problems and headaches for both the evaluator and the person being evaluated.

The same author presents eight systemic drawbacks of performance evaluations:

1. *Job descriptions are usually not adequate for defining specific functions which a team member is expected to perform. People with identical job descriptions often end up doing quite different things. And studies generally have shown substantial differences between leaders and team members as to what responsibilities and duties the team member is expected to perform.*
2. *Leaders are required to fill out rating forms that usually contain lists of “traits” and “characteristics”, such as cooperativeness, initiative, creativity, thoroughness, etc., that are next to impossible to evaluate objectively and accurately.*
3. *Extreme variations exist in the standards and the rating practices of different leaders. Each has biases and pet ideas about what ratings should be given (“Nobody gets an Excellent rating from me”; “I never rate anyone Below Average because if he’s that bad I shouldn’t keep him”).*
4. *Leaders’ ratings have a tendency to show the “halo effect”: they first make an overall judgment of a team member’s performance and then indiscriminately rate all specific items consistent with the general rating.*
5. *Leaders’ ratings are strongly influenced by whatever administrative actions they may have to take in the future. (“If I rate too high, she’ll expect to get a raise.”; “If I rate too high I’ll not be able to justify firing him in the future”).*
6. *Ratings of team members often cause the same kinds of reactions as the grading of children in school – buttering up, covering up, “working only for the grade”, competitiveness, arguments, loss of self-esteem, etc.*
7. *Most performance evaluation systems focus only on past performance – they look back on what has already happened rather than encourage effective performance in the future.*

8. *While leaders are supposed to explain and discuss team members' evaluations with them, some avoid these conferences like the plague. They know they'll be unpleasant*¹³².

One of my readers wrote about this in 2012:

Personnel reviews

I have had the "pleasure" of participating in evaluations in which not only the questionnaires were arranged beforehand, but also the results. *Top management* assumed that, statistically, each group of people features X% of outstanding individuals who deserve the highest rating, Y% of individuals who just do their job, and Z% of low-performance individuals who deserve the worst possible rating and no reward.

Along with the evaluation survey, each department received guidelines on the number of people who should receive a given score. Imagine the discomfiture of managers who were leading departments that achieved above-average results and employed only high quality experts valued on the market (which was not an isolated case). How much these poor managers had to squirm while explaining to the people selected for the worst ratings that they actually deserved them!

The situation may seem absurd and funny in hindsight, but the immediate effect was the rise of frustration and increased turnover of employees who disagreed with the assessment.

And here is another report from 2013:

Collecting dirt

I had a situation last year where my supervisor was collecting dirt on me to get rid of me because I was a threat to him. At the very beginning of goal setting, he assigned all the "more important" projects and tasks to himself, leaving me with some simple current tasks that did not give me any opportunities to develop my skills (even though I was employed at an expert position); my tasks even included "not being late for work".

Then (after a year) he evaluated the implementation of the said tasks and gave me a poor annual performance review to be "covered". The evaluation was very hurtful, and he actually used the word "sloppy" to describe a material, which lacked a comma and a full stop and had a single typo – I had three days to prepare the material and he spent the next week checking it for typos. It hurt me and hurts to this day. Of course, as a result of this evaluation, when the company announced collective redundancies, I was made redundant and have been looking for a new job for seven months now.

So, if personnel reviews cause so much damage, shouldn't leaders be interested in employee performance? Of course they should, and not once or twice a year, but every day.

To put it very briefly, periodic employee evaluations should be replaced by conversations between leaders and team members on what they expect from each other and the rest of the company in order to be able to do their job as well as possible. During such conversations, which can take up to several hours and are best conducted outside the workplace, *feedback is* exchanged. This serves primarily to remove the barriers that each party encounters in their work as well as to improve work tools and plan workshops and training. If properly conducted, these discussions and meetings allow both parties to acquire information on the existing and desired state of affairs. The parties do not assess each other, but rather their occupational competencies, knowledge and skills, as well as needs. However, for such talks to be meaningful and effective,

¹³² For example: how to explain to a subordinate that their commitment was rated at 3.5 and not 4?

there must be agreement and trust between the interlocutors. In particular, the team member must be confident that any problems they reveal will not affect their salary and position or threaten their co-workers. All this is discussed in section 9.3.3. Current information on what can be done better and how to do it can also be gathered very effectively with the use of so-called *quality incubators*, to which I devoted section 15.

Remember that performance reviews are a dummy used to conceal lack of leadership. Leadership is the ability to foster teamwork by obtaining a synergistic effect from the combination of the quality of individual performance with the performance of the system. Obtaining this effect is neither simple nor obvious, but it is possible. For readers who would like to learn more about the risks posed by periodic employee evaluations, I particularly recommend the book *Get rid of the performance review!* by Samuel A. Culbert and Lawrence Rout [11].

13.16.4 Mobility of management members

The mobility of management members, i.e., their frequent transfers from one company to another, is often associated with the so-called White Knight Syndrome ([53], p. 126 in Polish edition):

1. Identify a messy area.
2. Step in as a savior.
3. Make many changes, make a lot of movement (interference).
4. Demonstrate your results (short-term gains).
5. Get rewarded.
6. Disappear before any long-term problems come to light.

This syndrome is unfortunately typical of governments in Western democracies and also of the large state-owned companies there, whose management changes along with political cabinets. We do only what will bring visible results during our term of office, and *après nous, le deluge* (“after us, the deluge”). In politics, this phenomenon is very difficult to elude. Avoiding it requires the presence of politicians who are willing to sacrifice – or at least risk sacrificing – their personal careers for the good of the country. In companies this is theoretically easier, but it requires determination on the part of the owners as well as an appropriate management system. A system that is not focused on quick profits and high bonuses, but on long-term planning and stable remuneration. A system that is not founded on “employee burnout” and their swift turnover, but on investing in management staff which should ensure the continuity of the corporate culture within the company as well as its public image.

If the management or the CEO is clearly working badly, they should be replaced. However, the supervisory board should bear in mind that no management board or CEO will work better than the system imposed on them. As I already mentioned in section 8.6, in 85% of cases it is the system that is responsible for the company's failures, not the people. It is important to keep this in mind because otherwise a frantic search for a CEO or director who will “finally put things in order” may fail to improve anything, while incurring all the organizational, financial, and psychological costs of change.

13.16.5 Managing the company based on visible numbers alone

Company boards usually make their most important decisions by analyzing the numbers coming from accounting, sales, and marketing departments: revenues, costs, profits, market share, etc. These are all **visible numbers** because we can obtain them by simply measuring the phenomena we are interested in. Unquestionably, these numbers are essential for any company, but

we must not forget that they do not paint the full picture of the company's status, risks, and capabilities because they:

- concern only the past, not the future;
- describe only the effects, not the causes;
- describe events, not processes.

According to Dr. Lloyd S. Nelson, the Director of Statistical Methods at the American company Nashua Corporation¹³³, the most important figures needed to make management decisions are not only unknown, but unknowable ([10] and [53]). Here are some examples of such figures:

1. Loss of revenue and profits due to customer dissatisfaction, product and service defects.
2. Loss of revenue and profits due to poor performance of the company and its units.
3. Operating costs due to bad procedures.
4. Production costs due to waste of raw materials.
5. Costs of downtime or idle work due to poor organization and employees' dissatisfaction with their work.
6. Costs of absenteeism due to employees' lack of loyalty to the company.
7. Impact of synergy resulting from good teamwork on revenues and profits.
8. Potential revenue and profits that could be gained by removing the organizational barriers that employees face in their work.
9. Potential revenue and profits that could be gained by improving interpersonal relations, including the relations between leaders and team members.

By basing decisions on visible numbers alone, management boards limit their scope of activity to the effects of phenomena instead of addressing their causes. For example, when management concludes that profits are too low, they react by issuing an order to cut costs. Lower level managers then look at their lists of costs, which, obviously, include only visible costs. They see the cost of purchasing raw materials, but do not see the cost of wasting them. They see the cost of customer service, but do not see the cost of mistakes made during this service. They see the cost of personnel, but cannot see the cost associated with wasting employee potential. Acting based on this limited perspective, they strive to reduce the visible costs and generally succeed, especially if they have been promised high bonuses for this task.

Unfortunately, after a while the reduction of visible costs is offset by an increase of costs that have been hidden. Saving on raw materials by buying cheaper substitutes causes product quality to deteriorate, thus increasing the cost of handling complaints. Saving on customer service results in losing customers. Saving on employment reduces the company's efficiency (e.g., by extending the time required to complete procedures) and employee loyalty. The worst part is that while a manager can reduce the visible costs relatively quickly – and earn a bonus! – the negative effects of this action are usually delayed, so everyone thinks that it has been a success. When the side effects of the cuts finally emerge in the form of increased visible costs, no one is interested in paying attention to them. Instead, they are swept under the carpet – after all, the bonuses have already been paid out.

¹³³ Nashua Corporation is a key American company from Nashua, New Hampshire (www.nashua.com), which has been operating for over 150 years and is engaged in the production of various types of paper products, including paper labels. The company is known for its attention to quality of products and services. Deming included numerous quotes by Lloyd S. Nelson in his book [17].

Of course, the conclusion is not that visible figures are not significant, or that no action should be taken to reduce the cost of raw materials or unnecessary employment; instead, we should bear in mind that visible numbers are only the tip of the iceberg, while the rest of the ice is usually hidden under the surface of the ocean on which our ship is sailing. Notwithstanding, experienced skippers should be able to avoid underwater obstacles as long as they do not forget about their existence.

The invisible numbers described in examples 1 through 9 can only be learned after the fact. By improving customer service we increasing revenues and profits; by eliminating waste we reduce the cost of raw materials; and by improving the company's image in the eyes of employees we reduce absenteeism. We call these numbers invisible because they are not apparent at the time when decisions are being made.

There is also another type of invisible numbers – invisible because we cannot see them with the naked eye, just as we cannot spot the submerged part of the iceberg without using a radar. These are the numbers that describe random processes and their variability. There are dozens of such processes in every company even though they often go unnoticed. The simplest example would be the value of sales measured on a monthly basis. CEOs like to hang charts on the walls showing how the value changes from month to month. Edwards Deming once asked the CEO of a large shoe factory how this information was being used. The CEO responded that he praised and rewarded or reprimanded and punished the employees depending on whether the sales were growing or falling. “In this way I can react to the good or bad performance of my people on an ongoing basis” – said the CEO. But nothing could be further from the truth!

The process of selling on the mass market is a random one, reminiscent of playing dice, poker, or roulette. What would be the point of rewarding a roulette player for winning and punishing them for losing¹³⁴? This would be pure nonsense. Unfortunately, it is equally nonsensical to reward and punish the sales department of a company or shop assistants for the fact that the sales figures are high in May and low in June.

Does this mean that all information on sales dynamics is completely useless and we should sit back and do nothing when sales are falling dramatically? Of course not! But simply looking (with the naked eye) at the sales value chart does not provide us with enough information to make meaningful decisions. The chart, i.e., the random process it describes, should be analyzed using Shewhart's *control charts*. Only after such an analysis will we know whether the high sales in May and the low sales in June are due to the randomness of the process or whether there are any non-random factors that need to be investigated.

When dealing with undesirable situations of a non-random nature, it is essential to identify and eliminate their causes. However, analyzing situations resulting from the random nature of our process is a pure waste of time and money. If we want to avoid such situations in the future, we need to change the process. Random process analysis is an important, though little known, tool for making management decisions; I devoted part V of this book to its description.

13.16.6 Tough management culture

Genghis Khan, who, as we know, managed a considerably vast territory, organized a special postal courier service in his empire. The couriers rushed on their horses and had absolute priority in the “road traffic”. Failing to give way to a courier was punishable by death.

¹³⁴ This nonsense is vividly expressed by an old Polish saying about a father who beat his son not for gambling, but for losing. Apparently fathers of the time did not differ in this respect from some of today's CEOs.

Many CEOs have taken this model to heart. They pride themselves on being gracious to those who obey them and terrible to those who resist. Their motto is “I pay, therefore I demand”. One such CEO, described by “Der Spiegel” in the 1990s, managed a worldwide hypermarket chain and worked hard on promoting his image as an all-seeing sovereign. He would visit the company’s stores regularly, and several employees would lose their jobs after each such inspection. This was the norm. One or two people had to be fired to make the rest “afraid to work poorly”. However, this did nothing to improve work. As one of the national directors of the company told me, they had a huge problem with theft committed by their employees, acting either alone or even in cooperation with customers. To occupational psychologists this phenomenon is known as employee anomie (section 7.6).

Shooting it straight

Paweł Berłowski, a journalist specializing in human resources management, once shared the following recollection¹³⁵:

During the last KADRY congress, I was astonished to hear a lecture by the head of a trading company, who, while talking about remuneration systems, boasted that he managed his company with an iron fist. “Interacting with employees requires assertiveness; this is a very nice word, but in truth it is simply ‘shooting it straight’,” he argued. “I have this habit of going around the company every morning, shaking hands with everyone and at the same time taking a peek at what’s going on because people are lazy. I’ve heard a few lectures here¹³⁶, and I notice that the speakers talk about ways to enable employees to grow at the workplace. But is working about personal growth or about doing actual work? If I want to get some personal growth, I take a trip to the mountains or visit a theatre in Warsaw”.

The said speaker began his presentation by saying that a few years ago 80% of his staff left him within seven days. “The human factor has failed and now I know it can’t be relied on.” – was the conclusion he drew from this lesson.

Employees are generally lazy and dishonest, so they need to be constantly supervised and controlled, and the boss should have a second pair of eyes in the back of the head because otherwise the employees will stop working as soon as no one is watching. Views like these are often expressed by managers with so-called experience. Worse still, these are actually self-fulfilling prophecies because employees whose dignity is systemically and systematically trampled on do not develop a sense of loyalty to the company. For them, the company becomes an enemy, an occupant, a prison guard against whom they need to struggle. Justified by the company’s unethical conduct, they will themselves resort to unethical methods. Thus starts a war that nobody can win. I wrote about these “war games” between employees and companies in section 8.12.2.

	Share of costs in turnover	
	Culture of mistrust	Culture of trust
Costs of operational quality assurance (control and rejection of deficient items)	4 – 6%	1 – 2%

¹³⁵ He shared it during a speech at an HR congress.

¹³⁶ At the congress.

Costs of unjustified absence of production workers	4 – 6%	1.5 – 2%
Emergency stoppages + unused machine time	13 – 15.6%	2.6 – 5.2%
Costs of misunderstandings between management and production	2 – 3%	0,5 – 1%
Total	23 – 30.6%	5.6 – 10.2%

Tab.13.16-1 A comparison of two management cultures¹³⁷

Since this war cannot be won, it is best not to start it at all and instead assume that people are generally honest and hard-working, even if some exceptions are bound to happen. A positive assumption also acts as a self-fulfilling prophecy. Of course, assumption alone is not enough and must be followed by actions aimed to increase its strength and credibility: fostering a culture of cooperation and trust, building positive interpersonal relations, promoting the art of assertive communication, and many others. I discuss all this in the following sections of my book. Tab.13.16-1 presents financial benefits that can be gained by building a corporate culture of trust.

13.17 Henry Ford's four principles

The legendary founder of the Ford Motor Company, the author of the idea for the world's first mass-produced car, Ford T, defined his fundamental principles of work organization in the following manner [26]:

1. ***An absence of fear of the future or of veneration for the past.*** *One who fears the future, who fears failure, limits his activities. Failure is only the opportunity more intelligently to begin again. There is no disgrace in honest failure; there is disgrace in fearing to fail. What is past is useful only as it suggests ways and means for progress.*
2. ***A disregard of competition.*** *Whoever does a thing best ought to be the one to do it. It is criminal to try to get business away from another man — criminal because one is then trying to lower for personal gain the condition of one's fellow-men, to rule by force instead of by intelligence.*
3. ***The putting of service before profit.*** *Without a profit, business cannot expand. There is nothing inherently wrong about making a profit. Well-conducted business enterprises cannot fail to return a profit but profit must and inevitably will come as a reward for good service. It cannot be the basis — it must be the result of service.*
4. ***Manufacturing is not buying low and selling high.*** *It is the process of buying materials fairly and, with the smallest possible addition of cost, transforming those materials into a consumable product and distributing it to the customer. Gambling, speculating, and sharp dealing tend only to clog this progression.*

¹³⁷ I thank Helmut Gläser for providing the data. The source: Lietz, J.H.: *Von der Zweck-Gemeinschaft zur Sinn-Gemeinschaft*, in: *Die Hohe Schule des Total Quality Management*, ed. Kamiske, G.F. Springer Verlag, Berlin u.o. 1994, pp. 110 – 130.

13.18 Zbigniew Bujak on traffic police and customs services

The following text was written by Zbigniew Bujak, one of the legendary leaders of Solidarity during the martial law. It has never been published before; the author agreed for it to be included in this book, for which I would like to extend my warmest thanks. In my view, the cases of police and customs service management described here are an excellent illustration of the point that having no systematic approach to the tasks of an organization may make the organization highly ineffective.

In this paper I present problems arising in public administration, especially customs and tax administration, in connection with the establishment of criteria for the evaluation of these services by superiors. These criteria are established by the top management of the service, namely the appropriate minister and (to a limited extent) the head of the customs office. This situation should be considered correct, as the evaluation criteria and related control mechanisms are a strategic decision. A mistake can be catastrophic as its outcome can be opposite to the one desired. This paradox is well known in management sciences; it has been studied extensively (e.g., by Steven Kerr), and the results have helped reveal and correct errors in this area. However, I will base this work on experiences from my native country, including my own. They come from my work in Parliament as a member of the Committee on Administration and Internal Affairs and in the Ministry of Finance as the head of the customs service as well as from my cooperation with experts and auditors from the European Union. As an introduction, I will present the problem of evaluating the work of the traffic police.

13.18.1 Traffic police

A popular image that people have when thinking of the traffic police is that of a patrol set up by the speed limit sign, “hunting” for drivers, and issuing tickets. I put aside the matter of policemen taking bribes instead of collecting fines for separate discussion. Does this image correspond to reality? Everything seems to indicate that it does.

The traffic police do many other things, such as directing traffic or investigating road accidents. However, these activities do not dominate their everyday statistics. The most pertinent question for the discussed issue of control is: what are the indicators of active and effective work for the superiors of traffic police officers? On many occasions, I asked the officers themselves the question: “What are you held accountable for?”. The answer was invariably: “The number of tickets”. Luckily, there is no rule rewarding officers who issue the largest number of tickets. There is, however, a minimum number that sets the standard. Could this situation explain the doubts expressed by many road users as to the need and sense of placing bans and restrictions in various arguably unjustified places? Perhaps! I will come back to this later on. For now the question arises: what is the aim of evaluating the officers’ work in this way? One of the answers is that drivers must comply with the rules and, in particular, that they must not exceed the speed limit because that puts people’s health and lives at risk. If the method of punishing drivers with speeding tickets was effective, the drivers would start to behave in accordance with the rules. This would mean that the traffic police have done their job and no longer require as many officers. Fortunately for the traffic police, the Minister of the Interior and the Chief Commander will never abandon tickets as a criterion for assessing the performance of officers. The officers will, therefore, continue to be evaluated on this basis, which means that nearly 6000 people will continue to die on Polish roads every year.

In order to establish a proper system for evaluating the officers’ work, we must return to the fundamental question, namely: what is the aim of the traffic police? Is the goal to make drivers comply with the rules and, in particular, with the speed limit? No! These are just means to an

end, which is the protection of the health and lives of road users. Also, reducing the number of accidents means reducing economic losses or costs for people and companies. When we frame the purpose in this manner, it becomes apparent that, to evaluate the work of officers, their superiors need completely different information than just the number of tickets. The data that really matters concerns the number of fatal accidents, serious injuries resulting in permanent disability, and days of hospital treatment and sick leave at work. This information must be gathered not only from police statistics, but also from health services and insurance companies. At the same time, there is no denying that the number of accidents, particularly serious ones, is linked to driving speed. How, then, can we develop appropriate evaluation criteria and a control system to achieve the desired effect? As a response, I will present a simplified summary of a real situation that I learned about from a report by a French police officer.

In the traditional system with the number of tickets determining the evaluation results, an officer going on field duty would select an appropriate spot with a speed limit. They would set up with the radar somewhere behind the bushes and begin the hunt. However, the day of change has come. At the briefing, the officer learns that the number of tickets will not be taken into account in the evaluation of their work. It is not the tickets that are important, but whether the drivers exceed the speed limit. If the drivers exceed the limit, it means that the officers are not working properly. In order to have reliable information about the number of speeding drivers, an agreement has been signed with the "Safe Road" Association, which, with the help of volunteers hidden in bushes and equipped with radars, will measure the speed and submit statistical reports. The question is, where will the police patrol stand? Will it hide, as before, somewhere behind a bush, or will it stand next to the speed limit sign? The answer is simple: the police will stand by the sign to enhance its effect.

Such tactics have serious consequences for the police leadership, including the Minister of the Interior. Subordinate officers will almost immediately demand substantive support and tools to enable them to work effectively. They know from their own experience that tickets are ineffective. So what can be effective in the long term? The answers will be sought from psychologists. In order to offer a credible answer, the psychologists will have to carry out appropriate studies (which costs money). When the answer is obtained, the officers will have to be provided with appropriate education and even psychological training. After all, they are the ones talking to the drivers, and they must make the right impression on them to achieve the desired effect – safe driving. To make the right impression in a conversation with the driver, the officer needs to know immediately, at the moment of stopping, whether the driver has previously exceeded speeding limits and, if so, when and where it happened. Therefore, an appropriate IT system must be developed. Finally, the most difficult thing must be done. If the aim of the service is to protect people's lives and health, the criteria for assessing the effectiveness of the service should be redefined. The Minister must, therefore, decide what number of accidents in each category is the norm. This is necessary to evaluate officers in accordance with the reality. This is where there is room for social and parliamentary discussion. Then there is also the threat to the minister's position. Establishing the criteria, i.e., the acceptable number of accidents, may provoke very populist criticisms and attacks on the author. However, the ways in which safety can be improved are known. One program may involve rebuilding dangerous sites, another – setting additional speed limits, and yet another – providing education to drivers, police officers, and rescue services. All of them must be developed with the awareness that every action costs money and that a compromise must be reached between the worthy goal and the actual capabilities.

The discussion above leads me to the conclusion that the traditional authoritarian rule is very easy. Penalties, tickets, bans, and police patrols are visible and tangible. It is also easy to identify those responsible for the accidents, i.e., reckless and drunk drivers. In our country, this

state of affairs is accepted by all, even by innocent victims of accidents. However, examples of other countries show that civilizational progress can and should be made in both the governance of the state and the management of the state administration.

13.18.2 Customs service

I will now move on to the second example – the control mechanisms and criteria used by the ministry of finance in the appraisal of the customs and tax services – to illustrate civilizational retardation in management and its dramatic consequences. I wrote “the ministry” in lower case because it is not so much about a single specific institution in our country as about a mechanism that is present in many different countries. The example, however, is a real, specific situation that comes from my own experience.

Tax officials returning from inspections are routinely asked whether they have detected anything amiss and how much they have charged. This can include not only unpaid taxes, but also fines for various errors and omissions in documents. The tax office is also evaluated based on the number of inspections carried out in its area of jurisdiction, and the individual offices – based on how much is actually recovered from the amounts charged. So we have a complete set of criteria that are clear and understandable:

- *How many inspections have been carried out? (Implication: the more, the better).*
- *How many abuses were detected? (Implication: the more abuses detected, the better the controllers).*
- *How much was charged? (Implication: the more, the better).*
- *How much was recovered? (Implication: the whole amount charged should be recovered).*

Such criteria seem appropriate. In addition, bonuses are correlated with the value of recovered receivables. I distinguished the word ‘recovered’ because, earlier, bonuses were paid based on what was charged. I would not be surprised if it turned out that there were inspectors at the time whom the state paid more money in bonuses than they actually recovered for the state treasury.

In order to assess the criteria presented above, we must put ourselves in the shoes of a tax inspector and, considering the criteria determining our evaluation, decide which economic entity we will subject to inspection.

Let us imagine, then, that we have three companies to choose from. The first one is a factory that we know is an important part of an organized gang. Merely attempting an inspection may end badly us. And even if we manage to somehow complete the inspection, any receivables charged will be impossible to collect. In turn, we will have to spend long days at hearings and court sessions on organized crime. Drawing satisfaction from toppling a gang will compete with the fact that the charged receivables will be difficult to recover, while the time spent on investigation and court proceedings will entail measurable financial losses resulting from the reduced number of inspections in other entities. On top of that, there is the risk of revenge, which increases with the seriousness of the criminal interests we have threatened.

The second company is not part of organized crime and is, therefore, not dangerous. We know that they manipulate the classification of goods and services and engage in VAT fraud. We can conduct an inspection with no danger, and we can detect the abuses and charge appropriate fines. However, the company employs a good legal counsel, supports political parties and charitable activities, and will sue our decisions before the administrative court. The

process will take several years. During this time, we will have to repeatedly explain ourselves because of the unrecovered receivables – if their amount is substantial, the whole office will take a fall in the rankings.

The third company struggles for its position on the market, takes care of the quality of its products, and builds public confidence in their brand. However, the diversity and number of regulations as well as their ambiguity mean that every inspection identifies numerous shortcomings and errors. Every time this happens, a fine is issued, which the company pays immediately to demonstrate its honesty and integrity. Their integrity is further manifested by the fact that the company always prepares all documents for inspection and provides quick access to all information about the company, its partners, business operations, loans, and customers. The inspection is, therefore, very short.

Let us ask ourselves the question: which company will be selected for inspection by a rationally thinking tax inspector? The question is rather rhetorical. It is obvious, and unfortunately true, that the latter of the three will be chosen. Even if the inspector is ordered to inspect the first or the second company, they will try to find an excuse to forego inspection rather than actually find evidence of fraud. Let us imagine, then, that we change the criteria¹³⁸:

- 1. Firstly, if any company is found to engage in criminal activity related to matters under the tax office's jurisdiction in the area supervised by the office, it means that the office's ranking will be lowered.*
- 2. Secondly, if too many errors, mistakes, and transgressions are found in the companies under the office's supervision, the office staff responsible for this state of affairs will be punished.*
- 3. Thirdly, the identified errors, mistakes, and transgressions are not penalized. They are pointed out to the company's management to resolve. The management is then obliged to present the methods and timetable for eliminating the shortcomings.*
- 4. Fourthly, if receivables owed to the state budget are identified, they are strictly enforced. Tax officials do not receive any bonuses for this.*
- 5. Fifthly, if the amount of receivables is so large that collecting them threatens the existence and stability of the company, a proper arrangement procedure is implemented, and the rules for the payment of the receivables are established. The tax official responsible for the fact that the company has accrued receivables to the State Treasury is held accountable because the accrued receivables may cause the company to collapse and lay off its employees, which constitutes a social problem.*
- 6. Sixthly, we check whether new companies are being registered in the area supervised by a given office, or whether businesses are closing. If the latter is true, we ask the entrepreneurs about their reasons. If the answer points to excessively oppressive activity on the part of the inspectors, we draw appropriate conclusions.*

In light of criteria such as these, will the management of the office remain passive in the face of organized criminal activity? Will it refrain from suing dishonest companies? Will it dogmatically enforce penalties for errors and omissions that do not endanger the budget, commerce, or other socially relevant situations?

¹³⁸ The discussion presented in this section is based on my conversation with a pre-accession advisor from the financial superintendent's office of one of the German states.

No such thing is going to happen. Nonetheless, the consequences of this approach for the management of the ministry of finance or the parliament will be very profound:

- 1. Firstly, tax officials will oppose the introduction of legislation without a sufficiently long 'vacatio legis'.*
- 2. Secondly, the tax offices will have to be provided with means to educate company employees on an ongoing permanent basis with regard to the rules (particularly new ones) and their interpretation.*
- 3. Thirdly, a procedure will have to be instituted for the companies to avoid financial liability in the event of ambiguity in the interpretation of the rules.*
- 4. Fourthly, the government and parliament will not be able to afford to pass legislation without consulting and obtaining consent from those who are supposed to implement it.*
- 5. Fifthly and finally, it will be impossible to change the rules frequently.*

Behind these two approaches to criteria for controlling state services are two different mindsets of people supervising these services. Those adhering to the traditional approach treat citizens as objects that should be under constant supervision because the objects themselves are the source of wrongdoing. At the same time, identifying those who actually engage in wrongdoing requires us to inspect everyone. Exacting punishment for the slightest transgressions is meant to prevent serious crimes. This system is dominated by the concept of "strict rules". All citizen activities are to be matched by strict frameworks, models, and procedures regulated by law. This is how the methodology and culture of supervision by violence develops in the administration.

In the second approach, public services are meant to actually serve the citizens. Public administration is supposed to remove obstacles encountered by citizens in their activities. In this system, the concept of "general standards" prevails. The goals of these standards and the ways of implementing them are subject to constant discussion and verification. Public offices are the institution that coordinates this discussion. They are responsible for ensuring that the results in the form of conclusions, information, and official positions reach all those who need them in their work and activity. This is how the principle of respect for citizen agency and the culture of management that is in service to active citizens develops in the administration.

*By presenting the differences in the methods of supervision, I wish to show you where the nature and pace of systemic changes to the governance of the state and public administration are determined, in my opinion, to a great extent. Even the most liberal declarations of the Prime Minister and President will remain paper slogans if the system governing the work of the state's control agencies is not changed. Unfortunately, in the case of Poland, it has not changed so far. The revenue from tickets is included in the revenue plan in the budget act and the budgets of the individual ministries. Execution of the plan is verified by parliamentary committees, the Supreme Chamber of Control, and internal checks in ministries. Therefore, the tickets are not a tool for promoting safety and the rule of law, but a tool for generating revenue for the budget. The officers know this, so they try to execute the plan. To them, the absurdity and unethicity of this situation is obvious. This awareness allows them to justify the fact that sometimes, though very rarely, they decide to take pity on the fate of some citizen and refrain from issuing a ticket in exchange for a **small sum for themselves**. The Member States of the European Union are aware of these problems because they had to solve them for themselves years ago. The scheme of solving these issues is universal and well-known:*

1. *Firstly, the activities of every institution and office of public administration must have clearly and comprehensibly formulated objectives. In management sciences, this is called **the mission of the organization**.*
2. *Secondly, each such institution must have a clear and legible description of how it works and how it organizes itself in order to carry out its mission. This is called **the vision of the organization**.*

*The mission must include an outline of **strategic objectives**, the implementation of which will be monitored. The strategic objectives are pursued through the execution of **partial objectives** and the associated **tasks**. However, in order to allow for monitoring the achievement of these objectives, appropriate **indicators and parameters** need to be developed. They cannot be general; they must be precise enough to be measurable because there is a rule at work here that if something cannot be measured, it cannot be managed.*

*Another issue is the **means of implementation**. These include not only human resources, but also the budget allocated to particular tasks. A document drawn up in this way, approved in an appropriate manner, is the **strategy** of a given organization.*

In line with the expectations of our EU partners, probably all institutions and public services in our country have ordered the preparation of the required strategies. However, already at this point came the first misunderstanding. A strategy cannot be the work of experts and managers alone. Each of its elements must result from a process of multilateral discussions and agreements involving all staff members of a given institution (service) as well as citizens and their organizations whose activities are relevant to the work of the said institution. The mission, vision, and strategic and partial objectives must be understood and accepted by all parties concerned. Every employee (officer) must understand which objective is being pursued and how this pursuit is being affected by their work and decisions.

In a way, the most important thing is monitoring. It has nothing to do with the internal control known to us, as the point of the latter is to reveal errors in order to hold somebody responsible. In turn, monitoring a strategy is a process that aims to reveal problems in order to draw conclusions. Therefore, pointing out problems and disclosing any errors contributes to better evaluation scores. Doing this cannot result in punishing anyone. The existing internal control with its inspection and investigation methods becomes quality control that is employee-friendly. Interrogations are replaced by discussions about problems, while counting errors in documents is replaced by analyzing statistical data necessary to assess the status of strategy implementation as well as possible threats.

The second misunderstanding consisted in repeatedly reorganizing the services, ministries, and central offices. Having a strategy and engaging in strategic management require at least a minimum of stability. This is a prerequisite for predictability.

The third misunderstanding is related to the hierarchy of strategies. A minister cannot force his subordinate services and offices to formulate strategies if there is no strategy for the whole institution. One example from our country is the formation of the strategy for the customs service in the absence of a vision for the tax system. The lengthy and costly process of shaping the strategy collapsed along with its effects when the decision was made to abolish the General Customs Office. At the same time, this decision did not result from any strategy of the Ministry of Finance, because such strategy is still nonexistent.

The situation described above reveals one of the most serious problems in the governance of the state. The essential goal of governmental and ministerial decisions is to resolve strategic issues and make strategic decisions. If the skills required to make these decisions or the willingness to make them is lacking, manual control of the state services begins, and purposeful

and qualitative supervision is replaced by inspection checks. This authoritarian model is still prevalent in the government and management of the administration and state services.

It is my contention that authoritarian methods of managing the Polish administration have led to the emergence of many pathologies in social and economic life. Employees and officers of public services have no interest in prosecuting crime. I believe that about 90% of the resources in tax offices and customs services are used for controlling honest companies. In fact, these proportions should be reversed. Police-like inspection checks preclude regular employees and officers from identifying and describing systemic errors in administrating indirect taxes. And even if information about errors is submitted to the departmental management, it is considered unreliable by definition. This stems from the belief that the management knows more and is smarter than its employees in this matter. This is where I see the cause of the scandalous errors in the administration of VAT and excise duties. They have led to the development of organized crime. The proliferation of control services and regulations only exacerbates the confusion over jurisdiction and allows criminals to operate with impunity, while the overwhelming majority of inspection victims consists of honest citizens and companies trying to act by the book.

14 Specific paths to TQM

14.1 Six sigma

The Six Sigma method is a version of TQM that focuses primarily on the technical tools of quality circles. Historically introduced by Motorola in the 1980s, it was later popularized after its use at AlliedSignal and General Electric. Its followers claim that it is now “the most popular methodology of quality improvement in history” ([21], p. 19 of Polish edition).

At this point it should be clarified that there is a certain misunderstanding associated with the name “six sigma”, resulting from the fact that *six sigma* also denotes a certain (very demanding) process quality regime. A random process (with normal distribution) can be said to be in “class 6σ ” (where σ is the process’ standard deviation) in relation to given tolerance limits if the tolerance limits are at least 6σ away from the process’ mean value (see section 19.1 for details). For class 6σ processes, the probability of error (i.e., the occurrence of an event beyond the tolerance limits) amounts to two per billion. The misunderstanding comes from the fact that the six sigma method neither guarantees a quality regime of this kind nor assumes that such a regime should be achieved with every application of the six sigma method. A regime of two errors per billion may be sensible for companies engaged in mass production of microprocessors, as in the case of Motorola, but for manufacturers of cars, shoes, or doughnuts it would be unattainable as well as unnecessary.

Many books have already been devoted to the six sigma method; summarizing them all here would not be very productive, so I will limit myself to presenting two exemplary tools and discussing the differences between TQM and six sigma (Tab. 14.1-1).

The first such tool is the *eight-step method* described in detail by, among others, George Eckes in his book quoted above [21]. It should not be confused with TQM’s seven-step method described in section 15.13.

1. Creating and agreeing on strategic business goals.
2. Defining main processes, key sub-processes, and auxiliary processes (here processes are understood as in section 21.1).
3. Identifying process owners.
4. Developing and controlling key indicators of success and effectiveness for individual processes (*dashboard*).
5. Collecting data according to the established indicators.
6. Developing criteria for selecting projects.
7. Selecting the first projects.
8. Implementing process improvement methodologies.

The second tool is a cycle that resembles Shewhart’s quality cycle (section 15.12), but contains five rather than four steps (Fig. 14.1-1).

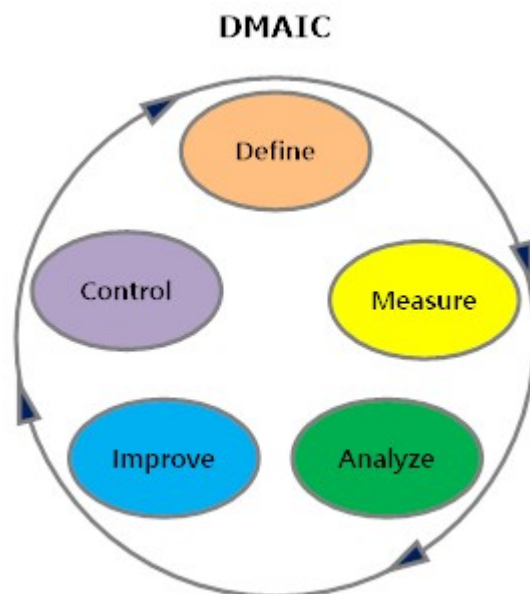


Fig. 14.1-1 Quality cycle in the six sigma method

The question of how TQM and six sigma are different has probably as many answers as there are followers of both these methods put together. Below I offer you my explanation, probably quite subjective.

Attribute	TQM	Six sigma
Implementers	In principle (target state) all employees organized into departmental and inter-departmental quality incubators	Leaders – <i>green belt, black belt, master BB, sponsored</i> - project teams around them
Style of action	Continuous activities covering all aspects of the company’s work. Constantly rotating numerous PDCA quality cycles	DMAIC project actions launched where most needed
Depth of problem penetration	Not too deep with every turn of the PDCA, but every turn reaches another layer	DMAIC immediately to (possibly) full depth, but (preferably) without returning to previous layers
Team building	One of the basic objectives and the main focus in striving for quality	Side effect of carrying out process improvement projects
Focus on	The quality of the company and its people	The quality of selected processes; numbers, data, facts
Required level of commitment	Very high and as widespread as possible	Does not have to be very high or widespread. It is partly substituted by the logistics of projects and procedures
Philosophy/tool	Philosophy supported with tools largely identical to those used in six sigma	Tools supported by TQM philosophy
Energy source for propulsion	Removing work barriers	Perfecting processes to make more money

Tab. 14.1-1 My subjective comparison of TQM and six sigma

Readers interested in broadening their understanding of the six sigma method are referred to books [21] and [22], which cover the subject quite extensively. The former also includes a discussion of the mathematical aspects of random processes, though personally I would not recommend these fragments. I would rather refer the readers interested in this subject to Part V of my book and to the literature presented therein.

14.2 Lean management

In most general terms, *lean management* means organizing processes related to production, services, and management in such a way as to eliminate activities that do not bring added value (downtime, redundant activities, overstockpiling of resources, etc.). This simple-sounding term in reality covers a great wealth of TQM tools and techniques. The method, initially developed for production processes, is now used far beyond its original scope of application, e.g., in healthcare [33] or even in accounting. It is also an important part of the Toyota Way [54] section 14.3). Below is a list of the basic tools (or rather methods, if not management philosophies) used in lean management:

- ***Just in time.*** Delivery of subassemblies, components, or raw materials directly to the production line stations at exactly the time when they can be used immediately. This method reduces the level of stockpiling very substantially, sometimes practically reducing it to zero. Used for the first time in the production of cars by Toyota, the scope of its application is now very broad. For example, when a new skyscraper is being built in Manhattan, New York, there is often no space around it for a construction site. All the delivered materials are taken directly from the truck by crane and transported where they are to be assembled. Each truck must arrive at the building with an accuracy measured in seconds and has only a few minutes to unload. The next truck arrives the moment the previous one leaves.
- ***Kanban.*** A system for controlling the flow of materials between workstations so that each workstation receives everything that is needed exactly when it is needed. The idea of *Kanban* is expressed by **7 noes**: (1) no shortages, (2) no delays, (3) no stockpiling, (4) no queues, (5) no inactivity, (6) no redundant actions, (7) no redundant transportation. The name of the method comes from *kanban* charts (Japanese for “visible list”) used to control the flow of products between workstations. *Kanban* is often used to implement the *just-in-time* method.
- ***Genchi genbutsu.*** The method is also known as the “*genba walk*”, which could be loosely translated as “go to see and fully understand”. It is based on the principle that a leader should visit their team often during work, coming to the place where the product is actually made (called *genba*) in order to understand what kind of work is done by the team members and what challenges they have to overcome. The *genba walk* allows the leader to draw knowledge from the direct experiences of the process performers. It is worth noting that the method of barrier removal described in section 15.2 can be seen as an in-depth version of *genchi genbutsu*.
- ***Kaizen.*** Historically, “kaizen” means continuous improvement as described in section 13.6. Today, however, it is often understood more broadly as a Japanese version of TQM.

- ***Shu-ha-ri***. A three-stage method of acquiring knowledge and skills. *Shu* means “protect from failure”: at this stage, the student exercises under the supervision of the master, performing assigned activities in accordance with predetermined standards. *Ha* means “break away” (by implication: from under the master’s care): the student exercises alone, but is regularly checked and corrected by the master. The last stage *ri* means “freedom to create”: the student achieves enough excellence in performing the activity that they no longer need to think about it. They can now improve their skills creatively. *Shu-ha-ri* is the fundamental method of acquiring knowledge and skills at Toyota.
- ***Jidoka***. When a product with a defect appears at a workstation, the entire manufacturing process should be stopped to eliminate the defect. Thanks to this approach, the error will not be transferred to further workstations and, as a result, will not reach the customer. I witnessed this approach in action while visiting a Lexus assembly plant in Japan in the year 2000. At one point the assembly line stopped; a loud bell sounded, and a bright light began to flash over one of the workstations. A few seconds later, three men in red overalls (production workers wore blue) ran out of a glass kiosk in the middle of the hall. Each serviceman had a toolbox in his hand. While the team was running, the entire hall was clapping, applauding their colleague who prevented the defective car from reaching the customer.
- ***Hoshin kanri***. A complex process of setting goals and plans collectively and implementing them as a team. It applies to both long- and short-term objectives, as well as to global and local objectives. As a result of *hoshin kanri* planning, every factory, department, and workstation knows exactly what tasks are to be performed. Moreover, everyone also takes into account that their work affects the performance of tasks by other, related workstations (internal customers) and, consequently, the entire company. Working in the spirit of *hoshin kanri* means close cooperation of all employees in order to achieve the overarching goals of the company. There is no room for selfish local optimization without regard for company interests, as is often the case with management by objectives (MBO, described in section 8.9).
- ***Nemawashi***. A method of collectively reaching agreement on important decisions. Translated literally, the word means “digging around the roots of a tree to prepare it for replanting”. Before making a decision at a formally convened meeting, the leader talks to those who should have a decisive vote in the matter. This offers them time for discussion and reflection and an opportunity to agree on their views or possibly modify the proposal.

One of my listeners told me about an interesting example of a *genba walk*.

Forklift operator

In a cosmetics factory near Warsaw, it was customary for every employee in a managerial position to enter the production facilities once a week, choose an employee and ask them three questions:

1. What could go wrong at your workstation?
2. What would this mean for you, the company, and the customer?
3. What could be done to prevent this scenario?

My interlocutor, who was the factory’s managing director, told me about his conversation with a forklift operator in the high-bay warehouse. The most serious accident that could occur at this site would involve the fall of a barrel, approximately 500 kg in weight, from the height of several meters. A forklift operator struck by such a barrel would face severe injuries resulting in disability, if not worse. When asked what could be done to prevent this, the operator answered:

“First of all, get rid of the plexiglass canopy above my head, which is supposed to protect me from a falling load. Can a canopy like this protect me when the load weighs 500 kg? Of course not. On the other hand, the canopy quickly got scratched, which means that in order to land the prongs of the fork in a pallet placed on a high shelf, I have to lean out from under the canopy to see, which makes it difficult for me to maneuver, increasing the risk of an accident.

Secondly, when I lean out from under the canopy, I am blinded by the warning light on my forklift, which makes it even more difficult for me to aim the fork. This blinker was installed so that other employees can see me coming. Take off the blinker and paint traffic lanes on the floor so that every employee who enters such a lane knows that they have to look around.”

14.3 The Toyota Way

Toyota, one of the world’s largest and most respected automobile manufacturers, has been a leader in applying TQM for decades. The company has developed its own work methodology, now known as *The Toyota Way*. In a nutshell, it consists in all the lean management principles described above plus *Toyota-style leadership* [54].

Toyota Way = lean management + Toyota-style leadership

Toyota-style leadership is similar to the partnership-based leadership that I wrote about in section 9. Let us see how the authors of *The Toyota Way to Lean Leadership* [55] (p. 283 of Polish edition) see the differences between Toyota style leadership and traditional leadership (Tab. 14.3-1).

Traditional leadership	Toyota-style leadership
A charismatic leader at the head of the team. A proud and victorious hero	A leader among team members, constantly seeking their own improvement and improvement of others. Humble and open to learning
Focused on personal advancement and climbing swiftly up the career ladder	Focused on achieving excellence. Deepens and broadens their knowledge and responsibilities
Learns from a mentor	Learns from frequent <i>genba walks</i>
Only hires the best. Looks for stars. Eliminates the worst	Supports people in their development. Believes that a company that requires stars to function is a bad company
Achieves goals with the help of others	Helps others grow
Adopts a transactional attitude to the company: “What’s in it for me?”	Involved in the company’s affairs: “How can we do something great together?”
Control; applies penalties and rewards depending on individual results.	Takes a <i>genba walk</i> to establish how far the present situation is from the established goal and to support the process performers. Coordinates tasks in the spirit of <i>hoshin kanri</i>
Sets goals for their subordinates to achieve (MBO-style)	Uses the <i>hoshin kanri</i> method to set goals and plan how to achieve them together with the team
Lack of trust. Achieves objectives through constant control, penalties, and rewards	Treats trust as a fundamental value. Achieves objectives through continuous improvement and development

Manages based on numerical data	Acquires deep understanding of the process by visiting the <i>genba</i>
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Tab. 14.3-1 Comparison of two leadership styles

In this context, it is worth quoting a statement by Akio Toyoda, the creator of Toyota's success, dating back to 2010 ([55], p.208 of Polish edition):

I realized that sometimes our people were mixing objectives and means. Toyota's goal is to serve the society by producing cars. The means to achieve this goal is to increase sales so that we have the resources for further investments. But if sales and profit obscure this ultimate goal, we will go astray.

14.4 The Quality Trail

The Quality Trail (Tropem Jakości) is a method of implementing the Doctrine of Quality by means of the TROP Method (Trening Rozwoju Organizacji Przyszłości; Training on Developing Organizations of the Future) developed by Dorota and Jacek Jakubowski. The method is based on building commitment through structured dialogue, acquiring skills through experience, and acquiring knowledge through participation in educational events where participants are "learning" rather than "being taught".

The main objective of the TROP Method in the Quality Trail approach is to build social capital of the organization. The aim is to encourage people with specific talents, knowledge, and skills to use this unique individual capital for the common good in the organization. For this to happen, two conditions must be fulfilled: they must be aware of a common purpose with which they are able to identify, and they must trust each other. The work on building social capital is based on:

- promoting conditions for open communication;
- expanding the scope of employee influence and responsibility;
- learning cooperation based on mutual understanding and trust, including training in resolving conflicts and tackling challenging situations;
- learning to see systemic interdependencies and to develop the ability to operate within them;
- learning to handle changes, to initiate and lead them, with particular emphasis on the emotional aspects of change.

A key role in this process is played by leaders. The Quality Trail approach uses the U!Leader model in which leaders focus on:

- YOU (on others);
- teaching in action;
- systemic thinking and action;
- integration;
- self-reflection and flexibility.

Working with the Quality Trail method starts with individual and group interviews, the goal of which is to identify the company's potential and become acquainted with its specific nature, particularly with the employees, and through them with company's culture. This stage also serves to provide motivation for change and explain the emerging doubts of the employees. The

next stage consists in the introduction of various activating educational methods, aimed to not only broaden the knowledge and skills of the participants, but also to create opportunities for building social capital of the organization. This stage features moderated workshops and lectures, and, in its more advanced phase, moderated work of quality incubators.

The Quality Trail method can be used to implement either *the Doctrine of Quality* or teal management separately or both these approaches together.

15 Quality incubators

15.1 What are quality incubators?

Quality incubators are small teams of employees performing tasks related to the continuous improvement of the company and increasing the knowledge and skills of their members. The prototype for incubators are *quality circles*, which first began to be organized in Japan in the early 1960s thanks to Joseph Juran and Kaoru Ishikawa. Today they are present in TQM companies in all developed countries of the world. Quality circles focus primarily on improving the processes, activities, and tools that make up the daily work of the company. Incubators carry out all these tasks, but their goal is also to develop the knowledge and attitudes of their members, which is done through *action learning*, as described in section 16.2.5¹³⁹. During a company's transition to the path of quality, each incubator is run by two people: *a quality leader*, who coordinates the team's activities and provides assistance in the use of quality improvement tools, and *a moderator*, who looks after the discussion process, especially its quality and conclusiveness, taking care of the way disputes are resolved, making sure that people are listening to each other, etc.

Quality leaders (initially external and later, as the implementation progresses, internal) are individuals running the quality incubators. After the initial stages of implementation, they should also take on the role of moderators. In addition – especially in larger companies – a group of internal *quality instructors* should be organized to provide the leaders with substantive assistance and to provide training to all employees and new leaders. We should keep in mind that, in every company, some employees leave and others come, which means that the process of training and shaping attitudes never stops.

In order for the incubators to be established and start to operate, the company's management should provide them with organizational and training support:

1. The first incubators should work under the supervision of external instructors acting as leaders and moderators. Their tasks also include the training of future quality leaders selected from among the company's employees. After the groundwork is laid, the new leaders take over the role performed by external instructors.
2. Ultimately, quality incubators should include all employees, including managers. But they must be developed gradually so that they can learn from each other and share the experiences they have gained.
3. The time spent working in incubators should be treated as normal paid working time¹⁴⁰.
4. To the best of its capacity, the company should provide incubators with resources for meetings, such as rooms and training aids. A media projector, a whiteboard, and a flipchart would be ideal, but in the end a flipchart alone may prove sufficient.

Together with these recommendations, addressed mainly to the company's management, the following principles for the work of the quality incubators should be adopted:

¹³⁹ The idea of quality incubators was conceived during my collaboration with Dorota and Jacek Jakubowski.

¹⁴⁰ In the early days of TQM in Japan, at the turn of the 1950s and 1960s, quality circles were created spontaneously outside the work area. Japanese workers going to nearby sake bars after leaving the factory started to transfer their enthusiasm for the new style of work to these establishments. Instead of talking – as before – about how things were, they started talking about how things should be.

1. Each incubator should have a pre-determined venue and meeting schedule, as well as an established list of members. It is not good when teams have to schedule each meeting as they go along and no one ever knows who will show up. A permanent team facilitates task-sharing.
2. A quality incubator should consist of three to five people. Only two members will usually not create the right synergy, while discussions in a larger group may be less effective because shy (introverted) people will remain relatively passive.
3. Each incubator must have a leader who can choose a deputy for organizational matters. The leader should also have an assigned instructor to whom they can turn for help; this instructor does not need to be a member of the team or attend the meetings.
4. During the initial period of the incubator's operation, the incubator should also have an assigned moderator, who not only looks after the course of the communication process, but also teaches proper communication habits.
5. In principle, or at least at the outset, the incubator should be composed of employees who are at the same or a similar level in the management hierarchy, although they need not necessarily come from the same department or industry. The superiors of the incubator's members may attend the meetings, but they should do so rather sporadically and in the capacity of invited guests or instructors. In general they should not be conducting the meetings. In some situations, however, the immediate superior of the team can be allowed to become a member of an incubator that also includes their charges. For example, in a small store with only a few employees, the store manager may join the store's incubator; otherwise they would be completely left out of the improvement process. The same goes for very small companies (e.g., micro-enterprises).
6. The first meeting should feature a discussion of the company's mission as well as the mission of the department and team within which the incubator is to operate. It should also be an opportunity to reflect on the incubator members' individual objectives resulting from these missions. It is essential that all members (and indeed all of the company's employees) are aware what local goals they are to be pursuing as part of the company's global strategy.
7. During the initial meetings, it is advisable for the team to address the issue of improving the broadly defined working conditions. Of course, the financial and technical capabilities of the company should be taken into account, as should the principle that improving our working conditions must not impair the working conditions of others. We must not forget that working conditions are not only ventilation, workwear, and work schedules. Of equal importance are things like organization of the workplace, management of the production process, information flow, interpersonal relations, and satisfying all the human needs discussed in section 7.1. An effective way of addressing them is to conduct the springboards and barriers workshop described in section 15.2
8. The initial goal should be to solve the simplest problems, e.g., how to optimally distribute tools at the workstation (see section 15.3 on the 5S method). It is essential for the success of the whole initiative that every incubator manages to experience success by making some useful change as soon as possible. This will convince the team members that their activity has purpose.
9. After each meeting, a brief record should be taken of the conclusions reached, the tasks undertaken, and the roles assigned. When determining the tasks, remember about the SMART principle and the measures of success and progress (section 9.11.2). There is no need to record the entire discussion as the resulting amount of bureaucratic work

would exceed its usefulness. It is also worth keeping in mind that even the best ideas will not be put into practice unless there is one specific person responsible for this task (which obviously does not mean that this individual has to perform the task alone). In order to collect all notes from the meetings and descriptions of corrective in one place, each incubator keeps its own *logbook*. This should be a notebook that is always at hand. It may be stained or crumpled – the important thing is that it is used. When making notes, we include everything the incubator has decided to do now or in the future, the names of those responsible for the tasks, and what has already been done. Of course, a notebook may be substituted with a digital document as long as this does not lead to delays in making entries¹⁴¹.

10. The incubators should be familiar with the use of the basic quality improvement tools described in this section. Some of their working time should, therefore, be spent on learning these methods, preferably using specific examples related to the daily work of the incubator members. The latter also take part in general TQM workshops organized by the company.
11. As already mentioned above, it is important to conclude quality incubator meetings by making a record of the proceedings. In order to standardize these records and facilitate their creation, it is advisable to introduce a standard record template. Below is an example of such a template.

MINUTES FROM THE QUALITY INCUBATOR MEETING

Circle..... **Date**.....

Current members:

1. ...
2. ...

Invited guests:

1. ...
2. ...

Chaired by..... **Minutes taken by**.....

Topics discussed during the meeting:

1. ...

¹⁴¹ Experience has taught me that if records are first made in the form of a rough draft and then a final draft is entered separately into an electronic document, then significant delays are bound to occur. So if the incubator decides that the logbook will be kept in a digital form, someone should come in to the meeting with a laptop and take notes on the spot. In this case it is also worth considering to provide the incubator members with remote access to editing the log. This can be done using the company's local network or with generally available tools such as Google Docs.

2. ...
3. ...

Tasks to be completed:

	TASK	COORDINATOR	DEAD-LINE
1			
2			
3			

Tasks completed since the last meeting:

1. ...
2. ...

In order for the quality incubators to operate effectively, their members should be familiar with several general methods of dealing with problems that occur in most companies. In the literature on the subject, these methods are known as quality circle tools. However, since we have replaced the circles with incubators, they will be our incubator tools. Below I present a selection of such tools that I have found the most effective.

15.2 Springboards and barriers

15.2.1 The idea for the workshop

In 1980, Lew Platt, then CEO of Hewlett-Packard, said these significant words¹⁴²:

If HP knew what HP knows, we would be three times more productive¹⁴³.

I recall these words whenever I run a workshop on identifying and removing barriers, which I have probably done in various companies and organizations nearly a hundred times since 1997, when, under the guidance of my first TQM teacher, Jim Murray, I applied it for the first time in my own company. I am always surprised by the amount of knowledge about the company that its employees actually possess. This knowledge is present in every company – one only needs to know how to tap into it. What is more, it can be obtained virtually free of charge, and

¹⁴² Source [39] page 77.

¹⁴³ In other words: if HP knew what its individual employees know...

the cost of its implementation usually only consists in the relatively low cost of training because the reported barriers generally pertain to the company's organization, management methods, and corporate culture – not technology or material working conditions.

For over a dozen years I conducted workshops on identifying barriers, but from 2014 onward, encouraged by Jacek Jakubowski, I supplemented the topic with the identification of talents and strengths within the company, which I called springboards. Jacek convinced me that focusing solely on barriers can lead to a buildup of negative emotions, making it difficult for employees and management to work on improving the company. Indeed, more than once have I seen company managers grab their heads after seeing the list of barriers. Of course, I would always explain that these barriers should be seen as potential directions for improvement (section 15.2.11), but the unpleasant impression of the company's imperfection would remain. Another potential disadvantage of restricting the discussion to barriers alone is that it can lead to attitudes of demands and entitlement and promote divisions into “us” and “them”.

Another change to which Jacek convinced me was to abandon the rule that barriers are reported anonymously and in the absence of the boss. I will explain this in more detail in section 15.2.5.

15.2.2 What to do so that we want to want

As we already know, quality incubators are the basic units carrying out the process of improving the company's performance. But how do we get them to come into being? It would seem that the simplest way to go about this would be to appoint members to each incubator and ask them what they could do to work better. By doing this, however, we would make two cardinal mistakes while taking our very first steps on the path to quality.

Firstly, we cannot force anyone to work on quality because, as we already know, forcing people to do something is the least effective way of doing it. The leader's role is not to force others, but to build commitment or, as Emmanuel Gobillot put it (section 6.4), provide energy for the team.

The second cardinal mistake is related to the question being posed. I made this mistake myself once, and I will remember it for the rest of my life. For this is what I heard in response: “So the management thinks we are working poorly? That we are not trying? We work our hands to the bone, breaking our backs until our heads spin, and the management thinks that it's still not enough? Seems that nobody here appreciates us. It's not worth the effort!”

When asked “What could you do better?”, people will always take this question as an accusation that they are working poorly and will become defensive. Cooperation gets thrown out the window. Regardless of this emotional effect, they are unlikely to have many ideas for what they could to improve their own work. Move faster?

So how should we proceed?

First and foremost, the workshop should take place only after its participants undergo an extended training in the principles of good communication described in Part II, and especially after mastering the fear of telling the truth (section 4). Work on leadership based on partnership and trust should also be already under way. Only then – and this may take from a few months to over a year – will we be ready for the workshop.

Secondly, participation in the workshop should be voluntary so that, from the very beginning, the new action is perceived a personal choice of the employees and not as another reform

imposed by the management¹⁴⁴. Optimally the group should consist of 10 to 20 people doing similar jobs, although not necessarily in similar departments. You can conduct a workshop for production workers, salespeople, or accountants, but you can also conduct a workshop for board members, each of whom represents a different department, but nevertheless faces similar challenges. The single-department principle applies first and foremost at the start of the path to quality. At later stages, in addition to single-department workshops, we can also organize workshops to improve cooperation between departments (see section 15.15).

Thirdly, it is important to recall the principle “good work is light work” discussed in section 13.12. In this example, the quality and productivity of work was improved quickly not by the team that was asked to do exactly that, but by the team whose members were asked to eliminate the barriers they encountered in their work. And this is exactly what needs to be done right from the start. Formulating the task in this manner does not offend anyone because there is no implied judgement. Instead, it announces the coming of changes that everyone will be ready to welcome with joy and relief; after all, who does not dream of eliminating the things that bother them? And if we start by making an inventory of our talents, strengths, and key resources (springboards) before identifying the barriers, the work on improving the company will become an all-around positive challenge.

It may happen that the management of a large company wants to carry out the workshop immediately for a larger group of employees. I have conducted such workshops several times with a group of 60 to 90 people. In such circumstances, I would divide the group into smaller teams, working in parallel under the supervision of previously prepared instructors, and circulate between these groups in an advisory capacity. Later on, each team would delegate one representative to report the results of their analysis to the whole group at the end of the day. I must warn you, however, that the workshop results should definitely not be put under discussion at such a forum. For many individuals, speaking in front of a large audience is in itself a serious emotional challenge, and when this challenge is compounded by the context of barriers, it may turn out that no one is willing to participate in such a discussion. I have witnessed such situations on several occasions. Even in smaller groups, it may be helpful to postpone the discussion on barriers and methods of removing them for at least a week. People need time to get used to talking about the company in a way that is often very new to them. However, postponing the analysis for more than a month may be counterproductive, as it prolongs the anticipation of the moment when the first barrier is ceremonially booted out the company’s gates.

Finally, a very important word of caution. Never ever and under no circumstances identify barriers if they are not going to be removed later. The workshop is meant to build hope for serious changes, and this hope is to fuel future commitment. If this hope is disappointed, the conviction that “nothing can be done” becomes entrenched, as I have seen on some occasions. Regaining commitment after such disappointment would be extremely difficult. After all, “Fool me once...”

***Do not risk identifying barriers
that you do not intend to remove later!***

¹⁴⁴ As the saying goes: reforms are what the top wants the middle to do at the bottom.

15.2.3 Springboards

The *springboards and barriers* workshop resembles to some extent the well-known SWOT analysis¹⁴⁵, but is much more insightful. The springboards include not only the internal strengths of the company, but also the individual talents of its employees. The barriers include not only weaknesses, but also their sources. We want to bolster the former and attenuate or remove the latter.

There are two ways to generate springboards. The first is a simple activity consisting in gathering responses from workshop participants and writing them down on a board. This method is fairly fast, but does not yield too many entries. The team's invention is often depleted after the first dozen or so. To generate more springboards, we can use a method known as *a carousel of ideas*, described in section 15.6. Each participant writes down one or two items on a sheet of paper, then passes the sheet to their neighbor on the left and takes a sheet from their neighbor on the right. They then write down another item or items. This process is repeated at least until everyone receives the sheet of paper they began with.

After collecting all responses, we write them down on the board, eliminating repetitions. It is also a good idea to simultaneously enter the responses into an Excel worksheet to facilitate further processing. Then we arrange the entries into *affinity families*, i.e., groups related to similar topics. Common examples of such groups include: *organization, team, communication, management, cooperation, development*, etc., but in each company the springboard groups can be different. Tab. 15.2-1 shows an example of a list from one of the companies where I conducted this workshop.

Organization
The assigned task is entered into the team's work schedule together with the deadline
Good parties
Working in relative peace (no hurrying)
Ability to work independently at home
Flexible working hours
Work tools
Reasonable rules
Challenges delineated with clear objectives
Contact with the customer
Ability to work in the office
Freedom of remote working
Clearly defined objectives
Tasks are formally written down

Development
Opportunities to develop in a given area
Interesting technical challenges
Working with modern technologies

¹⁴⁵ SWOT stands for *Strengths, Weaknesses, Opportunities, Threats*.

Opportunities to receive additional training from areas outside the core activity
Freedom of action
Observing the birth of something great and unique
Seeing the positive effects of what has been done
Readiness to take on ambitious tasks
Opportunities for personal development
Opportunities to work in an international environment
Searching for non-standard solutions
Individual development plans
A unique industry that makes us pioneers

The team
General respect and understanding
Creativity
Willingness to work on oneself in a team
Having a cool crew
“Open door policy” (openness in communication)
Teamwork as a platform for joint work
Self-awareness
Multifaceted coworkers
Helpful colleagues that do not take themselves too seriously
The boss is open and willing to make changes
Flexibility of each individual as well as of the company as a whole
Beautiful team
Casual communication (on a first name basis)
Knowledgeable coworkers
High level of competence and capacity to act

Tab. 15.2-1 Springboards arranged into affinity groups

15.2.4 Dignity springboards

Sources of people’s strength and determination can be sought not only in the areas of intellectual abilities and operational skills, but also in the area of dignity and emotions. As we know from section 7, dignity is one of the strongest human needs. It is always present, even though it is often suppressed by unfavorable circumstances. Bringing dignity-related needs to the fore may thus become an additional source of empowerment. Hitendra Wadhwa, a lecturer of personal leadership at Columbia Business School, described such a situation from the life of Winston Churchill:¹⁴⁶

¹⁴⁶ Source: <http://www.inc.com/magazine/201206/hitendra-wadhwa/leadership-what-would-winston-churchill-do.html>.

Winston Churchill

In 1940, when Winston Churchill became Prime Minister of Great Britain, the nation was in a state of severe crisis. Not only had its military suffered several setbacks in World War II, but the Prime Minister's war Cabinet, deeply demoralized, was pushing Churchill to reach out to Italy's Benito Mussolini to help orchestrate a truce with Hitler.

Churchill knew that Hitler could not be trusted and that negotiating with him would effectively constitute surrender. He desperately needed to win over his Cabinet. So he told them, "I am convinced that every man of you would rise up and tear me down from my place if I were for one moment to contemplate parley or surrender. If this long island story of ours is to last, let it end only when each one of us lies choking in his own blood upon the ground." The response? A standing ovation. The voices of appeasement were quelled.

This story yields profound lessons about how great leaders – in business as well as politics – inspire greatness. As Churchill understood, people need to be reminded of their positive qualities – and their poor behavior must be characterized as being out of character. Accusations and scolding only reinforce the negatives.

And one more example given by the same author:

Asian Americans

In an experiment at Harvard in the early 2000s, psychologists gave a math test to a group of college students, all Asian American women. Researchers randomly split the group into two. Before being given the test, one group was subtly reminded that they were women; the other that they were Asian Americans. What happened? The first group performed below average; the second group, above it. The lesson: Perceptions – in this case, that women are weak in math and that Asian Americans excel in it – can have a huge impact on performance.

The ultimate lesson from these two stories is that springboards can not only be identified, but also awoken. Each team and each company is teeming with hidden talents and strengths that a skillful leader can activate in order to implement creative strategies.

15.2.5 Barriers

Michelangelo used to say that making a sculpture is very simple – one just needs to imagine the future shape in a raw block of marble and then chisel away the superfluous material.

Each company is more or less such a block of raw material with a perfect sculpture concealed within. In order to reach it, we must simply remove all that hides it from our eyes. The first step toward this goal is to identify the superfluous pieces of marble, i.e., the barriers faced by the company's employees in their work. To find them it is enough to tap into the collective wisdom of those who spend most of their lives at the company and have known it for years. In every company and every team of workers, large or small, there are problems waiting to be solved. The only complication is that, as often happens, the team's members or management are not fully aware of the existence of some problems, their significance, or the consequences of leaving them unresolved.

It may also be true that everyone is aware of the problems, but nobody dares to talk about them out loud!

One of the fundamental tasks of quality incubators is to identify the problems that need to be solved, arrange them according to their importance and urgency (prioritize), and then develop a plan to resolve them. Establishing the list of problems in a group very often leads to the discovery that many of us think alike, even though we thought we were alone with our problems.

Notwithstanding, the barriers are not as easy to talk about as the springboards. Despite the communication training and despite working on partnership and trust, it can still be challenging. In the first edition of the *Doctrine of Quality*, I described a method in which barriers were being identified anonymously in workshop groups selected in such a way that no participant was grouped together with their superior. This scenario facilitates more open discussions about barriers, enabling the gathering of a more comprehensive list. However, later this list needs to be revealed, and may then come as a shock. This is particularly true for the company's management, who perceive the list of barriers as a criticism of their actions, and sometimes rightly so. This, of course, makes it very difficult to work on eliminating the barriers.

In light of these experiences, Jacek Jakubowski convinced me to speak about the barriers openly and in the presence of the superior or superiors. Talking about barriers should be part of advanced openness training. That is why the workshop should be preceded by intensive communication training, as I mentioned earlier. This should provide a good start for the task of improving the company through barrier removal.

15.2.6 Determining the scope of analysis

At the beginning it is necessary to determine which team of employees and which aspect of the company's activity we wish to include in our analysis. The analysis may concern the whole company, one of its departments, or even a very small team, such as, e.g., a store's back office or a single team in the production department. It may concern all the barriers encountered by the team or only a specific kind of barriers related to, e.g., work organization, product quality, social facilities, interpersonal relations, or communication. It may also concern the implementation of a specific project or the company's operating principle. However, it is best not to limit the scope of barriers if the workshop is the group's first experience with such an endeavor.

If the identification of barriers is the first workshop of this kind in the organization, I would suggest starting the work with the management. Of course, there is no need to follow this recommendation in teal organizations, but if the company features a hierarchy of positions, then starting with the management not only identifying barriers, but also removing them, should encourage the remaining levels of the hierarchy to follow suit.

15.2.7 Establishing the list of barriers

To carry out the workshop, we will need a smooth surface of about 1×2 m, to which we will stick the cards with the participants' responses. It can be a white board or three flipcharts, or a white cardboard glued to the wall. We will also need two types of colored self-adhesive cards:

- A. Cards measuring 127×75 mm; five to six per participant; all in one color. The cards should not be smaller than specified because a full description of a single barrier written in capital letters will have to fit on each card. On the other hand, they should not be larger because this encourages participants to produce excessively long descriptions (I had such a case) and makes it difficult to fit all the cards on one board.
- B. Cards measuring 50×38 mm; about 20 - 30 per participant, but it is better to have a bigger supply, as I will explain later. These cards should also be in one color, although not necessarily the same color as type A cards. They should not be bigger than specified, because we are going to put a lot of them on the board.

The workshop instructor will also need a few thick markers in different colors.

After determining the scope of the analysis, we distribute five A-type cards and identical pens to each member of the group and then inform them about the following principles of barrier identification:

1. Each participant lists five most important barriers they encounter in their daily work, writing down one barrier on each sheet of paper. This principle is very important because, while building affinity diagrams, we will move the cards around and eliminate repetitions. However, there is no obligation to use all the cards, and extra cards can be handed out if someone really needs them.
2. To make the responses clearly visible on the board, the participants should be asked to write in **LARGE CAPITAL LETTERS**. The letters should be large enough for the response to fill the entire card. It is also important to make sure that the sticky part of the card is at the top of the card's reverse side.
3. The descriptions of barriers should not be aggressive or in any other way cause someone to feel personally offended. The idea is to build a coalition to remove barriers together, not camps fighting each other. For example, a card saying "Bad work of salesmen" is going to prompt an immediate defensive reaction. Therefore, it is better to write something specific, such as "orders placed too late". Participants should also try to write about facts rather than make judgments. Instead of writing "Indolence of technicians", it would be better to write "Technicians are unfamiliar with some procedures".
4. The wording of the problems should be as short as possible, but also as comprehensible as possible at first reading. For example, putting down the word **VENTILATION** would be a mistake, because it would not be clear whether it means that there is no ventilation, or that it is inefficient, works too loudly, etc. Another mistake would be to write down **COOPERATION**, which could be taken literally (that the presence of cooperation is a barrier) despite the author's likely intention (that the barrier consists in bad cooperation or lack thereof).
5. When formulating problems, avoid suggesting solutions and remember that the aim is to specify the barriers we encounter at work, not the expected target states. Therefore, putting down **WORK TABLES ARE TOO SMALL** (current state) is better than **BIGGER WORK TABLES** (expected target state). The disadvantage of the phrase "bigger tables" is also that it suggests a solution at the stage of identifying the problem, which narrows down our list of potential solutions. In fact, after analyzing the problem (as discussed below), it may turn out that the best solution is not to get bigger tables, but to get more tables, or maybe racks and shelves.
6. When identifying the problems to be solved, one should not think too long whether the problem is important enough to be analyzed. There will be time for selecting problems and determining their validity during voting. The goal of creating the list is to identify all problems that anyone in the group thinks worth considering. So if we have doubts as to whether a given problem "deserves" to be written down, it is best to do so anyway. Perhaps others will also mention it, or perhaps they will be glad that it was mentioned by someone else because they forgot about it. And if it is ultimately deemed insignificant, it will simply receive few votes.
7. Copying answers is pointless. If two responses describing the same barrier appear on the board, one of them will be removed. Voting will be used to determine the relevance of each barrier, as discussed below.

Filling out the cards should take about 10 minutes. Once everyone is ready, we go over the rules list above again and ask the participants to check whether they have followed them. As my

practice shows, most often a few people describe the barriers in a way that breaks some of the rules –they should be offered new cards to correct their mistakes. This may take an extra few minutes, but can save a lot more time during the analysis.

15.2.8 Submitting barriers

Barriers are submitted openly: the participants read their responses aloud, passing the cards to the instructor, who sticks them on the board, arranging them in groups of similar topics. Everyone takes part in the discussion on where the card should be placed. If a card does not fit into any group, a new group I created. At this stage the cards can be moved from one group to another. If there are two cards on the board expressing the same idea, one of them is removed, usually leaving the one that expresses the idea in a more coherent and exhaustive manner. Eliminating redundant cards is important to make the list as clear as possible. The groups of barriers identified in this way are referred to as *affinity families* because barriers within the groups are linked by thematic affinity.

It is also worth keeping in mind that not all the barriers that have been written down have to be submitted. E.g., if someone comes to believe that submitting one of their barriers could result in significant frustration in the group or their own discomfort, the card can simply be ignored. When submitting barriers, tensions and negative emotions should be avoided where possible. Everyone should feel that they are taking part in the process of improving the organization, not a witch trial. Not all the barriers have to be submitted. The ones that are will probably provide sufficient material for many months of work. And the ones that are not can always be submitted later. After all, we are just beginning the process of continuous improvement in our organization.

15.2.9 Establishing headers for affinity families

When working on grouping the barriers together, we try to give each affinity family a header that describes the type of problems it includes. The instructor can either rely on their own ingenuity or use the standard headers from Tab. 15.2-2. Using standard headers is especially practical when the group is divided into smaller, independently working subgroups due to the number of participants as it is helpful in merging the subgroup reports into one single report for the whole company.

At this point, I would like to remark that the definitions of categories I have adopted are certainly not perfect, especially in that they may not be entirely precise. However, it is worth remembering that these categories are not being used to evaluate the company, but only to determine the directions of change expected by the employees. In any case, when the barriers are being removed, each will have to be analyzed separately and individually.

The second point that needs to be clarified is the order of the categories in my table. They are not listed in the order of priority because priorities may vary from company to company; instead they are listed according to a feature that I would call the *emotional weight of the barrier*. Emotional weight is the level of emotional engagement, intimacy, and the involvement of human dignity associated with discussing a given barrier. From an emotional point of view, talking about the availability of tools and equipment at the workplace is much easier than talking about interpersonal relations, trust, justice, or one's own fears, which is why the latter kinds of barrier categories are at the top of the list.

Family	Description
LEADERSHIP	The mission and vision of the company are unclear to the employees. The system of values is unclear or unacceptable to the employees. No contact with the leader. No support from the leader. Inconsistent decision making. Lack of trust between leaders and employees. Unclear and/or unfair evaluation criteria. Different priorities between the leader and the employee.
PERSONNEL	Lack of relevant qualifications and experience. No reliability, failure to meet deadlines. Personal traits making it difficult for others to work.
MOTIVATION	Lack of positive motivation, visible demotivation, people do not want to work, they see no prospects for development. Stress. Fear of making mistakes. Reluctance to change.
CORPORATE CULTURE	Poor working atmosphere, lack of trust. There is little autonomy or decision making at lower levels. Divisions into better and worse. The direction in which the company is going is unknown, as are the reasons for making some decisions and reversing others. Frequent conflicts and lack of ability to solve them. Rumors. Behind-the-scenes judgements. Bad, unfair, or otherwise unacceptable remuneration system. Unclear or absent development paths for employees.
COOPERATION	Lack of cooperation, rivalry between employees, teams, departments. Everyone takes care of their own interests. We don't help each other. We don't know how to talk to each other. There are often conflicts. Poor interpersonal relationships. Interest groups. Lack of trust between employees.
COMMUNICATION	Lack of access to relevant information, incompleteness of information, obsolescence of information. Unnecessarily repetitive information. No meetings for exchanging views. Too many meetings that do not contribute anything. Poorly organized meetings.
MANAGEMENT	Poor operational management with regard to, e.g.: assigning current tasks and allocating resources (including time) to perform them, organizing training, preparing work plans and budgets, making operational decisions, managing projects, organizing meetings. Inefficient operational decision making. Excessive bureaucracy.
ORGANIZATION STRUCTURE	Unclear, unknown, or often changing job structure, ambiguity and/or incompleteness of responsibilities, we don't know who should do what, there are tasks that have not been assigned to anyone. The procedures and standards are unclear and/or incomplete or too complex. The rules change too often.
FINANCE	Financial resources are insufficient and/or difficult to access. Lack of good financial analytics. Low wages and salaries.
WORKPLACE	Workplace equipment, availability and quality of tools and resources, e.g., energy, raw materials. Buildings, rooms, equipment, installations.

Tab. 15.2-2 Standard headers for affinity families

When establishing the names for the headers, we do not include qualifying adjectives. We write "Cooperation", rather than "Poor cooperation", because the header describes a family of barriers associated with cooperation.

A list of barriers broken down by affinity is called an *affinity diagram*. Such a diagram does not yet constitute a plan for the work on quality, but it does provide a basis for one. Using the diagram, we can identify the most urgent tasks to be performed and divide the tasks between the team members. We can also divide the team into subgroups, each of which will take care of one barrier. These teams are the nuclei of future quality incubators.

15.2.10 Ranked voting

After sorting the list of barriers by affinity family, it is time to establish the hierarchy of barriers in terms of their significance for the team. In order to do this, we need to determine the number of all the barriers that appear on our list (for the purposes of the vote we ignore the affinity families) and then provide the participants with an appropriate number of B-type cards (section 15.2.7); the number of cards per participant is equal to one third of the number of barriers rounded down¹⁴⁷. For example, if the list includes 47 barriers, every person taking part in the vote will receive 15 cards ($47/3 = 15.7$). Each participant then numbers their cards, starting from 1. These numbers will indicate the number of points (weights) assigned to each problem. They should be written in the center using as big a font as possible.

The vote is carried out by sticking the voting cards next to the cards with barriers. In this way, each person chooses one third of all the barriers, while at the same time ranking them subjectively from the most to the least important. Of course, the more important the barrier, the more points it is assigned.

As a rule, each person may assign no more than one card to each barrier. Otherwise, the outcome of the vote could be seriously distorted if one person assigned a large number (or even all) of their cards to a single barrier. The voters are not obliged to use all their cards if they do not see enough problems deserving their attention, but the cards saved in this way may not be transferred to another person.

We stick the voting cards on top of each other, and not side by side, so that they do not obstruct the view of the barrier or mix with the cards assigned to other barriers. No more than two or three people should be standing next to the board at once, so that it is easier for them to focus and avoid forgetting which barriers they have already voted on.

When the vote is over, we add up the number of points allocated to each problem and then create two lists of problems – one with division by affinity family and one without such division, both arranged according to the decreasing number of points. Next to the column with points, we place a column that specifies the percentage of points (in relation to all the points allocated in the vote) that a given problem has received. It is also a good idea to conduct a Pareto analysis (section 15.9) by isolating the problems from the top of the list which have gathered a total of 80% of the votes.

In the example presented below, the affinity diagram method was used in a sales team at one of the companies in which I conducted the workshop. The aim of the analysis was to answer the question:

What inhibits our work in the company the most?

During the analysis 31 barriers were identified and classified into the following affinity families:

1. Motivation.
2. Cooperation.
3. Communication.
4. Organization.
5. Personnel.

¹⁴⁷ I used to recommend handing out more voting cards, so that their number would equal half the number of barriers. However, my listeners pointed out that, if there are too many cards, the votes with smaller point values are allocated quite randomly.

6. Hardware.
7. Product quality.

Barrier	Points	Share of votes
Lack of trust	94	6.9%
Unfinished IT system; changes introduced without any notice	79	5.8%
Lack of motivation	78	5.7%
Very poor information flow	65	4.8%
Poor performance of the central warehouse; orders unfulfilled without feedback, long waiting times	63	4.6%
Very high requirements (obligations), poor financial incentive	61	4.5%
Lack of communication and cooperation between sales and production	61	4.5%
Office issues are more important than customer service	59	4.3%
Low wages, weak staff, pathology	56	4.1%
Too few employees	56	4.1%
No cooperation in the company	54	4.0%
Poor information flow: we do not know what to order and from which warehouse	52	3.8%
Low salaries for salespeople, lack of motivation to work at the highest level	47	3.5%
Low quality of products	46	3.4%
Inability to implement one's own ideas	45	3.3%
Our comments and suggestions are ignored	45	3.3%
"Wing clipping"	43	3.2%
No incentive scheme for employees	43	3.2%
Lack of a clear common goal for all	42	3.1%
Lack of cleaning services in sales outlets	34	2.5%
Lack of communication between management and stores	32	2.4%
Staff turnover	27	2.0%
Too few managers for the individual establishments	25	1.8%
Centralization in management	25	1.8%
Bad attitude towards cooperation	24	1.8%
Poor store and backroom setup	22	1.6%
Fear; intimidation instead of cooperation	21	1.5%
Lack of cooperation with top management	20	1.5%
Poor lighting	15	1.1%
No refrigeration unit	15	1.1%
No company telephone	12	0.9%
The manager shows no interest in the job	0	0.0%

Tab. 15.2-3 Hierarchy of barriers in the general classification

Tab. 15.2-3 presents the hierarchy of barriers in the general classification, while Tab.15.2-4 lists the hierarchy according to affinity families.

Barrier	Points	Share of votes (barrier)	Share of votes (family)
Motivation			23.3%
Lack of motivation	78	5.7%	
Very high requirements (obligations), poor financial incentive	61	4.5%	
Low salaries for salespeople, lack of motivation to work at the highest level	47	3.5%	
Inability to implement one's own ideas	45	3.3%	
"Wing clipping"	43	3.2%	
No incentive scheme for employees	43	3.2%	
Organization			21.1%
Unfinished IT system; changes introduced without any notice	79	5.8%	
Poor performance of the central warehouse; orders unfulfilled without feedback, long waiting times	63	4.6%	
Office issues are more important than customer service	59	4.3%	
Poor information flow: we do not know what to order and from which warehouse	52	3.8%	
Cooperation			20.8%
Lack of trust	94	6.9%	
No cooperation in the company	54	4.0%	
Our comments and suggestions are ignored	45	3.3%	
Centralization in management	25	1.8%	
Bad attitude towards cooperation	24	1.8%	
Fear; intimidation instead of cooperation	21	1.5%	
Lack of cooperation with top management	20	1.5%	
Communication			14.7%
Very poor information flow	65	4.8%	
Lack of communication and cooperation between sales and production	61	4.5%	
Lack of a clear common goal for all	42	3.1%	
Lack of communication between management and stores	32	2.4%	
Personnel			12.0%
Low wages, weak staff, pathology	56	4.1%	
Too few employees	56	4.1%	
Staff turnover	27	2.0%	
Lack of adequate number of employees at the level of management of individual establishments	25	1.8%	
The manager shows no interest in the job	0	0.0%	
Hardware			4.7%

Poor store and backroom setup	22	1.6%	
Poor lighting	15	1.1%	
No refrigeration unit	15	1.1%	
No company telephone	12	0.9%	
Product quality			3.4%
Low quality of products	46	3.4%	

Tab.15.2-4 Hierarchy of barriers by affinity family

As we can see, among the issues submitted by the sellers, there were none that would require any significant investment to address. Was this unusual? Not at all. Over the last 20 years, I have conducted dozens of such workshops, and the results have always been similar. The barriers at work that are most frequently mentioned and receive the highest scores are associated with motivation, trust, interpersonal relations, cooperation, communication, and work organization. These are the problems that are known to everyone and constantly talked about in the corridors, but usually avoided at meetings. Addressing them is relatively cheap, but it is not easy. It requires mastering the art of assertive behavior and communication, the ability to conduct discussions and negotiations in situations of conflict. All this can be learned, but most managers are unfamiliar with this knowledge and are often surprised by it. I devoted part II of this book to this topic.

One of the barriers submitted in this example was the problem of low pay and lack of incentive schemes (by implication: no commissions). Contrary to expectations, this issue popped up in only a few of the several dozen workshops I conducted.

As far as salaries are concerned, in the analyzed company they were really low – below the average for the industry and region. Therefore, they could have been one of the sources of demotivation, and were certainly the cause of difficulties with attracting good sellers from the labor market, as indicated by one of the barriers. It should be noted, however, that there were many more factors demotivating the sellers. Here are the most important examples:

- inability to implement one's own ideas;
- “wing clipping”;
- lack of trust;
- lack of cooperation in the company;
- our comments and suggestions are ignored;
- centralization in management;
- bad attitude to cooperation;
- Fear; intimidation instead of cooperation;
- lack of cooperation with top management;
- the manager shows no interest in the job.

Notwithstanding, the participants were not fully aware that these phenomena were much more demotivating than the low wages. They also did not know (how could they?) that “incentive systems” are ultimately a source of demotivation rather than motivation. In such a scenario, the topic of wages should be skillfully approached, but should definitely not be the first topic to be addressed after the barriers are identified. The employees have to be well prepared for such a conversation.

15.2.11 What do we learn from barrier analysis?

Encountering for the first time such an analysis of a company using the affinity family method may yield the impression that the results of this analysis were negative, but nothing could be further from the truth.

First of all, the analysis focuses on the shortcomings precisely because they are its topic. The company's strengths are analyzed beforehand during the springboards workshop.

Secondly, every barrier identified is a source of improvement for the company. It is not proof of defeat, but an opportunity to triumph. After all, the company's performance is not that bad despite all the existing barriers. So imagine what can happen when they are removed!

Thirdly, all these barriers were reported by employees, not by external consultants. And if employees can see and understand these barriers, they can remove them. They can also find and remove others. So we are standing on the runway, with engines hot, awaiting the signal from the control tower. The signal we will send ourselves.

Fourthly, almost all the points were allocated to barriers concerning the company's operation and not the employee benefits. This is extremely important. If the employees think about the company first instead of themselves, it shows a serious potential for development. A lot can be done with such a crew.

Fifthly, the initiative to analyze the barriers and examine them through the eyes of employees from all levels came from the company. This was not some audit ordered by an external office; the company invited the employees to make a diagnosis in order to improve the organization together. Despite all the communication problems – which occur in every company – this is great proof of the management's trust in the personnel, and, therefore, a reason to look at the management as something more than just a source of barriers¹⁴⁸.

15.2.12 What to bear in mind when analyzing barriers

There are three important principles to remember when analyzing the collected barriers:

1. Identifying barriers is not used to evaluate the organization, but to determine the directions of its improvement. A fairly comprehensive evaluation would include not only the barriers, but also the springboards.
2. Barriers are often not so much real facts as emotions, feelings, or opinions. And opinions and emotions, such as they are, may be justified or not. But regardless of whether they are justified or not, their effects are the same. So let us not underestimate unreasonable opinions. They should also be addressed, if only by providing an explanation as to why they have no basis. After all, false opinions are often simply the result of lacking communication.
3. The descriptions of barriers collected during the workshop are often laconic or unclear. This is normal. For many workshop participants this is the first opportunity in their lives to speak publicly about what impedes their work. They get upset, anxious, unsure of the consequences. However, the process of improvement does not end with collecting the barriers. On the contrary, this is just the starting point! The next step will be to concretize the barriers and analyze their causes.

¹⁴⁸ Of course, this last sentence applies only to organizations with a hierarchical management structure.

15.2.13 Four steps to remove barriers

During his presentation at a TQM seminar¹⁴⁹, Zbigniew Bujak asked the following questions: why did the Ukrainian Orange Revolution fail to bring the expected changes? Why did it leave behind only the memory of the ethos present on the Independence Square in Kiev despite the mass involvement of a large part of the Ukrainian society? Why did it not result in what happened in Poland after the elections of 1989? According to Bujak, the difference between the two revolutions was that, after the elections, the Poles had a program for local action, while the demonstrators from Independence Square went home without such plans. Their commitment and readiness to act were not put to any use and, therefore, fizzled out quickly.

Work barrier analysis in a company is a kind of a revolution. This is often the first opportunity to discuss what can be improved in a systematic and fairly open fashion. This experience builds hope that employees can be partners in managing the company, that their knowledge, experience, and readiness to collaborate have been appreciated. This commitment must not be wasted by doing nothing or delaying the implementation of changes. Prompt action is required, especially since the vast majority of the identified barriers require little or no financial expenditure.

As my experience shows, it is good to organize barrier removal according to the following plan:

1. Selection of repair teams, with several members each, to become the first quality incubators in the company.
2. Concretization of barriers.
3. What is – a synthetic description of the current state of affairs.
4. What should be – the expected target state.
5. Corrective action and monitoring.

In order to describe steps 2 through 4, I will use an example of what actually happened in one of the companies where I conducted the workshop. After the workshop, small (three- or five-person) repair teams were formed; they included all the workshop participants as well as a few people from outside this group. Each team dealt with one family of barriers. The one whose work I am about to describe chose the family COMMUNICATION, which included the following barriers:

- very poor information flow;
- lack of communication and cooperation between sales and production;
- lack of a clear common goal for all;
- lack of communication between the management and sales outlets.

As we can see, some of these barriers were described in such a general way that it was not entirely clear what exactly should be done to remove them. Therefore, the team moved on to the concretization phase to identify more specific examples. Before discussing these examples, I must explain that the company operated a chain of catering venues and used an IT cash register system organized in such a way that, each time a dish was sold, the register's computer would reduce the venue's stock level according to the recipe for the dish being served. The recipes

¹⁴⁹ They take place once a month from October to June, and information about them can be found on my website www.moznainaczej.com.pl.

and price lists were transferred to the local computers from the headquarters without any participation of the venue's employees.

In the case at hand, the team produced the following concrete examples:

1. Sometimes, when product recipes are changed, the venue is not informed on time, which means that the meals are dispensed according to the old recipes while the stock levels are reduced according to the new ones. Of course, this results in inventory discrepancies.
2. When prices are changed, the venues are sometimes not informed on time. The seller learns about the new price only during the sale, which causes their great frustration because it comes across as very unprofessional to the customer.
3. Sometimes new products appear in the computers, for which no price has yet been entered. Worse still, the venue actually receives these products for sale, but cannot sell them without the prices.
4. Menus are not agreed upon with the venue managers (dish selection, prices, typos, etc.). The managers' experience and knowledge of the local markets (each venue operates in a slightly different market) is being wasted.
5. Questions sent to the company's management about various aspects of work organization often remain unanswered. As a result, the venue managers don't know what to do. If they decide to act on their own, they risk that it may not be in line with the management's intentions.

When concretizing, care should be taken to use words such as "sometimes", "occasionally", or even "frequently" when describing phenomena that are not actually constant – after all, "often" does not mean "always". This principle is very important because it makes opinions more balanced and, consequently, results in less defensive reactions. In the examples above, these "weakeners" were not used only in point 4, as the menu was indeed never agreed upon with the venue managers.

Once the concretization phase has been completed, the objectives that we wish to achieve should be established. In this step, you can use a *What Is – What Should Be* table (Tab. 15.2-5). This is how it looked in our case (more about the method in section 15.10):

what is	what should be
Sometimes employees only learn about a change in the recipe when they accidentally take a look at the recipe list on their computers. The system does not have an automatic notification mechanism for recipe changes.	Whenever a recipe is changed, all interested venues are informed immediately by e-mail. The venues should also know the person responsible for implementing this rule.
Sometimes a new product is entered into the system without a price.	The introduction of a new product is always accompanied by the immediate introduction of its price.
Lack of answers to questions about work organization addressed to the company's management.	There is a single person/position, known to all, who is authorized to answer such questions.
Menus are not agreed upon with the venue managers (dish selection, prices, typos, etc.).	After a new menu is designed by the Marketing Department, its PDF version is sent by e-mail to all venues, which then have three days to offer comments. If a large number of substantive comments are submitted and accepted, the agreement procedure is repeated for the new version.

Sometimes there is no information as to why an ordered product has not been delivered and when it will be delivered.	Whenever the delivery deviates from the order, it should be accompanied by a document specifying the reasons for the discrepancy and a timeframe for its removal.
Some venues receive products they did not order or products which they are unable to sell.	Establish a list of products for each venue that it is able to sell.
It is not known who in the company is responsible for obtaining licenses and administrative permits for the venues (e.g., alcohol, outdoor garden).	Identify the services responsible for this and inform the venue managers.
There is no established scope of responsibilities for venue managers and waiter.	Create a scope of responsibilities and come to an agreement with the interested parties.

Tab. 15.2-5 Example of a *what-is-what-should-be* table

In most cases, the description of the current state (what is) was sufficient for formulating a solution to remove the barrier. For example, if there is no established scope of responsibilities, it should be created. However, the situation may not always be that simple. If the barrier description states:

Sometimes a new product is entered into the system without a price.

the proposed solution can, of course, be formulated as it was in the table:

The introduction of a new product is always accompanied by the immediate introduction of its price.

However, this does not entirely explain what exactly needs to be done to achieve the desired effect. Such cases require further analysis using, e.g., the *five whys* method (section 15.8), the *fishbone* method (section 15.7), or both.

15.2.14 Other applications of affinity diagrams

Using affinity diagrams to identify barriers, as discussed above, is a very important application of the method, but it is not the only one. Generally speaking, it is a method for identifying problems to be solved and establishing a hierarchy of priority among them. The first step does not necessarily have to look like the one described above. It can consist in brainstorming (section 15.5), a carousel of ideas (section 15.6), constructing a fishbone diagram (section 15.7), or any other method.

Step two is, of course, the ranked vote. It is used to isolate the most important issues, which are addressed as the first order of business through analysis, synthesis, establishing the target state, and setting tasks according to the SMART principle (section 9.11.2).

15.3 The 5S method – the first step

This is a very well-known method originating from Japan. Today it is widely used in both TQM and six sigma. It consists of five steps, the names of which begin with the letter S in English, Japanese, as well as Polish. The method may not quite constitute a quality program, but it provides a good start for implementing one, as it consists in preparing every workplace and every worker for discipline, order, systematic action, rational thinking, and work on quality (good practices). This is a first step towards TQM that does not require any special groundwork in terms of communication. Its use is, therefore, quite common.

1. **Sort** (*seiri*) – Divide tools and other objects at the workplace into those that are needed regularly, occasionally, and others. Eliminate the latter immediately or mark them with

a red label and, if they remain unused for some time, remove them or move them to storage.

2. **Set in order** (*seiton*) – Organize the workspace. This applies to workshops, desks, shelves, drawers, etc. Each necessary tool and document should have its own permanent place, so that you can immediately see when it is missing.
3. **Shine** (*seiso*) – Tidy up the workstation. Let it shine with cleanliness. Make this a permanent habit.
4. **Standardize** (*seiketsu*) – establish good practices and make them the standard of your work.
5. **Sustain** (*shitsuke*) – always maintain your workplace in accordance with the previous principles. Let them become an integral part of your daily work.

The workplace to which the 5S refers does not necessarily have to be a single workshop or desk. In the case of a team leader, the workplace is the whole area of their responsibility; in the case of the CEO, the workplace is the whole company (but includes their desk as well!). The application of this method initiated the transformation of Polmo Łomianki, which saved the company from liquidation (see the box Polmo Łomianki in section 16.1).

5S in a monastery

In a certain Catholic monastery in Europe, there is an ancient custom that consists in the systematic implementation of the “sort” principle. It serves to maintain monastic discipline, asceticism, and renunciation of luxury. Every Easter, every monk takes all the furnishings out of his cell to the corridor. This applies to absolutely everything: furniture, books, bedding, etc. The monk may then bring back to their cell only those things that are to be used immediately. If he wants to sit down, he brings in the chair; if he wants to lie down – he brings in the bed; if he wants to cover himself – he brings in the blanket. The items that remain in the corridor after a specified period of time are removed from the monastery.

15.4 CTQ tree

CTQ trees (critical-to-quality trees) are used to systematically establish and classify customer expectations about the product. Constructing such a tree starts by determining precisely the nature of the customer and the product delivered to them. For each type of customer and each product, a separate tree should be constructed.

Cumbernauld Tax Office

In some cases, the answer to the questions who the customer is and what the product is may not be that obvious, as it turned out when the officials of a British tax office in Cumbernauld decided to apply for the European Quality Award. Contrary to the common view that the customer of a tax office is the state and the product is the taxes collected, they decided that their customer was the taxpayer and the product they offered was tax advice. They assumed that the collection of taxes is not an end in itself, but is intended to serve the economy, and thus to support those who are building it. As a result, they not only won an exceptionally prestigious award, but also started to collect more taxes. The cause of this additional effect was twofold. Firstly, thanks to the helpful advice and goodwill of the office, companies in the region grew better and, therefore, paid more taxes. Secondly, entrepreneurs treated fairly by civil servants reciprocated this fairness when declaring their revenues and costs (source: [27]).

Once the customer is identified, we determine the product's attributes that are relevant to the customer and the customer's expectations regarding those attributes. Of course, our knowledge about the attributes and related expectations comes from the customer, whether through direct interviews or surveys. The example presented below, which I took from Eckes ([21] p. 90 in Polish version), concerns the customers of an American hotel chain, and the analyzed product is a room service meal (Fig. 15.4-1).

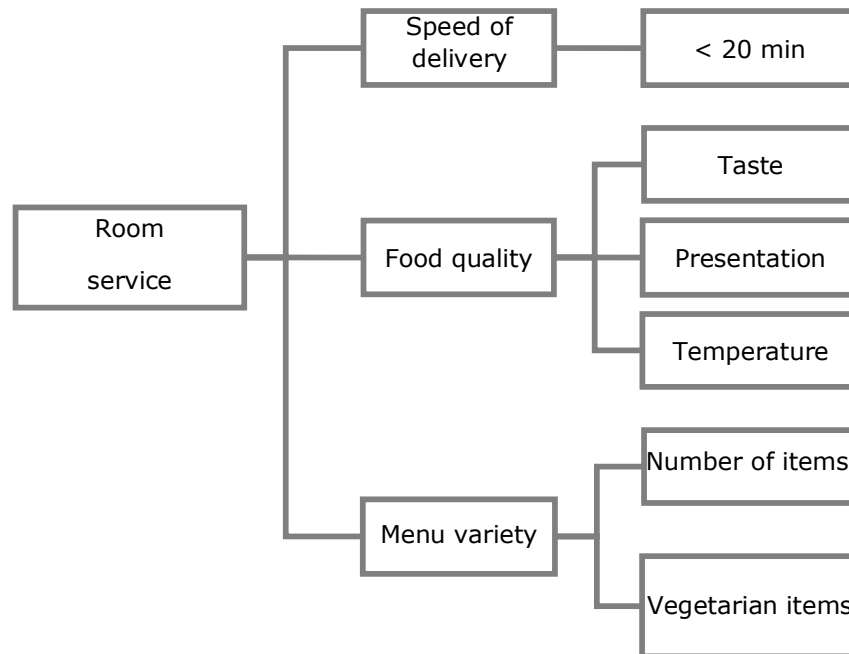


Fig. 15.4-1 Example of a CTQ tree

The requirements that are critical to quality are those that must be fulfilled in order to obtain customer satisfaction. Remember, however, that this is only the bare minimum. Meeting the critical requirements is expected by the customer, so when they are met, the customer considers this normal, and when they are not, the customer feels disappointed. If we want to gain the customer's special appreciation, we must go above and beyond the critical requirements.

15.5 Brainstorming

The term brainstorming is often used to describe meetings where everyone speaks at once, trying to shout out the others. Nothing could be less true. Brainstorming, although in principle spontaneous, should always be subject to the following rules:

1. Brainstorming is organized to find a solution to an unusual problem or – to put it simply – to come up with ideas.
2. We invite a small group of people (about ten) to brainstorm. It is recommended to invite both individuals well familiar with the problem and a small minority of those who know nothing about it; e.g., several children could be invited. The role of the latter is to provide a non-routine perspective on the problem.

3. For a limited period of time (e.g., 10 minutes), the group members voice their suggestions for solving the problem. One person writes them down on the board so that the whole group can see all the ideas.
4. Under no circumstances may the proposals be discussed or rejected while they are being collected! There are no bad, stupid, or pointless proposals. Practice shows that the most ridiculous ones are most likely to point to new solutions.
5. All suggestions for solutions should be concrete, but this does not mean that they may not be absurd or unrealistic. For example, we should not propose to “Reduce the number of errors”, because this would be too vague; on the other hand, a suggestion that all warehouse workers should walk on their hands would be fine because it would be concrete, even if difficult to apply. Absurdity serves to stimulate the imagination of the participants, while concreteness serves to avoid proposals that do not show any way to solve the problem.
6. Once the collection stage is concluded, the proposals are assessed for their suitability for use.

A textbook example of a solution found through brainstorming is a device for connecting steel tapes in the process of wrapping parcels and crates intended for transport. The question posed in this case was: “How to connect steel tapes in an easy, cheap, and safe way while wrapping a cardboard package with them?”. During a brainstorming session, someone suggested that the tape ends to be connected should be held in place by teeth. This gave rise to the idea of a now well-known device that connects two ends of a tape by placing one on top of the other and deforming them together with steel teeth.

At the A. Blikle company another problem was being tackled: “How to protect doughnuts from getting cold during transport in winter?”¹⁵⁰. This pertained particularly to the moments when the doughnuts were being transferred from the workshop to the car and from the car to the store. The proposed solutions included the following:

1. Organize a warm room in the workshop and the store, where the delivery van would be parked for loading and unloading.
2. Install hot air blowers on the ramp.
3. Hug the doughnuts closely to your breast.
4. Place the doughnuts under your clothing.
5. Put woolen caps on the doughnuts.
6. Transport the doughnuts in polystyrene containers.
7. Give up sales in winter.

From this list, the fifth solution was selected, obviously in a modified form. Isothermal foil was used to create covers to be placed on trolleys with containers.

¹⁵⁰ All yeast products and doughnuts in particular are very sensitive to temperatures below “room temperature” (i.e., below 20°C). When exposed to cold, they immediately and irreversibly become stale, and the glaze covering them becomes wet.

15.6 Carousel of ideas

A carousel of ideas is basically an organized version of a brainstorming session. Each participant receives a blank sheet of paper on which they make a list of things related to the subject of the workshop (problems, solutions, reasons, etc.) that they believe to be the most important. Each participant then passes their sheet of paper to the person sitting on their left, receives a sheet of paper from their neighbor on the right, and adds at least two new entries to this newly received list. Of course, it is best to first read through the newly received ideas, so that they can serve as inspiration for new ones. The clockwise transfer of the lists is usually continued until everyone has received the sheet of paper that they started with. Notwithstanding, the cycle can be repeated several times.

The advantage of a carousel over a “normal” brainstorming session is that it involves all workshop participants to actively generate ideas. It also allows for more focus.

15.7 Fishbone

In the second half of the 1990s, I was conducting a seminar in my company as part of a quality instructor course. The meeting was attended by employees from both the sales department (sellers) and the production department (confectioners). During a discussion on the cooperation between these two crucial departments of our company, the sellers asked a provocative question: “When are you going to stop sending us bad products; how are supposed to sell this stuff?” That, of course, electrified the confectioners: “What do you think you mean by ‘when will you stop’? Do we always send you bad products?”. “Well, maybe not every day,” was the response, “but occasionally this is what happens, and it has been like this for years!”

The tension was growing, and it seemed we were in for a war typical of manufacturing companies. At this point I proposed to carry out a rational analysis of the problem of bad goods appearing in confectioneries. However, since the final recipient of the goods and the highest authority on quality is the customer, we ultimately decided to analyze a more general problem: “Why does the customer sometimes receive bad products?” This approach to the problem had the advantage that the sellers also felt responsibility for the final quality of our products. As a result, it turned out that they, too, could contribute to product defects.

We performed this analysis using the *Kaoru Ishikawa diagram*, popularly known as the *fishbone diagram*, which is used to analyze potential and actual causes of a phenomenon (Fig. 15.7-1). During the analysis, six groups of potential causes of the problem were identified:

1. Transport and storage of the product (also in confectioneries).
2. People.
3. Tools and equipment.
4. External causes.
5. Information flow.
6. Work organization.

In the diagram, these groups were assigned to the “main ribs”. Within each group, specific but still potential causes of defects in products were identified. It should be emphasized that, during the first stage of work, fishbone diagrams are used to identify and classify potential causes. It is only later that the suggested causes are reviewed, and the ones that do not actually exist or have any bearing on the problem are removed.

There are basically two ways of constructing a fishbone diagram. The first is to collect spontaneous proposals, which are later grouped according to thematic affinity. Conversely, the second is to initially identify groups of causes and then try to identify specific causes within each group. Personally, I prefer the latter.

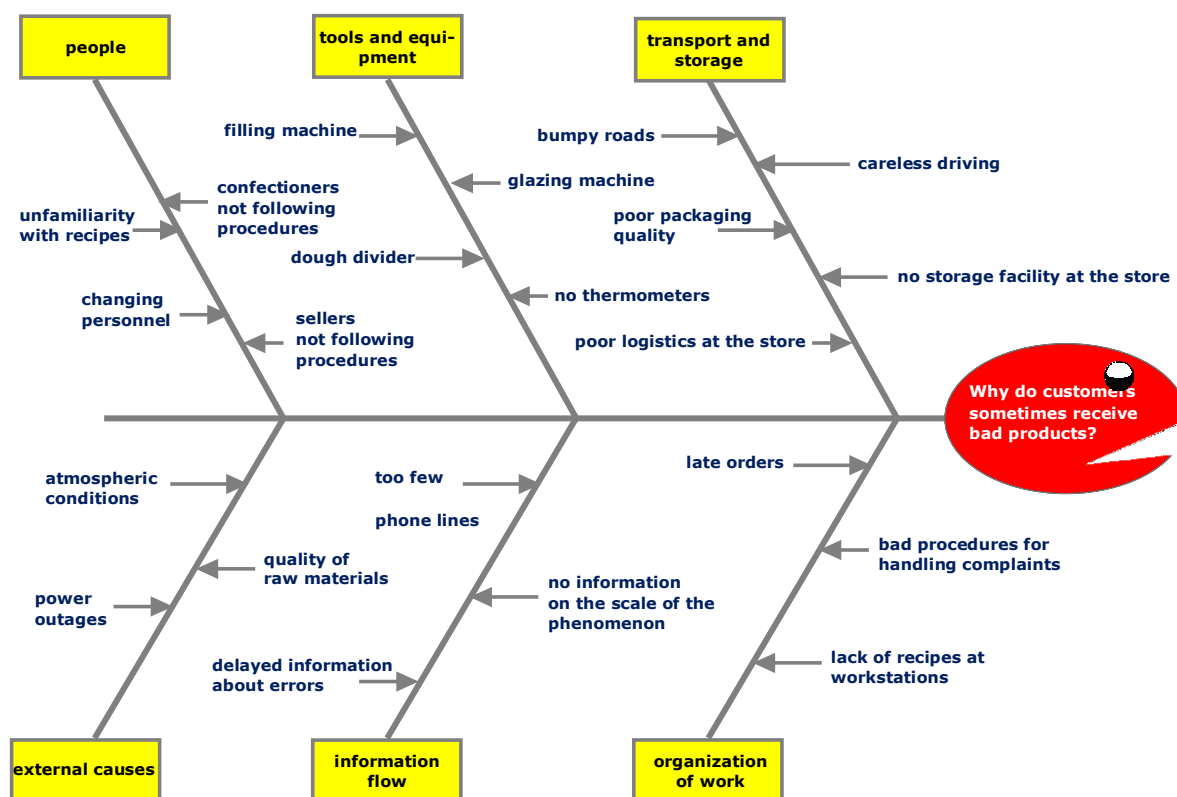


Fig. 15.7-1 Example of an analysis with a fishbone diagram

15.8 The five whys

To help identify causes, a *five whys* exercise can be used in one of its two versions: horizontal or vertical.

The expanding version consists in repeating the question about the cause of a given phenomenon five times. An example of its use is presented by George Eckes ([22], p. 186). The team in the example wondered why the company's customers were late with payments. The course of this workshop was as follows:

Q1 (question): Why are our customers late in paying?

A1 (answer): Because we do not charge penalty fees.

Q2: Why else?

A2: Because it is common practice among large companies.

Q3: Why else?

A3: Because it is part of their plan to make financial goals.

Q4: Why else?

A4: The interest they accrue then allows them to pay higher daily rates.

Q5: Why else?

A5: They do not receive complaints about the practice.

In the deepening version of the exercise, each subsequent question pertains to the cause of the cause established in the last answer, so that each of the five questions is different. Here is an example from my own backyard:

Q1: Why does poppy-seed cake crumble when it is cut?

A1: Because the poppy-seed filling is too dry.

Q2: And why is the poppy-seed filling too dry?

A2: Because the poppy was brought to a boil while being brewed.

Q3: And why was it brought to a boil?

A3: Because the brewing procedure was not posted at the brewing station.

Q4: And why wasn't the brewing procedure posted?

A4: Because nobody was responsible for it.

Q5: And why was nobody responsible for it?

A5: Because it had not been determined to which of the production sub-processes the brewing station belongs to.

Of course, regardless of the version of this exercise, the number of question does not always have to be the same. Five is rather a symbolic number, indicating that, in general, one should not be satisfied with the initial answer. The expanding version is really a kind of brainstorming, trying to identify all possible causes of a phenomenon. Finding all the causes is important because identifying and removing only some of them may not lead to solving the problem.

In the deepening version, we are trying to determine a root cause that may be impacting more than just the problem we are interested in. The analysis of the causes for crumbling poppy-seed cakes revealed a systemic cause, namely that the poppy-seed brewing station was not assigned to any subprocess. Of course, the station will now be assigned to an appropriate sub-process, but perhaps it is also worthwhile to review the remaining stations in this regard, e.g., by asking additional questions:

Q6: Why wasn't the brewing station assigned to any sub-process?

O6: Because the owner of the basic production process did not coordinate the mapping of production processes.

Q7: Why didn't the owner of the basic production process coordinate the mapping of production processes?

O7: Because this wasn't included in the list of his duties, and he didn't think about it himself.

As a result of this additional cause analysis, the responsibilities of the owners of some or even all processes should be reviewed.

The general rule is that we ask the question “why” until we find out what specific tasks should be performed in order to prevent the undesired phenomenon from reoccurring.

15.9 Pareto analysis



Vilfredo Pareto (1848-1923) was an Italian sociologist and economist, professor at the University of Lausanne, creator of elite theory, and co-founder of the Lausanne (or Mathematical) School of economics. In his research on the distribution of wealth in the world, he found that 80% of goods (in terms of their value) are in the hands of 20% of the world's population. This finding is called the *Pareto principle* or the *20/80 rule*. Over time, the Pareto principles proved to be applicable to many other areas:

- A manager spends 20% of their time on solving 80% of problems.
- 20% of customers leave 80% of the cash in the company's cash register.
- 20% of products generate 80% of the revenue when sold.
- 20% of pupils cause 80% of behavior-related issues.
- 20% of employees use 80% of days off work.

Generally speaking it can be said that very often:

20% of the causes give rise to 80% of the effects.

However, in reality the figures of 20% and 80% are simply a convention. Sometimes the *Pareto index* is 15/90 (*steep pareto*) or 30/60 (*flat pareto*). Therefore, a formulation of the Pareto principle that would be less strict and closer to the truth would be as follows:

In most situations, relatively few causes result in a relatively large number of effects.

When the Pareto index is 20/80, there is a symmetry there: 20% of causes produce 80% of effects, so the remaining 80% of causes produce the remaining 20% of effects. Note, however,

that in the case of a different Pareto index, e.g., 30/60, there is no analogous symmetry: 30% of causes lead to 60% of effects, so the remaining 70% of causes lead to the remaining 40% of effects.

When the Pareto index differs from 20/80, two indices can be distinguished:

1. *The first Pareto index*: $X/80$, where X determines the percentage of causes generating 80% of effects¹⁵¹.
2. *The second Pareto index*: $20/Y$, where Y represents the percentage of effects generated by 20% of causes.

Of course, in the case of 20/80 both indices are the same, and their value is exactly 20/80.

In order to calculate the Pareto indices, we use the algorithm presented on the basis of the example below – an analysis of the share of products offered by a café in the sales:

1. Establish the list of all products sold.
2. Calculate the percentage share of each product in the sales for the selected period.
3. Arrange the list from the largest to the smallest share.
4. Find the minimum number of items, counting from the top, giving a total of no less than 80% of the sales share.
5. Calculate the percentage share of the number of these items in the number of all items. If this percentage is X , then the first Pareto index for sales is $X/80$.

No.	Product	Share	Cu- mu- la- tively	1 st index	2 nd index
1	Coffee	18.31%	18%		
2	Tea	14.82%	33%		
3	Donut	12.37%	46%		
4	Apple pie	11.99%	57%		20/57
5	Sprite	8.34%	66%		
6	Coca-Cola	6.10%	72%		
7	Fruit salad	3.50%	75%		
8	Ice cream with dried fruits and nuts	3.32%	79%		
9	Marcello cake.	3.25%	82%	45/80	
10	Avocado salad	3.24%	85%		
11	Freshly squeezed orange juice	2.17%	87%		
12	Polish breakfast	2.15%	90%		

¹⁵¹ From a mathematical standpoint, this definition lacks sufficient precision. In fact, it should be said that X represents the percentage share in the population of all causes from the least numerous set of causes, which gives rise to an effect weight of no less than 80% of the weight of all effects (and the same applies to the second index). In reality, however, the imperfection of my definition is harmless because I am presenting a specific algorithm for calculating Pareto's indexes.

13	Opera cake	2.01%	92%		
14	Cheese cake in chocolate	1.98%	94%		
15	Caprese salad	1.89%	95%		
16	Greek salad	1.57%	97%		
17	Lemon sorbet	0.89%	98%		
18	Red wine – glass	0.78%	99%		
19	White wine – glass	0.69%	99%		
20	Beer (large)	0.54%	100%		

Tab. 15.9-1 Example of a worksheet for calculating Pareto indices for sales in a café

1. Find the minimum number of items, counting from the top, giving a total of no less than 20% of the products.
2. Calculate the total share of all these products in sales. If this share is Y, then the second Pareto indicator for sales is $20/Y$.

In the example presented in Tab. 15.9-1, the first Pareto index is 45/80 and the second: 20/57. In this case, we are dealing with a fairly flat pareto. As our analysis shows, the bulk of the café's sales come from the first nine products, so they should be given the most attention to ensure, among other things, that they are never lacking in the current menu. In turn, the lemon sorbet (the pride of our dessert maker) sells in very small quantities. Perhaps the reasons for this are worth investigating because, after all, its excellence is praised by all who decide to try it.

An example of a very steep pareto can be found in Tab. 15.9-2, which analyzes the distribution of absenteeism between groups of employees in the A. Blikle company. The employees were divided into groups according to the number of days of absence per year.

Time of absence	Number of employees	Number of days of absence	Percentage of employees	Percentage of days
Group 1: more than 99 days	—	—	0%	0%
Group 2: 50 to 99 days	12	1012	5%	72%
Group 3: 20 to 49 days	5	142	2%	10%
Group 4: 10 to 19 days	6	86	2%	6%
Group 5: 1 to 9 days	39	166	15%	12%
Group 6: no absences	191	—	75%	0%
TOTAL	253	1406	100%	100%

Tab. 15.9-2 Example of a worksheet for analyzing employee absenteeism

The first Pareto index in this example is 7/82 and the second 24/100. Further calculations reveal the following:

1. Average absenteeism per employee is 5.5 days per year.
2. The first 7% of employees are responsible for 82% of all days of absence.
3. Another 17% of employees are responsible for 18% of all days of absence.

4. The remaining 75% of employees have no absences.

The first result (an average of 5.5 days of absence per year per employee) may be of concern as it is higher than the national average. However, it turns out that this bad result is mainly due to the absences of 7% of workers, who include mothers on maternity leave. In a company in which nearly 75% of employees are women, this should be expected; on the other hand, having 75% of employees without any absences is a truly encouraging result.

Interesting ideas and conclusions about the use of the Pareto principle in management as well as in the development of organizations and people can be found in Richard Koch's *The 80/20 Revolution* [45].

15.10 The What Is – What Should Be table

We have already encountered the use of the *What Is – What Should Be* table in section 15.2.13 in the context of a workshop on identifying and removing barriers. I will now discuss this method in more detail.

As we already know, the way the method works is that, after determining the subject of analysis, the team places entries into a two-column table (Tab. 15.10-1).

THE ANALYZED PROBLEM	
What is?	What should be?
Concrete description of state 1	Concrete proposal for change 1
Concrete description of state 2	Concrete proposal for change 2
...	...

Tab. 15.10-1 What Is – What Should Be table

15.10.1 Identifying the problem

The problem to be analyzed may arise spontaneously or may be selected by some kind of a team discussion technique, such as a fishbone diagram or affinity diagrams. It can be very general, e.g., “What impedes our work?”, or much more specific, e.g., “Poor flow of information between departments X and Y”. It may concern interpersonal relations as well as technological or marketing issues. Notwithstanding, the problem must meet two conditions:

1. It must be understandable to all members of the team, and everyone must understand it in the same way.
2. It must allow the team members to propose concrete, if perhaps only partial, solutions and be able to assign the task of implementing these solutions to specific individuals or teams.

To ensure that these conditions are met, all team members should describe how they understand the problem after it is selected.

15.10.2 Filling in the table

Once the problem has been identified, the left column is filled in first. Until this part of the analysis is concluded, the right side is left as it is. While establishing the “what is” list, we can discuss the submitted entries, remove them, or add new ones. Once a consensus (agreement by all) has been reached on the listed entries, the discussion on the list is concluded. After this, there is no further discussion or modification of the list.

Depending on the topic and the degree of harmony in the team, entries can be submitted openly (talking aloud to the leader of the meeting) or anonymously (on paper). There is no limit to the number of entry submissions per person or the total number of entries in the table. All entries, however, must meet one basic condition: they must be written in so-called *reporting language*, which means that:

1. They are supposed to describe facts, not opinions.
2. Whenever possible, terms such as “little”, “much”, “too little”, “too much”, etc. should be avoided in favor of numbers.

The most important ability required for this method is the ability to distinguish between facts and opinions. The examples shown in Tab. 15.10-2 illustrate the difference between them.

Opinions	Facts
The managers do not want to meet the employees	There has been no meeting for the last three months.
Employees are judged unfairly	Employee evaluation is impacted by downtime resulting from machinery failures even when these failures occur through no fault of the employee
Data are forwarded to department X with delays	At least 60% of the data is received by department X after a delay of 2 to 7 days
Deliveries to the confectionery on Saturdays and Sundays are too small	On Saturday and Sunday mornings, the deliveries include no more than 40% of the order
Inability to plan projects together	The implementation of joint projects lacks: <ul style="list-style-type: none"> • a plan and schedule of the project • a list of responsible individuals and their tasks • a coordinator

Tab. 15.10-2 Examples of facts and opinions

Now we can risk trying to define both concepts:

Opinions – judgements expressing someone’s feelings, and thus depending on the individual expressing them; of course, there may be as many different judgements as there are individuals expressing them, so it is difficult to treat them as a basis for action.

Facts – descriptions of events (individual or recurring), the occurrence of which can be documented.

From the standpoint of our method, there is another very important distinction between opinions and facts. If a list of opinions rather than facts is created to characterize the problem under analysis, then the proposed solution is likely to be very vague; the result may be that the solution is implemented incorrectly or not at all. Example in Tab. 15.10-3.

WHAT IMPEDES OUR WORK	
What is? (opinions)	What should be? (wishes)
The managers do not want to meet the employees	Get the managers to agree to meetings
Employees are judged unfairly	Exclude unfair evaluation criteria
Delays in forwarding data	Forward data within the prescribed time limit
Delivery shortages on Saturday and Sunday mornings	Increase deliveries
Inability to plan projects together	Organize training

Tab. 15.10-3 A *What is?* – *What should be?* analysis conducted incorrectly

Each of the opinions in the left column can be debated, none of them specifies the scale of the problem, and some may be too hasty, thus directing corrective action in the wrong direction. For example, it may be the case that the managers do not meet the employees not because they do not want to, but because something prevents them from doing so. Instead of persuading them to meet, it might be better to remove the obstacles that preclude these meetings. It may be the case that employees are actually judged unfairly, but superiors understand this problem differently. The suggested solution may lead to the exclusion of criteria that are unfair in the opinion of the superiors and not the employees, which may result in a dispute as to whether the wish in the right-hand column has been fulfilled.

And now the same table, but filled with facts:

WHAT IMPEDES OUR WORK	
What is? (facts)	What should be? (facts)
In the last three months, there has been no meeting with the team leader	The leader should organize meetings once a month. The meeting's place and date should be known 6 days in advance. The meetings should count towards working hours
Downtimes due to machinery failures are taken into account in employee evaluation even if they result through no fault of the employee	Machine operators should keep records of failures. Downtime should be taken into account when calculating the achieved production quotas
At least 60% of the data is received by department X after a delay of 2 to 7 days	All data should be received before the 15 th of each month. Teams sending the data belatedly will investigate the reasons for the delays using the fishbone method and submit the analysis result to the management board by May 15 th of this year
On Saturday and Sunday mornings, the deliveries cover no more than 40% of the daily delivery	On Saturdays the morning deliveries should cover no less than 50% of the daily delivery, and on Sundays – no less than 60%
The implementation of joint projects lacks: <ul style="list-style-type: none"> • a plan and schedule of the project 	All projects carried out by more than two persons should be organized in accordance with the

<ul style="list-style-type: none"> • a list of responsible individuals and their tasks • a coordinator 	manual for conducting projects (see Book of Procedures)
--	---

Tab. 15.10-4 *What is? – What should be?* analysis conducted correctly

Filling the left-hand column with facts makes it relatively easy to put forward solutions that are concrete, i.e.:

1. clearly state what is to be done,
2. indicate exactly who (which team or teams) is to do it,
3. enable future determination whether what was to be done was actually done.

Let us note that none of the solutions proposed in the previous table meets these criteria. How to check whether managers were prompted to meet with employees? Perhaps they were prompted, but with no effect. Perhaps they were actually convinced, but the frequency of meetings was left unspecified. How to rule out unfair evaluation criteria when it is unclear which criteria are perceived as unfair? By how much should the morning deliveries to the confectionery be increased?

15.11 The *plus-delta* table

Often a situation or event needs to be assessed in terms of what is/was successful and what is/was not. In such cases, a *plus-minus* table is often created. A typical such situation analyzed with this method in the A. Blikle company is the Christmas period, a time of increased inflow of urgent orders for the confectionery industry. Here is an example of a table corresponding to this situation (Tab. 15.11-1):

+	–
<ul style="list-style-type: none"> • A large number of versatile confectioners • Very good cooperation with distribution (internal customer) • Flexible suppliers of basic raw materials 	<ul style="list-style-type: none"> • No order forecasts for holidays; petit fours, pralines, savory cones, poppy-seed cakes • No mechanism for rapid response to suddenly increasing demand; pralines • New products introduced too late • Acceptance of orders from the customer before consulting production • No coordination of orders from different confectioneries • No coordinator to make difficult (risky) decisions pertaining to both departments; the coordinator should have current information (updated several times per day) on the state of inventory in the confectioneries and distribution as well as the right to finalize orders for production • Too few cheesecake trays • Inadequate number of personnel last night in relation to the last-minute order • Reduce the selection during the holiday season in order to increase the production of items sought by the customers

Tab. 15.11-1 Example of a *plus-minus* table

The creation of a *plus-minus* table by the team is a sign of their readiness to improve their work, but the table by itself has a serious methodological flaw as a method of improvement because it only indicates what is wrong without establishing a corrective plan. Compared to the *what is – what should be* method, it does not answer the question what should be done to improve the current situation. The right side of the *plus-minus* table is the left side of the *what is – what should be* table.

In this situation, the most intuitive solution would be to add a third column to the *plus-minus* table. It turns out, however, that in many practical situations the *minus* column can be simply omitted, leaving only the *plus* and *what should be*. This is how we obtain a *plus-delta* table.

Despite its apparent simplicity and affinity with the *plus-minus* table, the *plus-delta* table provides a completely different methodology for improvement. This is because using the *plus-minus* table makes us focus a lot of attention on what was wrong. Usually, we talk about things that went wrong much longer and more exhaustively than about what went right. In this way we often offend someone's ambition – if something went wrong, it means that someone did something wrong – and provoke them to defend the *status quo* instead of seeking solutions. In addition, we bring a negative element to the discussion's atmosphere, which further reduces the team's ability to suggest improvements.

In the case of a *plus-delta* table, we avoid the negative aspect of the analysis altogether. Everyone works in an atmosphere of readiness to improve, rather than criticism. The *plus* in the table means not only what was good, but also what cannot be changed for the time being. The *delta* does not stand for what was wrong, but for what needs to and can (!) be changed (Tab. 15.11-2).

+	Δ
In this column we note those choices and decisions that have proved successful and, therefore, should be consolidated and repeated. The motto for this column is: "Keep up the good work." Nevertheless, it can also include choices that are not optimal, but for which there is no better alternative under the current circumstances.	The Greek letter delta stands for change in mathematics. In this column we write what and should be changed (for the better!) and how. The motto for this column is, therefore: "Improve."

Tab. 15.11-2 The *plus-delta* table

Note that the "delta" column will also include things that went well, but could be improved to be even better. A *plus-minus* table does not allow for this important option at all. Below is an example of a *plus-delta* table analyzing the holiday period at the A. Blikle company (Tab. 15.11-3).

+	Δ
<ul style="list-style-type: none"> Comprehensive preparation of confectioners 	<ul style="list-style-type: none"> Fourteen days before the holidays, the sales department will present a forecast for the demand for tartlets, pralines, savory cones, and poppy-seed cakes

<ul style="list-style-type: none"> • Procedures for cooperation with the distribution department • Suppliers of basic raw materials 	<ul style="list-style-type: none"> • Fourteen days before the holidays, a special central coordinator will be appointed to manage the stock of products in confectioneries as well as orders coming from the confectionery to the production department. See the attachment for instructions on the coordinator's work • Any new products to be available for sales during the holidays should be introduced no later than 14 days before the holidays. • The production department receives a daily list of orders placed by customers for each day of the holiday week. This list is used to determine the manning of the night shift • Increase cheesecake production by 10% compared to the analyzed period • Fourteen days before the holidays, a decision should be reached concerning the items that will not be produced during the holidays in order to increase the production of products sought by the customers
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Tab. 15.11-3 Example of a *plus-delta* table

15.12 The Shewhart cycle of quality

One of the three principles of the *Doctrine of Quality* is the principle of continuous improvement. There is no point at which we can say to ourselves: “There is no longer anything that can be improved”.

To turn this principle into a pragmatic rule, Walter Shewhart, a close associate of Edwards Deming, introduced the concept of the *quality cycle*¹⁵², which was later named after him. The cycle consists in a general procedure of four steps as described below; their repeated performance implements the principle of continuous improvement.

1. **Plan.** Measure the phenomenon you wish to change. Plan the change.
2. **Do.** Do not introduce the plan as a universal standard from the start. Test it first in experimental conditions or on a small sample.
3. **Check.** Make sure that the results are in accordance with the expectations. Make corrections if necessary.
4. **Act.** Bring the experiment to life. Notwithstanding, keep measuring (evaluating) your new standard. After a while, you will start considering further improvements.

¹⁵² In English, this concept is also known as the *quality circle*, but the term “quality circle” has another meaning in this book, hence “cycle”. It should also be mentioned that the Shewhart cycle (or circle, or wheel) is also called the Deming cycle by some authors. The former defined it and the latter frequently applied it.

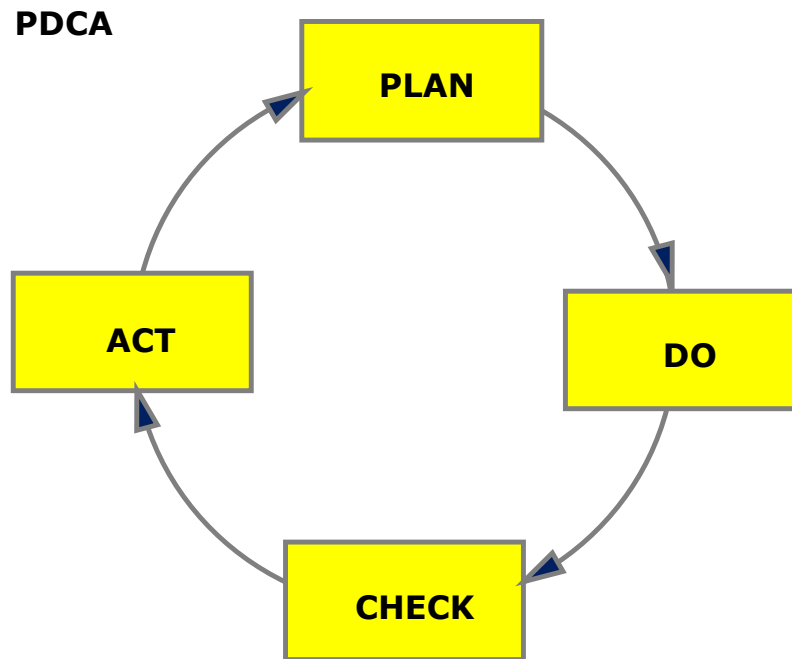


Fig. 15.12-1 Walter Shewhart's cycle of quality

The quality cycle shown in Fig. 15.12-1 (also known as PDCA) appears very simple, if not childishly so. However, it turns out that its implementation is a completely different matter. In order for the quality cycles to really start functioning in a company, many mental stereotypes must be overcome; this also requires great determination on the part of the employees. It is also good to keep records of each turn of the cycle.

15.13 The seven-step method

15.13.1 General principles

In many cases, the initial step of the quality cycle (*Plan*) may require some serious work concerning problem analysis. Furthermore, the members of quality incubators may not know how to carry out such an analysis, especially if they have not yet acquired enough experience in working on quality. They may be under the impression that the task facing them is relatively simple, but in reality it is quite complex. In such a situation, the *seven-step method*, which includes a list of questions to be answered in order to analyze the problem and find an appropriate solution, can prove particularly helpful. Here are the questions that can be used for this purpose:

1. PURPOSE AND SCOPE OF THE TASK.
 - 1.1. What problem are we trying to solve?
 - 1.2. What effect will the solution have on the customer?
 - 1.3. What are the other reasons for solving this problem?
 - 1.4. How will you rate the success of the project?
 - 1.5. What is the plan for the course of the project?
2. CURRENT STATE.

- 2.1. What is the history of the problem?
- 2.2. Can the problem be described with a network of activities?
- 2.3. Can the problem be described with a table of numbers?
- 2.4. What is happening now, while the problem remains unsolved?
- 2.5. Where do symptoms appear and where do they not?
- 2.6. When do symptoms appear and when do they not?
- 2.7. Who may be linked to this problem and who may not?
3. CAUSES.
 - 3.1. What are the potential causes of the observed symptoms? (Fishbone analysis is recommended here).
 - 3.2. Which of them can be explained by numerical data?
 - 3.3. Which of these causes require further investigation and what are their root causes?
 - 3.4. Who should be in charge of solving the problem?
4. SOLUTIONS.
 - 4.1. What are the possible ways of removing the root causes?
 - 4.2. What criteria can we use to select the best solution?
 - 4.3. What are the pros and cons of each solution? How does each of them relate to the causes of the problem?
 - 4.4. Which solutions are the best? Which one do we select for the “little experiment”? What data will we collect during the experiment in order to evaluate it?
 - 4.5. Which of the experimental solutions proved to be the best? Which one will we choose to implement?
 - 4.6. How do we plan to organize the implementation of the selected solutions?
5. RESULTS.
 - 5.1. To what extent do the results meet our expectations?
 - 5.2. To what extent and how was the implementation plan carried out? What conclusions can be drawn from this with regard to the improvement plan?
6. STANDARDIZATION.
 - 6.1. What is the object of standardization? What product, what method, what process?
 - 6.2. How will we train all employees to apply this standard?
 - 6.3. How will we ensure that the standard becomes well-established after its introduction? How will we make sure that we do not return to old habits?
 - 6.4. How will we monitor/check compliance with the new standard?
 - 6.5. What measures will we apply to continue the improvement process?
7. PLANS FOR THE FUTURE.
 - 7.1. Which of our problems have not been solved by the project?
 - 7.2. How do you propose to solve these problems?

- 7.3. What have you learned from this project? How can this knowledge be passed on to others?
- 7.4. How will the documentation of the project results be created? What will happen to it in the future?
- 7.5. What will the end of the project look like? How are you planning to celebrate this occasion?

Below is a real-life example of the seven-step method's application in the A. Blikle company, where it was used to analyze the problem of drying poppy-seed cakes. The problem arose in the mid-1990s, when many new confectioners were hired, and the traditional ceramic chamber ovens were replaced with modern, forced-draft rotary ovens made of steel. The work on the solution described below took about three months.

15.13.2 Example of applying the seven-step approach

1. PURPOSE AND SCOPE OF THE TASK.

1.1. What problem are we trying to solve?

For some time now, some of our customers have been pointing out that the poppy seeds in the cake are too dry, making the cake not only lose its flavor, but also crumble when cut. Many recall that the cakes used to be more moist and easier to cut into small pieces. Since the beginning of its production in the 1960s, the poppy-seed cake has been one of the flagship products of our company. Very often our customers would take the cakes abroad, especially to countries where poppy products are less known, e.g., to France.

1.2. What effect will the solution have on the customer?

- The cake will look better after portioning.
- The customer will be able to cut the cake into smaller portions.
- The cake will be more durable; the customer will be able to store it longer.
- The cake's flavor will improve.
- The customer will feel appreciated (at least the one who made the complaint).
- The cake will be heavier and, therefore, more expensive because we sell it by weight. This effect can be seen as a negative by the customer, but we put it on the list because the question concerns all effects, not just the positive ones.

1.3. What are the other reasons for solving this problem?

- The image of the company will improve.
- The number of complaints will decrease.
- The sales department will be able to store the cake for longer.
- The cake will be easier to pack.
- Losses caused by returns will decrease.
- The seller's stress caused by customer complaints will decrease.

- The manufacturer's stress caused by complaints from customers and sellers will decrease.
- Our cake production technology will improve.
- The recipe for the cake will be improved.
- We will learn something about quality management.
- We will derive satisfaction from solving the problem.

1.4. How will you rate the success of the project?

- By the level of sales.
- By the level of complaints.
- By the level of returns (including internal returns).
- By customer feedback (by the way the customers assess the change).
- By organoleptic (tactile and gustatory) evaluation.
- By assessing the number of achieved objectives concerning our problem.
- By assessing the stability of the new standard (whether we can maintain it).

1.5. What is the plan for the course of the project?

In order to analyze the problem and propose solutions, two teams of employees will be created, each representing one shift (the work in the company is done in two shifts). The teams will conduct the analysis and propose solutions independently of each other. They will then exchange suggestions and work out the final solution. Both teams will work according to the same plan:

- They will start with technological issues.
- Then move on to distribution and sales.
- Finally, they will gather feedback from customers to check their experience with handling the cake after purchase (cutting, storage).

2. CURRENT STATE.

2.1. What is the history of the problem?

For about a year now, we have been receiving customer complaints concerning our poppy-seed cakes. Initially, we thought this was related to incidental production errors. However, preliminary analysis revealed that the phenomenon was constant and that it appeared after the production was moved to the new workshop.

2.2. Can the problem be described with a network of activities?

No.

2.3. Can the problem be described with a table of numbers?

It would be possible to measure the frequency of the defect's occurrence, but this would unnecessarily delay starting the work on quality improvement, and it is already clear that the frequency is sufficiently high to justify corrective action.

2.4. What is happening now, while the problem remains unsolved?

- Customer complaints.
- Sales are falling.
- There are many returns from the distribution section and the confectionery, which results in losses.
- The image of the company suffers.
- The stress of the sellers and the manufacturers is increasing.

2.5. Where do the symptoms appear?

- Production department.
- Distribution section.
- Confectioneries.
- Customers of the confectioneries.
- Dessert workshops in cafés (café customers do not voice complaints because they receive liqueur-soaked cakes).

2.6. When do the symptoms appear and when do they not?

The phenomenon seems to be constant. No particular circumstances were identified that would determine its occurrence or lack thereof.

2.7. Who could be linked to this problem?

- Production department (production errors).
- Distribution section (storage and transport errors).
- Confectioneries (errors in storage and slicing).
- Dessert workshops in cafés (as above).
- Customers (as above).

3. CAUSES.

3.1. What are the potential causes of the observed symptoms?

A fishbone analysis (section 15.7) was carried out in an attempt to list all the causes that could be contributing to the poppy-seed cake defects.

- Poor quality of raw materials.
- Wrong proportion of raw materials.
- Too many raisins on top of the cake (making it difficult to slice).
- The topping is too thick (as above).
- Badly brewed poppy seeds.
- Badly ground poppy seeds.

- The new rotary ovens dry the cake more than the old chamber ovens used to.
- Incorrect cooking process.
- Stored too long after being made.
- Poor storage conditions in distribution.
- Poor storage conditions in confectioneries.
- Errors in slicing the cake (by shops, cafés, customers).
- Bad transport by customers (e.g., carried vertically in a briefcase).
- Poor storage conditions at the customer's location.
- The customers today are more demanding than ever before.

3.2. Which of these causes can be explained by numerical data?

Only some of them, mostly by means of laboratory methods that we do not have at our disposal.

3.3. Which of the abovementioned causes require further investigation and what are their root causes?

(At this stage the causes which did not exist according to the team were rejected. The number of indentations determines the cause level).

- Wrong proportion of raw materials used:
 - bad recipe;
 - the recipe was changed by mistake;
 - new furnaces require different proportions of ingredients;
 - good recipe, but not followed;
 - some confectioners are unfamiliar with the recipe;
 - the recipe is not available at the workplace; it is kept in the technologist's archive.
- Badly brewed poppy seeds:
 - no description of the technological process;
 - lack of knowledge among confectioners' assistants;
 - bad organization of work.
- Badly ground poppy seeds:
 - misaligned rollers;
 - wrong number of poppy grinding runs;
 - poor technical condition of the rollers.
- Incorrect cooking process:
 - new ovens require a change in the baking time.

- Poor storage conditions at the confectionery:
 - lack of knowledge about appropriate storage conditions;
 - carelessness of workers.
- Errors in slicing the cake (by confectioneries, cafés, customers):
 - blunt knives;
 - slicing by applying pressure on the knife from above instead of making a “sawing” motion.
- Bad transport by customers:
 - sometimes a customer will place the box with our products vertically into their briefcase.

3.4. Who should be in charge of solving the problem?

The departments of the chief technologist, production, sales, and marketing – in accordance with their areas of competence. Heads of the departments will appoint individuals responsible for the execution of the task.

4. SOLUTIONS.

4.1. What are the possible ways to remove the root causes?

- Raw materials: experiments should be carried out with new proportions of raw materials.
- Production process: experiments should be carried out with regard to the poppy-seed brewing process, the number of grinding runs on the rollers, and the baking time.
- Knowledge of the production process: an exact description of the production process should be created and made available at every production table. It should also be made clear to the confectioners that even small deviations from the standard result in consequences that are negative from the customer’s perspective.
- An alarm clock should be installed at the poppy-seed brewing station to summon the confectioner, who should keep watch over the final moments of the brewing process. The brewing process takes so long that the employee who operates it leaves to perform other duties during this time.
- Slicing the cake by the sellers: new knives should be purchased, and the sellers should be trained by the confectioners.
- Storing the cake at confectioneries: appropriate instructions must be written. This task will be entrusted to the chief technologist.
- Customer errors: short written instructions must be prepared and provided with the cake at the time of sale. Sellers must also be trained to provide appropriate information to the customer. Both tasks will be entrusted to the marketing department.
- As we begin experimenting with the technology and organization of poppy-seed cake production, we establish a *logbook* for the *poppy-seed cake project* to record

all our comments, proposals, and conclusions in one place. The logbook should always be handy in the workshop. Everything that comes to mind regarding the cake as well as experiment results, introduced changes, etc. should be written down. Do not be afraid to write something wrong. As a Polish saying goes, paper is patient and will not mind our mistakes; on the other hand, every comment and note can prove helpful in solving the problem and can be used later in case of other difficulties.

4.2. What criteria can we use to select the best solution?

- We can test slicing the cake and check the taste and texture after each experiment.
- Customer feedback on the quality of the cake.

4.3. What are the pros and cons of each solution? How does each of them relate to the causes of the problem?

There are no apparent contraindications to any of the proposed solutions.

4.4. Which solutions are the best? Which one do we choose for the “little experiment”? What data will we collect during the experiment in order to evaluate it?

- Reduce the amount of oil in the poppy.
- Increase the number of eggs in the poppy.
- Mix the extras with the poppy more thoroughly.
- Extend the maturation time of the poppy-seed filling.
- Shorten the baking time.

4.5. Which of the experimental solutions proved to be the best? Which one will we choose to implement?

All of them.

4.6. How do we plan to organize the implementation of the selected solutions?

The ways of removing the immediate causes do not require much deliberation as they are fairly obvious after these causes are determined. For example, if the baking time is too long, it should be shortened. Eliminating the root causes, however, needs more consideration as these causes are not incidental, but rather systemic, i.e., associated with the company's system of work organization. Only by eliminating the systemic causes can we prevent the recurrence of the immediate causes in the future. From the standpoint of global quality, analyzing the root causes is as important as analyzing the immediate causes, if not more so, as it provides indications concerning the most important weaknesses of the company. After this subject was discussed, the following ways of eliminating the systemic causes were identified:

1. Care should be taken to ensure that procedures and recipes are accessible to all interested parties at their workstations. Until now, they have been kept in the chief technologist department.

2. We have deemed it appropriate to improve the availability of recipes and procedures for poppy-seed cake, so it seems only natural to do the same for all our products.

A system (principles) should be put in place to continuously analyze all procedures and recipes and modify them if necessary. In companies where quality management is conducted on a large scale and has been applied for a long time (e.g., in Toyota), the system of continuous analysis is implemented by innovation suggestions submitted by employees. At Toyota, employees submit several thousand such suggestions each year. All (!) proposals are analyzed by special teams, and most of them are implemented. This not only ensures continuous improvement of the end product's quality, but also motivates employees to continuously analyze all aspects of quality within the company. It should be stressed, however, that what really motivates employees is not just the opportunity to submit suggestions, but the fact that these suggestions are taken seriously (i.e., analyzed and implemented) by the company.

If we wish the employees to start submitting suggestions for innovation, we must guarantee that disclosing mistakes (which often happens when corrections are being suggested) will not result in repercussions for the employees and convince them that this guarantee will be respected. In companies where quality management does not function, employees most often refrain from proposing innovations because they are afraid to reveal that someone has been doing something wrong.

Submitting the first suggestions for innovation usually does not require any special knowledge about quality. However, the pool of simple problems will eventually be depleted. Solving more challenging problems will require continuous training on quality improvement methods for all employees.

5. RESULTS.

5.1. To what extent do the results meet our expectations?

The quality of the poppy-seed cake has returned to its previous level. Now we must make sure that it becomes the new standard.

5.2. To what extent and how was the implementation plan carried out? What conclusions can be drawn from this with regard to the plan of improving our operation?

The plan to address the immediate causes has been fully implemented. Analysis of the root causes has revealed many elements in our work organization that need to be corrected. This second stage will take much longer, but will serve to improve our work in its entirety and not only with regard to the production of poppy-seed cake.

6. STANDARDIZATION.

6.1. What is the object of standardization? What product, what method, what process?

Standardization will encompass:

- the raw material composition of the cake,
- the cake production process.

6.2. How will we train all employees to apply this standard?

The team producing the cake will receive foil-wrapped documents describing both abovementioned standards. In addition, the chief technologist department will carry out training.

6.3. How will we ensure that the standard becomes well-established after its introduction? How will we make sure that we do not return to old habits?

The standardization process initiated while solving the problem of the poppy-seed cake should be extended to all products. This is the only way to ensure that compliance with technological standards will become universal in the organization of our work. This process will require a great deal of effort on drawing up the standards. This task will be entrusted to the chief technologist department and will probably take several years. When establishing the standards, technologists should cooperate on an ongoing basis with confectioners, who will be implementing these standards.

6.4. How will we monitor/test compliance with the new standard?

The heads of production teams will be directly responsible for adherence to the standards. They should ensure familiarity and compliance with the standards in their teams. It is also important to remember that every new employee joining the team must be trained.

6.5. What measures will we apply to continue the improvement process?

Establishment of quality incubators in workshops should be promoted. To this end, the management should provide rooms for meetings and furnish them with basic equipment (whiteboard, pens, large sheets of paper). The meetings of quality incubators should be included in the work schedules.

7. PLANS FOR THE FUTURE.

7.1. Which of our problems have not been solved by the project?

As described above, many general tasks concerning the improvement of production processes have been identified during the project. These tasks will be carried out.

7.2. How do you propose to solve these problems?

Quality incubators are the basic organizational tool for improving work. In order for them to function, a group of employees must emerge to organize their work. For this purpose, “quality instructors” will be recruited from among confectioners; they will participate in a training course, conducted by Andrzej Blikle, which will include about 20 hours of lectures and practical classes. Graduates of the course will receive special diplomas. Obtaining the position of a quality instructor will not be automatically linked with an increase in salary, but will be taken into account when promotions are being considered.

7.3. What did you learn from this project? How can this knowledge be passed on to others?

First of all, we have learned several methods for improving the organization of production work. We have also gained understanding of the improvement process and discovered many further ways to introduce improvements. This knowledge will be passed on

to other employees during training for quality instructors, which will be provided not only to confectioners, but also to sellers and administration workers.

7.4. How will the documentation of the project results be created? What will happen to it in the future?

This description and the standards developed during the project will form the immediate documentation of the project. The project's description will serve as instructional material for quality incubators, and the standards will be included in the book of procedures and will be available at confectioners' workstations.

7.5. What will the end of the project look like? How are you planning to celebrate this occasion?

A meeting over a glass of wine will be organized in our café for the participants of the project.

15.14 Let's help each other – community within the team

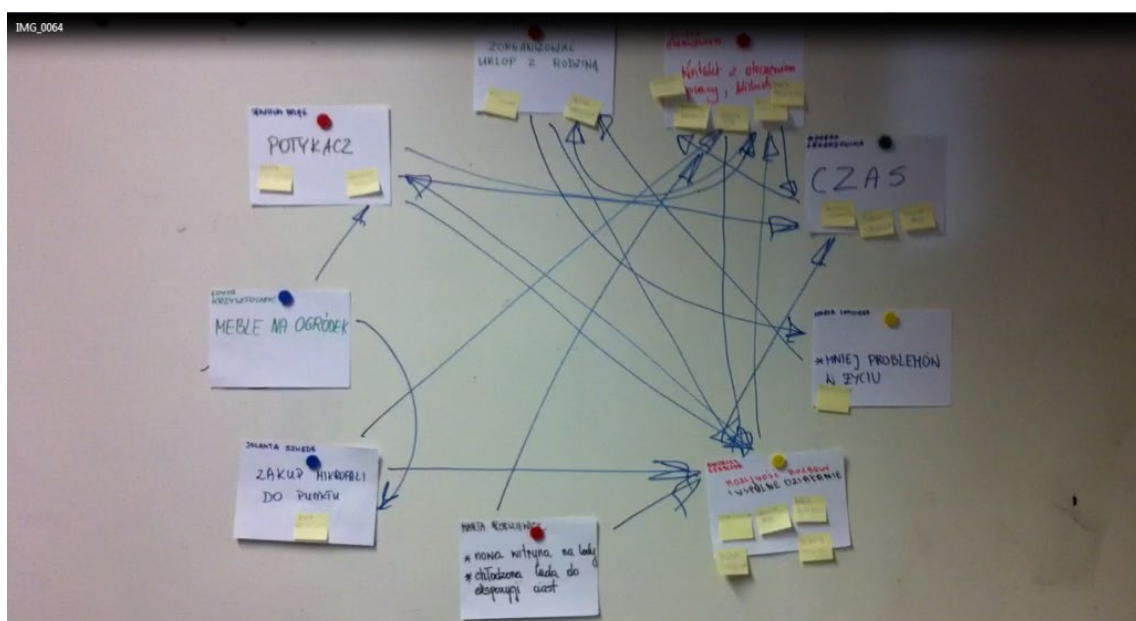


Fig. 15.14-1 Let's help each other

With this simple workshop, you can start the first meeting of a quality incubator. First, each participant writes their name and surname on a sheet of A4 paper, adding below one of their needs. This need may be work-related or quite private. The sheets are then arranged on the board or the table in such a way that they form a circle. Subsequently, each participant writes their name on a few small sticky cards and approaches the “circle of needs” placing these name tags on the sheet with the need that they can help with. Finally, arrows are drawn to indicate who can offer aid to whom. In this way, a *self-help network* is created, an example of which can be seen in Fig. 15.14-1. Nine individuals generated as many as sixteen help initiatives. This is a very simple workshop that builds a feeling that we are here to assist each other within a matter of minutes. Not to mention all the issues that are solved in the process!

15.15 Let's help others – a community of teams

After the identification of barriers is carried out, and the first industry-specific quality incubators emerge, when the paradigm of searching for the cause starts to replace the paradigm of searching for the culprit, when the employees believe that there is a chance for positive changes in the company, then it is a good idea to organize a joint workshop for two quality incubators (or their representatives) from two different professional circles. During this workshop, the members of one industry ask their counterparts the question: “How can we help you in your work?” I once conducted such a workshop in my company, and it was attended by representatives of two professional groups: confectioners and technicians from the maintenance team. The first group to ask the question was the technicians. The expectations then voiced by the confectioners and the answers they received can be seen in Tab. 15.15-1.

As can be seen, many problems could be removed right away – all that was required was to find an appropriate forum for a dialogue. In this case, however, the expectations of confectioners could be easily predicted – “we want our equipment to be always operational, and it is up to you, the technicians, to make sure that this is the case”. But how could the confectioners help the technicians? When that question was posed, I myself wondered whether the technicians would be able to come up with any answers. And yet... (Tab. 15.15-2).

Requests from confectioners	Responses from technicians/management
It is very important for us that any reported malfunctions are repaired as quickly as possible	We hear you, but we often have to drive out to remove malfunctions in sales outlets. Moreover, we only have one toolbox. The production manager promised to include the purchase of a second toolbox in the next budget
Please keep track of the malfunction report logs and acknowledge when you receive such a report, specifying when the malfunction will be repaired. This information is important for us to plan our work	Acknowledged
The glazing machine breaks down frequently, often at night. There is no time to fix it because it is needed every day	In the near future, the glazing machine will be made available to the technicians immediately after the end of its operation, i.e., around 10.00 a.m. The technicians will have until 6.00 a.m. the next day to check which parts need to be replaced
Would it be possible to train confectioners and sellers to carry out simple repairs? This would give the technicians more time to deal with more serious malfunctions. Also: please adhere to the repair schedule	The technicians will consider this among themselves and will provide an answer by August 15, 2012
Taking into account repeated malfunctions which continue to happen for the same reason, the confectioners should be trained in the use of the equipment in question. This pertains to, e.g., the doughnut fillers	The production manager and the technicians will jointly prepare instructions that will be placed next to selected devices.
Put more heart into repairing small appliances.	We will do our best
Technicians do not exchange information about the orders. The one receiving to the order goes	We will regularly check the order log, especially before going out. Perhaps we could also think of

out to respond to it without informing their colleagues	some additional procedure for particularly urgent orders?
Regular maintenance checks should prevent accidents	Acknowledged
Before each weekend, please provide us with information who will be on duty, so that we don't have to call everyone in turn	This information will be made available in the schedule

Tab. 15.15-1 Requests from confectioners and responses from technicians and management

Requests from technicians	Responses from confectioners/management
When you report a malfunction to us, try to tell us everything you know about it. Information such as "there's no power (the motor is silent)" or "it's jammed (the motor is humming but not running)" can make our work much easier and can significantly reduce the time it takes to remove the malfunction.	Adopted for use. At the beginning, technicians should explain to us, using concrete examples, what information is important to them. We will also ask for a list of typical checks that we should perform before reporting a malfunction (e.g., checking whether the equipment is plugged into the outlet).
Repair often takes a long time due because there are not enough spare parts in the warehouse. The management does not respond to our requests, but maybe you would be able to obtain their approval to invest in parts.	Please prepare a list of the most necessary parts with their prices and level of importance. Probably not everything can be bought, but we will include your needs in the next budget.
We would like to have access to the machines during our working hours because otherwise we are not able to carry out inspections.	We will draw up an inspection schedule taking into account the availability of machines. For example, the glazing machine can be available from 10.00 a.m. until 6.00 a.m. the following day.
Sometimes the machines do not meet safety requirements, e.g., the sensors are not working. Such failures must be reported urgently. Do not attempt to repair the machine yourself or block the sensors in order to continue using the machine despite the malfunction.	Sometimes a machine cannot be started without the sensor being blocked, and we have to use it. In such cases, we need you to intervene quickly

Tab. 15.15-2 Requests from technicians and answers from confectioners and managers

Contrary to expectations, it turned out that the confectioners were also able to assist the technicians in their work and that this assistance was quite significant. It is also worth noting that, apart from reaching purely operational conclusions, the workshop substantially increased the level of agreement between the two groups. Mutual accusations ceased and were replaced by the belief that one can always come to agreement in the interests of oneself and the company.

16 How to make it all happen

16.1 Where to start

A certain entrepreneur, after hearing a lecture on the *Doctrine of Quality*, said: “If I were to introduce all these rules starting tomorrow, I would probably have to shut the company down for a month.” Not only was he wrong, but doubly so.

Firstly, no one so far has implemented TQM in a month. Bringing the implementation process to a stage from which it will continue organically takes several years of workshops, training, working on people and with people. During these years achievements will be laced with doubt. The aim for the first stage is to convince a “critical mass” of about 20 – 30% of the crew. After this threshold, further progress will be much faster.

Secondly, there is no way for TQM to be implemented in a company that is not currently operational. It would be like teaching swimming on dry land or downhill skiing on a flat surface. TQM can only be implemented in a working company because it consists in building the principles of continuous improvement, cooperation, and rationality (section 13.4) into running production, sales, and organizational processes.

A lot of good can be said about the *Doctrine of Quality*, but certainly not that it is easy to learn and apply. That is why its application is still not as universal as could be expected. Nonetheless, the ease of mastering a method should not be confused with the ease of performing tasks with its use. Let us take computer-aided design (CAD) systems as an example. It takes months, if not years, to familiarize oneself with such a system. Mastering it, however, enables us to carry out projects that would have taken months of work with a traditional compass, ruler, and handheld calculator within just a matter of days. Another example is the use of a computer keyboard. Although it takes dozens of hours to master the technique of writing with all ten fingers, the time investment soon pays off.

So where should we start when we decide to implement the *Doctrine of Quality* in our company? The answer to this question is: “From convincing the company’s management that the method should be implemented”. The implementation will certainly not be successful if it begins at intermediate levels, leaving the management out of the loop. The implementation of this doctrine is a revolution that cannot succeed if the management board is not convinced as to the direction of the company’s transformation.

But how to sway the management – which always has a lot of super-urgent tasks to perform – to undertake one more project that, moreover, requires far-reaching changes to their way of thinking? Let us take a look at Fig. 16.1-1, where I presented two methods of digging a wide and deep hole in the ground: one is to widen a deep hole, and the other is to deepen a wide hole. When implementing TQM in a large company, I strongly recommend the former, i.e., to initially introduce TQM in a small pilot team (narrow hole), but to carry it all the way through to the first clear success (bottom). The goal is to create a model for others to follow and to show them the positive effects of its application. Then we gain further allies. This is what the employees of the Polmo Łomianki company did (see the box below).

However, for small companies (10 – 30 people), I would rather recommend the second strategy. Starting a pilot program in this case would mean that half of the crew is included in the program while the other half feels left out.

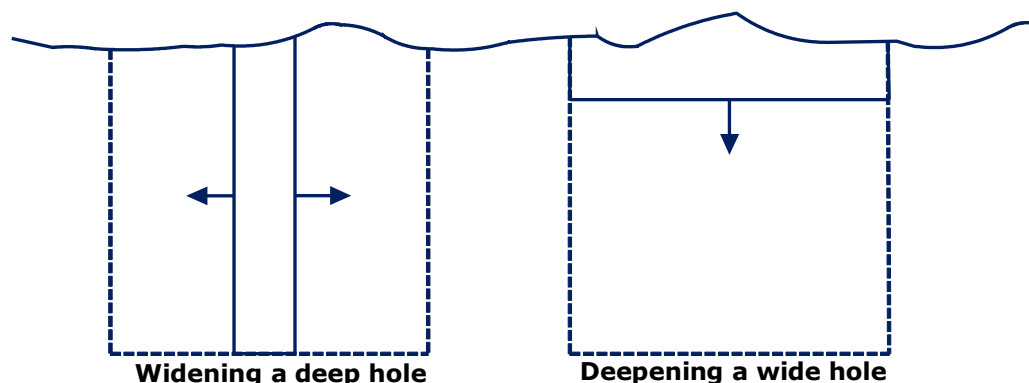


Fig. 16.1-1 Two strategies for digging a deep and wide hole in the ground

Polmo Łomianki

Near Warsaw, in the district of Łomianki, there is the seat of a relatively large company, Polmo Łomianki S.A. – several large halls occupying the area of several hectares. In the era of the People's Republic of Poland (1945-1989), it supplied small electromechanical equipment to the Polish automotive industry. At the beginning of the 1990s, American experts who came to Poland to help transform this industry concluded that the company should be headed for gradual liquidation. The plant was not very modern, the machines and buildings were in lamentable condition, and the crew was poorly educated. About 500 employees were going to lose their jobs. Luckily for the company, a facility known as Polskie Centrum Produktowności (Polish Center for Productivity) was funded by the Japanese government and established in Warsaw to promote comprehensive quality and productivity management. The head of the Warsaw bureau was an acquaintance of Polmo's CEO, so he called him, offering to send him a Japanese trainer, for whom he had little other use at the time. "Take him for a while," he said. "I will cover the costs." The next day, a Japanese gentleman turned up at the plant with a translator and, after a short visit to the management, disappeared somewhere on the premises.

There was no word from him for several weeks, and the management started to forget about him a little bit. It, therefore, came as somewhat of a surprise when he reappeared at the head of a group of female workers from the department of packaging and dispatching finished products. It is worth noting that this was the most primitive department of the whole plant, where the education of the employees did not exceed primary school and all the work was done manually. "We would like to invite you to our department to show you something," said the ladies to the CEO.

The first thing that the CEO noticed after arriving on the spot was that the packing room was exceptionally clean and tidy. Even the windows were cleaned, and there were new curtains and flowers. "Who allowed you to spend money on curtains and flowers?" asked the president. "You know full well that the budget is stretched to the limit." "We made the curtains ourselves and brought our own flowers from home." Answered the ladies. This was a real shock. No one has ever heard of anything like that in the plant before. It also turned out that the old non-ergonomic tables, chairs, and shelves were "tweaked" (some were raised, others lowered, others furnished with additional levels) so that they became much more comfortable, which reduced the inconvenience of work and, consequently, increased its efficiency. Also, the number of package types used so far was reduced from several dozen to less than twenty, which reduced costs and freed more space in the warehouse.

"I wasn't aware that you were such an expert in the organization of packing work," said the CEO to his Japanese guest. "But, Sir," the consultant answered. "I have no idea about this kind of work. It was your employees that came up with all of this. All I did was persuade them to consider what hinders their work and to use the knowledge they already had."

Straight from the packing room, the CEO took the Japanese guest to the office, put him in a chair and said: "I would like the whole plant to look like that packing room. What would you advise me to do?" "I would employ our 5S method [see section 15.3]. Its first step is to clear the workplace of everything that is not necessary."

So the big cleanup started. First, dozens of truckloads of scrap metal and debris lying in the yard were removed, which made room for a volleyball court for the crew. It became the first spark of hope for the employees – the first success. "Maybe we can save the plant after all," they said. Then came

the work on the roads, yards, halls, and machines; a plant development program was put in motion, and a search for new products and markets began. Basic good practices were identified.

When I visited the plant in the second half of the 1990s, it was already a prosperous employee-managed company. Nobody thought about liquidating it anymore. The plant specialized in metal powder metallurgy – a modern technology of manufacturing fine metal elements with shapes that are difficult to obtain by either casting or milling. It had also become a major supplier of coffee jar caps for Nestlé. I admired the production halls: the old cement floors, stained densely with oil were replaced by a chemically hardened surface; there was a broom and a garbage bin next to each machine, and shelves filled with greenery were placed among them. The old windows with small greasy panes were replaced with large modern ones, and the changing rooms and employee restrooms resembled the facilities of an elegant sports club. Finally, the CEO's office now featured diplomas confirming the achievement of various quality standards. In 1999, Polmo Łomianki S.A. was awarded the Polish Quality Award, and its CEO received the individual Polish Quality Award in the Practice category in the year 2000.

What is the moral of this story? That if employees want to convince the directors of the value of quality management, they should take the initiative themselves, gather enthusiasts, and achieve some simple but visible success. There is nothing like success to make others warm up to a new method. And it should be a quick success. During the initial steps it is best to avoid over-ambitious tasks. Their time will come when the pool of tasks that can be done quickly and cheaply is depleted.

Once the management is convinced to come on board (something that is easier said than done!) and comes to understand that managing quality (including the quality of everyone's work) should be taken care of by each employee, and not just by the director for quality, then the construction of the implementation program should begin.

16.2 Seven processes of transformation

TQM is a method of making continuous improvement with the aim of gaining competitive advantage on the market. According to TQM's fundamental *principle of continuous improvement* (section 13.6), there is no other way to improve the final product (the one that reaches the customer) than by improving everything that goes into making the product (materials, tools, processes, and the social working environment). In addition, the improvement process should involve all employees of the company. While traditional approaches to quality improvement focus on the product, TQM's approach is to focus on the company. A TQM company should, therefore, be characterized by the following elements:

1. Employees feel that the company provides them with a friendly work environment, in which the principles of partnership, collaboration, trust, and openness are put into practice. Their motivation for work comes from needs related to dignity.
2. Employees are able to communicate in an assertive and open manner both in everyday operational situations and in situations that are emotionally difficult. They are able and willing to build positive interpersonal relations, which translates into a high level of social capital.
3. All employees are involved in the process of continuous improvement; their involvement in this process is driven primarily by an internal sense of responsibility towards the customer and the company – by the feeling that working poorly would simply not do.
4. All employees have the appropriate knowledge and tools to continuously improve quality.

5. Not only activities and processes related to the company's core business, but also TQM's improvement processes are being perfected, which is achieved through continuous training in this area (improving the routes to improvement).

Reaching the state described by the statements above is achieved by the successive launching of the following seven processes of transformation:

- I. Learning assertive communication.
- II. Building individual commitment.
- III. Building a culture of teamwork.
- IV. Building the strategic foundation.
- V. Acquiring knowledge and skills.
- VI. Mapping the company's process structure.
- VII. Implementing the principle of continuous improvement.

These processes should be launched in the order presented above, but waiting for one to end is not necessary to launch another. In practice, none of these processes ever stop, so after the initial period their implementation runs in parallel. Even building the strategic foundation, which might seem like a one-off activity, is an ongoing process because this foundation changes and develops along with the development of the company.

16.2.1 Learning assertive communication

In 2010 I was giving a lecture about the leadership dilemma (section 6) for listeners who were taking part in an educational project addressed to family enterprises¹⁵³. It was the first day of the project; the participants had come from all over Poland and did not know each other yet, so I did not expect much interaction with the audience. But the listeners reacted very lively, commented on my points, started conversations with me and with each other, and shared their experiences in the area of motivating employees. Where did this openness come from? As it turned out, my lecture took place in the afternoon, and the morning session was devoted entirely to communication workshops. Under the supervision of experienced business psychologists, the participants talked about their companies, successes, and challenges, breaking the ice of shyness and acquiring the first skills of assertive communication. When my lecture began four hours later, they were ready for creative dialogue.

The work on communication skills continued throughout the project, bringing tangible results for both the companies and the families of the participants. Here is what one of them wrote about this ([41] p. 96):

The project has had a very positive impact on my relationship with my brother-in-law. We participated in the project together, and it broadened our horizons. We began to talk to each other, sharing our insights, exchanging the ways in which we perceived problems, and working jointly to find common solutions. We had never had such conversations before. (...) This has

¹⁵³ The program called *Firmy Rodzinne* (Family Enterprise) was implemented in the years 2009-2011 by the association Family Enterprise Initiative in partnership with the Polish Agency for Enterprise Development. The main objective of the program was to create a methodology of educational support for family businesses. This methodology was developed together with the participants of the program, i.e., owners and employees of family businesses from the SME sector. The participants attended 12 full-day training sessions, during which they not only gained knowledge, but also reported the extent to which the acquired knowledge was applied in practice in their companies to the program's organizers. As a result of the program, about 300 people were trained, and two books were published: *Family in business or business in family - methodology for the support of family businesses* and *My story, my company - portraits of Polish family entrepreneurs*. Both are available in digital format at www.firmyrodzinne.pl.

allowed us to share the work; before I used to do a lot on my own, and now my brother-in-law does some things from beginning to end. I have confidence in him, I see that he is responsible and committed, but this required us to start talking to each other.

The ability to engage in dialogue has also translated into building mutual trust, resulting in better work organization:

I now have a broader perspective of the whole business, so I have time for more important things like strategy or development, while my brother-in-law is in charge of current affairs. (...) The relations have improved, the division of labor is better, and we have a broader view of the company; individuals responsible for particular departments have been appointed, so people do not have to bring every problem to the boss, and I do not have to extinguish fires everywhere. What started these changes was a conversation, the fact that we started to talk about it at all. We sometimes see things differently, but now we are able to discuss it. There were no discussions before. (...)

Changing the relationship with the brother-in-law (building mutual trust with a single person) resulted in a change of attitude towards other employees as well:

My approach to employees has also changed. I have always had trouble with boundaries. What I mean by that is that I would set my boundaries, but I failed to see that I would sometimes cross someone else's. I would make terrible mistakes, ruining the atmosphere at work. I was volatile, unable to define my expectations; I once even made a girl cry. As a result, people would stutter and shut themselves off, and I would feel misunderstood and underestimated. My partner would tell me that I shouldn't be reacting this way, but I just didn't see it. It was only during the workshop that I saw my mistakes clearly. This was the most important impulse that allowed us to improve the system of communication in the company.

Unfortunately, in most organizations people are not quite able to talk to each other. While they still manage to do so in neutral situations, in situations that are emotionally charged, they either avoid talking or explode in anger and hurt each other, sometimes ruining the rapport for a long time (cf. sections 3 and 4). That is why implementing TQM should start with communication.

16.2.2 Building commitment

Having achieved awareness of the importance of constructive communication and willingness to continuously work on its improvement, we can launch the second process (without stopping the first one!). It starts with examining the company to identify its strengths and talents as well as things that need to be changed. To this end, we can use the *springboards and barriers* workshop described in section 15.2. If possible, it should be preceded by individual talks with selected employees, which, however, should be conducted by coaches or trainers with experience in business psychology. Conducting such talks by amateurs can do more harm than good, e.g., inciting attitudes of entitlement or provoking anxiety when the coaching sessions come across as interrogations.

Building commitment is crucial for the success of the whole endeavor. This stage is the least technical and, for this very reason, the most difficult. Our goal is to convince the company's personnel – with the management at the forefront – that this profound and extensive organizational revolution that we are embarking on is a good idea; that while this revolution may bring many challenges, it will also bring the company and its employees increased prosperity as well as improved quality of emotional life. And although we will have to face various possible sources of resistance (which I describe in section 16.3.1), the final result will more than make up for all the hardships and costs.

Lighting in the sewing room

In a certain industrial sewing shop operating in the USA in the first half of the 20th century, a decision was made to increase productivity by improving the working conditions. The first thing that was to be changed was the level of lighting as the light seemed too dim. So the brightness of the production hall was increased, and productivity actually grew. Encouraged by this experiment, the management decided to raise the level of lighting even higher, which again resulted in increased productivity. The level of lighting was raised for the third time, and productivity increased yet again. However, this time it seemed that the lighting had become too intense, so the management decided to dim the lights a little and waited to see whether productivity would drop. To their amazement, it turned out that productivity increased again. This time, psychologists were invited to analyze the situation; their conclusion was that the reason for the increasing productivity was not the lighting at all, but the fact that the workers felt that someone was took in their working conditions.

As shown by this example, confirmed in the meantime by numerous scientific studies and experiences of practitioners, taking interest in the working conditions is a particularly effective way of building employee commitment. This is why I strongly recommend the *springboards and barriers* workshop. Identifying the springboards not only boosts the employees' self-esteem, but also highlights the resources on which the company can base its development, and which can be used to remove barriers. Analyzing the barriers, on the other hand, provides three very important benefits for the company:

1. First of all, it makes the employees feel that the company is interested in their working conditions, which translates into their commitment in the process of introducing changes.
2. Secondly, it points to the initial directions of these changes. After all, every identified barrier is an opportunity to improve quality and efficiency. Therefore, employees should be immediately invited to organize teams that will deal with the removal of individual barriers. These teams are the seeds of future *quality incubators* (section 15). It is essential that they are organized by the workers on their own and that they are established as soon as possible after the barriers have been identified. The readiness to act and the emerging belief in the authenticity of the announced changes may be irretrievably lost if not followed by concrete corrective action.
3. Thirdly, the budding quality incubators will require tools and knowledge that they can use in their work. The creation of this "hunger for knowledge" results in an educational scenario in which Jacek Jakubowski's didactic paradigm can be realized, namely that people will "learn" rather than "be taught" or – even worse – "lectured".

16.2.3 Building a culture of teamwork

While coaching sessions and communication workshops mostly promote individual skills, the work in quality incubators begins the stage of building a culture of teamwork based on trust that is so characteristic of TQM; although teamwork is carried out almost everywhere, trust can be much harder to come by. The research conducted by Professor Janusz Czapiński over the years shows that the level of so-called *social trust* in our country is relatively low.

The work of quality incubators differs from everyday operational work in that removing barriers is a very delicate matter because it sometimes requires changing entrenched habits that form a part of our personality. Such a transformation is never emotionally indifferent and requires empathy and support from the team. It also requires everyone to feel that they can talk

openly about difficult topics, which until now have only been discussed in very narrow circles. These topics may include individual behaviors of the leaders, evaluation and promotion systems, or remuneration systems. Discussing changes in the organizational culture, such as gradual replacement of control with self-discipline and monitoring, may be less emotionally charged, but still challenging.

All these tasks require a new culture of teamwork, but also create the space for it to be built.

16.2.4 Building the strategic foundation

I refer the reader to section 9.11 for the technical details of this task. At this point I would only like to explain why I listed building strategic foundation as fourth on the list of transformation processes. The reason is that this task requires both basic communication skills and commitment to the company's affairs. Building the strategic foundation should involve the participation of as many employees (or their representatives) from all levels as possible. Only then will it be accepted by the crew as their own, which is a necessary condition for it to become the basis for all further decisions.

16.2.5 Acquiring knowledge and skills

After initiating the processes described above, we can launch the process of spreading knowledge and skills related to the area covered by basically the entirety of this book. This does not mean, however, that we should conduct a course detailing the *Doctrine of Quality* from the first to the last page, or neglect looking to other sources for guidance. In principle, knowledge should be provided when needed and to the extent that is required to solve specific problems. The mode of communication should be adapted to the needs of the moment and the company's capabilities. In my experience, effective forms of cognitive education include:

- **Moderated lectures** with two trainers – one conducts the lecture and the other moderates the discussion. The role of the moderator is to provoke discussion during the lecture by asking questions, raising doubts, encouraging listeners to comment, etc. Lectures of this type can be quite time-consuming (their duration can increase two- or threefold), but they can be extremely effective in terms of knowledge assimilation. As a side note, I would also add that, during such a lecture, a lot is learned by both the lecturer and the moderator. This educational paradigm is especially worth applying when tackling emotionally difficult topics, e.g., when discussing motivational mechanisms, or when the lecture is addressed to listeners who have not yet achieved spontaneous proficiency in maintaining group dialogue and discussion.
- **Academic lectures** delivered in the classical manner. In this case, however, the lecturer should ensure constant contact with the students, making the lecture as conversational as possible. This type of lecture can be used when presenting a large body of knowledge within a constricted timeframe, e.g., when teaching at a university or an MBA course. It can also be used at internal workshops, provided that the listeners have already attained sufficient “communicational maturity” and the topic is “emotionally neutral” enough to make the presence of a moderator unnecessary.
- **Discussion seminars** consisting in discussions on the literature read by the audience before the meeting. Such meetings are best hosted by moderators who are well acquainted with the subject of the discussion, but can also be conducted by non-experts who are nevertheless able to organize the discussion. I would recommend this form especially to companies that have already completed the initial stages of their path to

quality and whose employees are familiar with basic knowledge about TQM. A discussion seminar may be appropriate for the stage at which external trainers are withdrawing from the company and are being replaced by internal quality leaders.

- **Action learning** consists in the generation of knowledge by the team while performing their tasks and on the basis of the acquired experience. This formula is especially recommended for quality incubators.
- A. Sharing TQM knowledge is conducted at three levels in terms of depth:
- B. **General level:** intended initially for members of quality incubators; later extended to all employees of the company.
- C. **Leadership level:** for leaders of quality incubators, but also for all those who wish to gain in-depth knowledge regarding the *Doctrine of Quality*.
- D. **Instructional level:** meant for those who are supposed not only to learn the *Doctrine of Quality* in depth, but also to know how to teach it and provide assistance to other employees, especially incubator leaders.

At all three levels, we can also distinguish general knowledge, independent of the employee's position in the company, and more specific knowledge tailored to their role. For example, managers will benefit more than regular employees from learning about motivation, relationship building, and conflict resolution. In turn, employees working in production, sales, or finance may need more information about random processes than those working in human resources, marketing, or maintenance. The specifics of customizing the curriculum depend largely on the nature and size of a given company, so I will not discuss this further. I would just like to add that the group of quality leaders does not have to be limited to those currently in charge of incubators. In principle, anyone wishing to do so can apply for the position of a quality leader, which will give them the right to run an incubator when the need arises. However, if there are several leaders in an incubator, they must select a coordinator from among themselves to run the incubator. Also, there is no limit to the number of instructors in the company, although there will certainly be fewer instructors than leaders as not everyone feels predisposed to teach others.

16.2.6 Mapping the process structure

For many companies this stage may be particularly difficult because it requires both the ability to think in a rather abstract fashion and the strength to overcome emotional obstacles associated with changing the way we perceive the company's organizational structure. Technically, there are six groups of tasks that need to be performed (see sections 12, 21 and 22 for more information):

1. Determine what the company's product is and who its customer is. In most companies this should not be difficult, but in institutions like schools, hospitals, or public offices it may not be so trivial.
2. Identify and describe the processes present in the company.
3. Define the supplier – recipient relationships between processes, i.e., create a process map of the company. At the beginning a simplified map can be created to gradually acquaint employees with process-based thinking.
4. Appoint process owners and, possibly, their proxies.
5. Establish quality standards for all flows between processes (products, knowledge, and orders) and establish rules for measuring the current quality of these flows.

6. Start the work on the *book of standards* and appoint its keeper.

I would recommend starting this stage with a short (two – three hours long) moderated lecture devoted to the basic principles of process management, which would be followed by action learning through the performance of all the tasks described above. While building the company's process map, it is especially worth remembering that we are not creating a new structure, but describing one that already exists even if no one is aware of it. A cartographical analogy comes to mind: by mapping an area, a cartographer does not change or create this area, but only describes what is already there.

16.2.7 Implementing the principle of continuous improvement

Entering the stage of continuous improvement may be the culmination of the previous steps, but the activities associated with these steps never end. In fact, neither does continuous improvement. At this stage, quality incubators implement the company's improvement program, mastering new TQM-related tools and skills as needed. Involvement of external mentors and trainers becomes rather sporadic and usually limited to situations in which acquiring new skills from literature alone would be difficult, e.g., when a company decides to introduce the method of statistical process control. In turn, it is time to start the important process of educating internal trainers – quality and change leaders. Their task will be to support the work of quality incubators. They will be needed to train employees hired by the company after it embarks on the TQM path; they should also be promoting TQM awareness throughout the company.

16.3 What to do to make it work

This question can be answered quite briefly: we must instill a desire for change in the company and build employee commitment to achieve this change. In other words, the program described in section 16.2 should be implemented. This would be relatively simple if people had a natural love and trust for making changes, but this is, unfortunately, not the case. People (including ourselves, of course) are wary of changes if they do not know exactly what the consequences will be or if they view these changes as threatening.

16.3.1 Potential sources of resistance

Total quality management is a very effective method that has put many a company on the path of quick development, but it is not easy to implement. As I have mentioned several times, the difficulty lies not only in mastering the tools and knowledge specific for this method, but above all in overcoming the numerous mental habits described in section 13. The challenge is also to overcome the fear that accompanies all changes as well as concerns that we may not be able to handle the new situation or worse – that we may lose what we have achieved so far. And indeed, in the case of some people and positions, these concerns may not be unfounded.

Vice-president for quality control of deliveries

George Eckes (cf. [21]) describes the case of a vice president of a large IT company which was implementing six sigma quality management. One of the stages of this implementation was the introduction of six sigma to the company's suppliers in order to improve the quality of their components. The fact that the company actually had a vice-president for controlling the quality of deliveries, who was in charge of several directors responsible for particular industries (!), may serve as an indication of how bad this quality had to be. Of course, the introduction of six sigma in the company and its suppliers posed a threat to this VP's position and status. In order for him to remain at the company,

he would have to acquire new knowledge and engage in different activities. And indeed, he was offered to lead a team responsible for cooperating with suppliers with regard to quality. However, he decided to leave the company instead.

The case described here is, of course, exceptional because there are very few jobs that would be made redundant by the introduction of quality management. Nevertheless, introducing TQM to a company is associated with a far-reaching revolution in the management paradigm and all its aspects – operational (quality), human (partnership), and organizational (processes); a revolution of such magnitude that one cannot ignore the possibility that some will fear and resist the changes. George Eckes, a psychologist with 20 years of experience in implementing the six sigma method in dozens of companies (cf. [21] and [22]), mentions the following potential sources of resistance:

- **Technical resistance** – comes from fear of not being able to handle the new tools, e.g., the method of win – win conflict resolution. Eliminating this resistance requires a lot of effort to be put into practicing the application of these tools before they become an obligatory element of the manager’s toolbox. These practical exercises must be accompanied by workshops on interpersonal communication.
- **Political resistance** – comes from feeling that the change entails our personal loss and the loss of value and usefulness of our previous experience. These concerns are not necessarily unfounded (as in the box above). In order to reduce or eliminate this sense of loss, the benefits of introducing the new style of management should be laid out.
- **Individual resistance** – resulting from the individual circumstances of a given person. Some people may have bad experiences from transformations implemented elsewhere; some may find themselves in difficult personal situations (e.g., family-related) putting them under pressure to make tough or even dramatic decisions. Therefore, they would like their workplace to be an oasis of peace and quiet with clear and inviolable rules of conduct. In such cases, individual therapy is required, e.g., in the form of coaching.
- **Organizational resistance** – usually involves a large group of employees (sometimes even the entire company). It finds its expression in statements such as: “This won’t work in our company”, “We are not Toyota – we don’t make cars”, “We are not Japanese (or American) – our national character is unique”, “Our work is very specific”, “We have no time for this – we have to work”, “We have already tried this and failed on many occasions”, “We have been doing all this for a long time anyway”. Limiting the initial changes to a pilot program covering some small separate part of the company and involving employees who are ready for the experiment and appreciate it as an opportunity for themselves and the company may be a silver bullet for this problem (as well as others). This solution is exemplified by the story of the company Polmo Łomianki in section 16.1.

To all these potential sources of resistance I would add one more, which Eckes does not mention at all because his methodology does not cover the paradigm of partnership:

- **Emotional resistance** – associated with the transition from carrot-and-stick management to building partnership. For many people, adopting the partnership model requires a complete overhaul not only of their style of work and management, but also of their lifestyle. After all, one can hardly be a partner at the company without being a partner to their family members and friends. One cannot be a partner only from 8:00 to 16:00. Emotional resistance also includes technical resistance (“How am I supposed to make my employees work if you took away my stick and carrot; I can’t negotiate or convince;

I've never done that") and political resistance ("If my subordinates are no longer afraid of me, I will have no influence on them and will, therefore, lose my position"). Such resistance, which is generally unavoidable, requires us, firstly, to devote sufficient time to train all managers (from the CEO to the foreman) in the use of the "partnership" tools and, secondly, to demonstrate the personal benefits offered by the new style, leading to better quality of life on a daily basis and, in the long term, to higher income.

All the sources of resistance described above can lead to one of two syndromes, which I personally call the *locked handle syndrome* and the *rotating handle syndrome*.

In cars manufactured until the 1950s, the door handle resembled the one that is still used in buildings today, which is opened by slightly tilting its arm. Two types of locks were used in car handles of this type. Turning the key in the lock of the first type would block the handle arm so that it could not be tilted. However, this type of lock could be forced, e.g., by applying a lever to the handle arm. Although the lock would be destroyed in the process, the car thieves did not really mind. So a second type of lock was invented, the closing of which caused the handle to be disconnected from the door locking mechanism. The handle could be rotated freely around its axis, but the door remained closed.

In our case, the locked handle syndrome means that there appears a group of opponents who resist the reform openly. They put forward counterarguments or resort to sabotage and persuade others to do the same. It is of course a difficult and frustrating situation, but at least there is someone to talk to about it. If they raise their doubts openly, they will give us a chance to dispel them.

In turn, the rotating handle syndrome is a situation in which the opponents of the reform do not disclose their views. They declare their compliance with the principles and agree to perform the tasks; the only problem is that they do not come through. And of course it is not because they are against TQM – not at all! They fail to perform the tasks for a thousand other seemingly rational reasons. And these can always be found: the undeclared opponents may point out that customer orders are piling up or that some employees are on holiday, or that right now they need to attend some health and safety or VAT training, but of course, they will gladly take care of the assigned tasks as soon as they have some free time on their hands. Which begs the question: has anyone ever observed a situation where people have "some free time on their hands" in a company? Because I certainly have not.

The rotating handle syndrome can sometimes also be associated with the use of **TQM newspeak**. For camouflage, the veiled resisters begin to use slogans such as: "The most important thing is quality", "As Deming says...", "Our most important resource is people...". The emergence of such newspeak as a permanent fixture in the company's discourse should, therefore, be treated as a warning sign that some employees may not be in favor of the reform despite appearances.

16.3.2 Special case – family businesses

Family businesses are a particular type of company in which emotional resistance can be strong – although this is definitely not a rule. Here, two more sources of resistance can be found in addition to the ones mentioned above:

- **The autocratic family** – the relations in the family have been autocratic (e.g., patriarchal or matriarchal) for generations, and they are transferred into the context of the company. The head of the family is at the same time the head of the company, and it has been like this for decades. Both the family and the company are doing well (at least

according to the “head”), so no changes are going to be made. “Nobody is going to tell me how to raise my children and run the company that I built from scratch.”

- **The egocentric family** – we are partners in the family, but the company is something else. Partnership is for us, but not for “outsiders”. We built this company for ourselves, not for them. We must stick together and be like a monolith because the world is a cruel place – a jungle where life is a constant life-or-death struggle. We built a palisade around our hearth, surrounded it with a moat, and at night we let the hounds out and lift the drawbridge.

Of course, there are some companies that combine some features of both these types.

What should be done in such cases? The answer to this question includes the whole methodology for supporting the growth of family businesses, the development of which was the subject of the Family Enterprise project (see the footnote in section 16.2.1). The basic tools of this methodology are workshops on interpersonal communication and management organization. Such workshops – conducted invariably for groups of several family companies sharing their experiences – have proved their great worth in the Family Enterprise program.

However, it should be emphasized that not all family businesses are autocratic or egocentric. Many of those who took part in the project readily accepted the partnership model as an important tool on their way to business development and personal growth. Many also declared that partnership was and always had been a part of their corporate culture.

16.3.3 Implementation stakeholders

Another important aspect of implementing quality management discussed by Eckes (see [21] and [22]) is analyzing the group of implementation stakeholders in terms of their readiness to support the project. Although Eckes writes about this phenomenon in the context of six sigma, my experiences with implementing TQM confirm his observations.

Any person who is either directly involved in the process of implementing TQM or can be affected by its results is a *stakeholder of TQM implementation*. Eckes categorizes stakeholder attitudes into five groups according to their readiness to support the implementation process – from total resistance to full support:

1. **Strong resistance** – the stakeholder not only opposes the changes, but also encourages others to do so. This opposition may include engaging in open sabotage of the tasks, spreading a “propaganda of whispers”, ridiculing people involved in the project or the project itself, and recruiting a coalition for resistance.
2. **Moderate resistance** – the stakeholder shows passive resistance, executing their tasks reluctantly and incompletely, but is not involved in the active fight against the project.
3. **No interference** – the stakeholder carries out their tasks but at a bare minimum, showing no initiative, passivity, but also taking no actions to the detriment of the implementation.
4. **Moderate support** – the stakeholder performs their tasks reliably, but does nothing more.
5. **Strong support** – the stakeholder performs their tasks with enthusiasm, is brimming with initiative, encourages others to participate in the implementation.

Finally, one more reflection: what to do if a stakeholder does not want to change their attitude towards TQM and stubbornly refuses to cooperate? Although I strongly believe that most

people can change their way of thinking (otherwise no new ideas would be implemented), there may be some who are resistant to all arguments. What to do then? My answer: people like that simply have to be let go. They must be let go for the good of the project, for the good of the company and other employees, and finally for their own good. They must be let go because they will not be happy in the company, they will not derive joy or satisfaction from their work, and they will infect others with their frustration. It may not be easy, as we are talking here mostly about high-level executives and individuals with many years under their belt, but it is unavoidable. On my way to TQM, I too had to part ways with some key managers.

16.3.4 Change of habits

As Charles Duhigg writes in his excellent book [20], a habit is a behavioral pattern inscribed in our neurons, consisting of three consecutive events forming a so-called **habit loop**:

- **cue (trigger)** – e.g., I return home after a tiring day at work;
- **routine** – following the scenario above: I change into a tracksuit and go for a run;
- **reward** – endorphins released during the exercise make me feel relaxed and stress-free.

In many situations habits allow us to make decisions automatically, i.e., without considering what we are doing, which not only saves our brains' energy, but allows us to perform a given activity quickly and without errors. We do a lot of everyday activities in a habitual way. All sports are also based on habits, and so-called technical training serves to shape the habits of tennis players, skiers, or swimmers. In Duhigg's words, habits produce *neurological craving*. This craving is the *desire for reward*, which is prompted by the cue and strengthens the habit.

However, not all habits help us work effectively. Some develop in spite of our will and we would gladly get rid of them. Here is another example:

- **cue (trigger)** – I return home after a tiring day at work;
- **routine** – I make myself a double drink and then one more;
- **reward** – the alcohol makes me feel relaxed and stress-free.

A lot of people struggle with this second habit. They wish to get rid of it and make determined resolutions that, come tomorrow, they will stop hitting the bottle. Except that "tomorrow" always comes tomorrow and rarely becomes "today". The desire for the reward usually overcomes our good intentions.

The point is that, in order to change a habit, one must respect the desire and change only the routine, but in such a way as to leave the reward intact. In other words: a new routine has to be inserted between the existing cue and the reward. Instead of getting a drink, we may go for a run. As Duhigg claims (p. 107), "almost any behavior can be transformed if the cue and reward stay the same".

While this might seem very simple, there is a "but", namely that we are often unaware of either the cue or the reward – we only know the routine. In this case, we need to analyze our behavior to discover the cues and then experiment with a few routines to find one that will be adequately rewarding. Another problem is that, in order to change the routine, we must believe that the new one will provide us with the same reward. This faith is much easier to find in a group than alone. Hence, the most effective rehab therapies are group therapies.

As it turns out (p. 56), "cues can be almost anything, from a visual trigger such as a candy bar or a television commercial to a certain place, a time of day, an emotion, a sequence of thoughts, or the company of particular people".

Creating a new habit, or transforming one habit into another, usually requires the use of willpower. In this case, it is good to remember that our will, like our muscles, is subject to fatigue. So if you are in the middle of exchanging evening drinks for jogging after getting back from work, try not to overtax your willpower during the day.

A particularly important role in our lives is played by so-called *key habits*. These are habits that, when solidified, lead to the emergence of new ones. For example, it has been noted that people who acquire the habit of engaging in sports start to eat healthier, quit smoking, and stop abusing alcohol. The appearance of a key habit can be a driving force for powerful changes, both good and bad.

A notable example of such positive changes comes from the story of Paul O'Neill ([20]), who, between the years 1987 and 2000, brought about a profound transformation in a poorly functioning Alcoa aluminum plant in the United States. During his 13 years as CEO, Alcoa's net revenue increased five-fold and the company's value increased by \$27 billion.

O'Neill started by defining a single goal and introducing a single habit. At his first meeting with executives and investors, he declared that his primary goal would be to make the Alcoa plant the safest smelter in the USA. This was an objective that no one, from management to trade unions, dared to oppose. For its purpose, O'Neill ordered that all accidents at the factory were to be reported within 24 hours and that the information should always include a repair program. He also stated that no one disregarding this policy could count on being promoted. In this way, the following social habit started to be implemented in the smelter:

- **cue (trigger)** – work accident;
- **routine** – a report containing a repair plan;
- **reward** – a chance for promotion.

As a result of this habit, the following changes occurred:

1. Employees started to analyze the causes of accidents, which required the analysis of production processes.
2. As a result of these analyses, processes and procedures were streamlined.
3. Streamlined processes saved time, energy, and raw materials.
4. Employees acquired the habit of improving their work.
5. They also began to communicate and cooperate in their efforts to improve the company.
6. Horizontal and vertical information channels were cleared.

As a result of all these changes, the company's profitability increased. And thus the implementation of one key habit transformed the whole company.

As it turns out, a significant role in the emergence of key habits is played by so-called small victories, which bolster the strength required to achieve further successes. They are the ones that make key habits lead to far-reaching changes. For example, successes associated with removing small barriers that employees face in their work (section 15.2) should lead to the habit of searching for opportunities to improve the quality of the company's work on a continuous basis. Successful implementation of TQM leads to the emergence of the key habit of continuously improving one's work.

16.3.5 Summary

Putting the company on the TQM and/or teal path is a long process that takes an average of two to three years. One should also keep in mind that the company's prosperity in the short term (i.e., within a few years) depends on many factors that may interfere with each other. Hence, the most reliable indicators of the company's quality improvement in the short term are: the atmosphere at work, the level of engagement in changes, interpersonal relations between employees, and relations between the employees and the company. As the Gallup study described in section 6.6 has shown, good relationships at work are fundamental for the company's long-term financial success.

At this point, a very important note should be added (mentioned also by Jeffrey Liker and Gary Convis [54]), namely many failed attempts to implement TQM are caused by the error of limiting this process to implementing only the tools while neglecting the social aspect of the working environment based on the partnership model. The reason behind this type of error is, of course, the fact that implementing tools is a relatively simple technical task that can be carried out administratively, while the implementation of a partnership culture is more challenging because it requires significant changes in the attitudes of all employees. Companies implementing "technical" versions of TQM, such as the six sigma method (section 14.1) or lean management (section 14.2), are particularly vulnerable to such failures. Another trap consists in focusing too much on short-term cost reduction. This is what Liker and Convis had to say about this ([54], p.292):

Unfortunately, management in most companies perceives lean management as an easy way to reduce costs. Initially, individuals assigned to Lean activities are given some freedom to develop a vision, prepare training modules, reflect on what operational excellence should look like in the long term, and even start some model project. And then comes the change. "Where's the money?" - the management asks. More than once have we seen this change of attitude appear after only a few months of working on Lean - after the first kaizen workshop or after the first training program. The managing director makes it clear that they expect a return on their investment at the end of the year. (...) Leaders often panic when an order comes from above to start saving. (...) Throughout the book, we have emphasized the great challenge of creating a culture [habit] of continuous improvement, stressing the amount of investment it requires. An order from the top to seek savings kills this culture and destroys the trust of employees. Lean then becomes a common tool for cutting costs.

At this point, however, it should be stressed that properly implemented lean management always leads to cost reduction eventually, although not necessarily in the short term. Demanding a quick and simple return on investment can be a mistake for reasons similar to those I discuss in the context of SSPS platforms in section 24.

Unfortunately, many of the training services offered to support the implementation of TQM are limited to the technical aspects of this process. In order to remedy this situation, at the beginning of 2014, together with Dorota and Jacek Jakubowski we set up a joint educational and implementation-related project called *The Quality Trail*. You can read about it on my website at <http://moznainaczej.com.pl/tropem-jakosci>.

Part V:
UNDERSTANDING
THE VOICE OF THE
RANDOM PROCESS

17 About random processes in general

17.1 Why do we need random processes

If we are playing roulette, and the ball lands on red for the third time in a row, we do not ask why this happened because we understand that this could have been a simple coincidence. However, when this happens seven times in a row, we are likely to start suspecting that something is amiss. We become suspicious because, although we know this could have happened by chance, we also know that it is very improbable.

And how will we react if we observe the increasing and dropping monthly sales results in our company? Three drops will probably be enough for us to start worrying and searching for the cause. Why? Because we consider sales to be a “less random” phenomenon than the game of roulette. After all, the sales figures result from deliberate marketing activities, the quality and attractiveness of our product, the ratio between its price and value, the competence of our salespeople, and many other factors. We therefore believe that we have much more control over the results of sales than we have over the results of a game of roulette.

But do we really? If that were the case, our sales would be constantly growing. However, in reality, they alternately increase and decrease because they depend not only on factors we can control, but also on factors that we have no influence on, such as the individual needs of customers, competition, general market situation, currency prices, and many others. So is asking about the reasons for dropping sales always pointless? That is not true either, although this is not as simple as it is with roulette. The thing is that sometimes it does make sense, and it is then worthwhile to bear the effort and costs of finding the answers, while sometimes it does not, and then the whole search turns out to be nothing but a waste of time and money. This begs the question whether it is possible to distinguish between these two types of situations. Fortunately, the answer is yes, and part 5 of my book is devoted to demonstrating how this can be done.

The theory underlying the tools described here belongs to the field of mathematical statistics. Naturally, I will not assume all my readers to be familiar with this area, so I will try to discuss random processes as intuitively as possible, providing examples and visualizations in the form of graphs¹⁵⁴. Such a discussion should be sufficient for readers who intend to use it to analyze typical business situations related to the dynamics of financial indicators, work accidents, employee absenteeism, or the appearance of defects in simple production processes. However, where mass production and/or very high quality requirements are involved (e.g., in the manufacture of hi-tech products or medicines), a deeper understanding of the mathematical foundations of the ideas here presented may be required. Readers interested in learning more about these foundations are referred to literature by Jacek Koronacki, James Thompson, and Jacek Nieckuła [79] and [80]. In turn, to all readers wishing to deepen their knowledge of random processes without going into complex mathematics, I recommend Wheeler’s *Understanding Variation. The Key to Managing Chaos* [82]; the mathematics therein are slightly simplified as the book was first published in 1961 and was tailored to the times when many calculations were still done by hand in the absence of Excel. I believe it to be a worthwhile read because of the large number of business examples, including ones from outside the area of production.

¹⁵⁴ At this point, however, I must explain that writing about mathematics in an intuitive way always leads to a certain vulgarization of the knowledge conveyed. Those of my readers who are familiar with mathematical statistics and probability theory I ask for indulgence should they find some of my statements to be insufficiently precise. However, in order to bring exact sciences closer to readers from outside the circle of the initiated, one needs to somewhat lower the standard of their exactitude.

17.2 Balloon syndrome

Business news in the media often mention the growth or decline of various financial assets or stock indices. Most often they sound like this:

“The euro to zloty exchange rate drops from 4.07 to 4.05, and the dollar goes down from 3.31 to 3.26. The zloty is getting stronger.”

Someone listening to this while eating breakfast at home, driving their car to work, or drinking their morning coffee at the office can easily fall under a conviction that I would call for our purposes the *balloon syndrome*. They subconsciously think like someone who has just heard that a balloon is rising, and, if it is, then it will probably continue to rise for some time to come.

Experts know, of course, that it is not that simple, but many people will be gladdened or worried by the rise of the zloty depending on whether they want to buy it or sell it. Of course, unwarranted joy or unjustified worry will not hurt us too much, but making “sell or wait” decisions on the basis of this news can. Some guileless investors will wait for further increases, while others will decide to sell, having concluded that, if the exchange rate rose today, then it will probably fall tomorrow.

Of course, both will base their decisions on completely irrational premises. They might as well ask their cat for advice on the matter.

Does this mean that changes in exchange rates cannot be analyzed and predicted at all? Of course not. Statistical predictions can be made (more about them later), but certainly not on the basis of exchange rates from just two consecutive days. Currency prices and the vast majority of economic and business indicators do not behave like balloons. In order to be able to say that such an indicator is increasing or decreasing, one must analyze its behavior over a longer period of time, e.g., over 30 consecutive days. Only then can we attempt to assess whether we are dealing with a trend or just with random variation. Even then, however, we should not draw our conclusions solely from taking a quick look at the variation chart.

17.3 Deterministic and random processes

Further in the book, I will use the word *process* to denote any natural, technical, social, or business phenomenon that can be associated with a sequence of numerical measurements of some changing parameter characterizing this phenomenon¹⁵⁵. This sequence of measurements I will call the *course* of a given process. The course of a process can be represented either by a table or a graph, as shown in Fig. 17.3-1. Here are some typical examples of processes understood in this way:

1. The temperature of a heating coil through which a current passes with an intensity rising incrementally by 0.1 A from the initial intensity of 0.2 A to the final intensity of 1.4 A.
2. The distance between the starting point and a body moving with uniformly accelerated motion (acceleration of 5 m/s²), measured every 10 seconds.
3. The length of a spring at successive loads; each consecutive load is increased by 10 g – from the minimum of 100 g to the maximum of 1000 g.

¹⁵⁵ In section 12, where I discuss the idea of process-based management, I talk about processes in a completely different sense. Here, I define the word “process” in a very approximate way, as it is understood by statisticians. The fact that the approximation is not very precise will not be of much importance to us because we will be interested mainly in the courses of processes, i.e., sequences of numbers, and not the processes themselves.

4. The value of sales in consecutive months.
5. The percentage share of the number of unsold products in the number of sold products in consecutive weeks.
6. The number of work accidents in a given company in consecutive years.
7. Percentage share of defective items in consecutive product batches.
8. The opening exchange rate of the dollar on consecutive days.
9. The amount of cash shortages / excess cash at the ends of successive days.
10. The numbers of points for single dice rolls obtained in consecutive rolls.
11. The successive numbers on which the roulette ball lands over the course of an evening.

These examples could, of course, go on and on. In each of them, a sequence of measurements generates a sequence of numbers which is the course of the process. At first glance, we can also notice that some of these processes are completely predictable, while others are not.

Processes 1 through 3 can be considered predictable, because the results of subsequent measurements can be predicted very accurately by making appropriate calculations. For example, the length of distance d covered in time t in the motion described under point 2 can be expressed by the following formula:

$$d(t) = \frac{a}{2} \cdot t^2,$$

where $a = 5 \text{ m/s}^2$ and t is the independent variable for time. The course of this process is shown in the diagram in Fig. 17.3-1

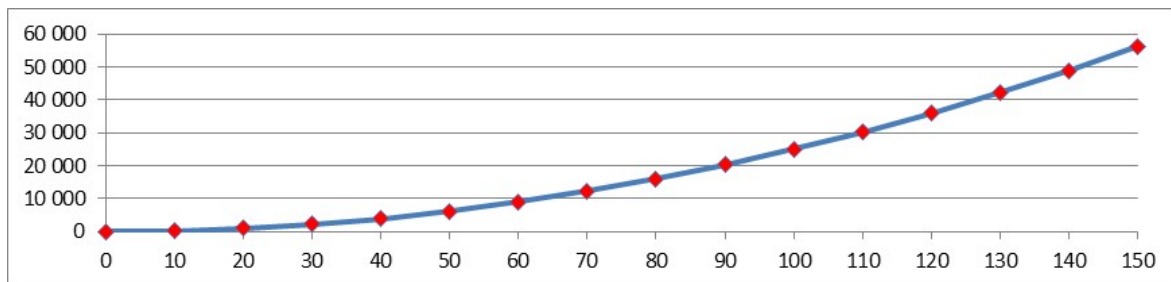


Fig. 17.3-1 The course of a process corresponding to a body moving with an acceleration of 5 m/s^2

However, if the body in question moved at a constant speed of $v = 400 \text{ m/s}$, then the distance travelled in time t would be expressed by a different formula:

$$d(t) = v \cdot t.$$

The course of this movement would then look like the one presented on Fig. 17.3-2. In both cases, the position of the body at moment t can be precisely predicted (calculated), so I will call such processes *deterministic*.

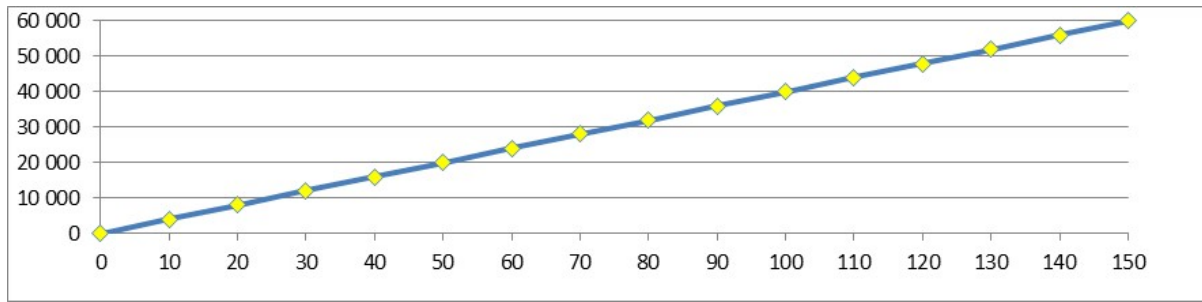


Fig. 17.3-2 The course of a process corresponding to a body moving at the speed of 400 m/s

Comparing these two graphs, we can immediately observe that they correspond to different types of motion, i.e., two different processes. We could also risk advancing a following general thesis:

*Looking at the graphs of two deterministic processes,
we can usually determine
whether we are dealing with two different processes
or two different courses of the same process.*

The situation is different for processes 4 through 11. Their graphs will be similar to those presented in Fig. 17.3-3, and simply looking at them does not reveal whether they correspond to one or two processes. We will probably also be inclined to believe that neither of these processes is deterministic, so they are both *random*.

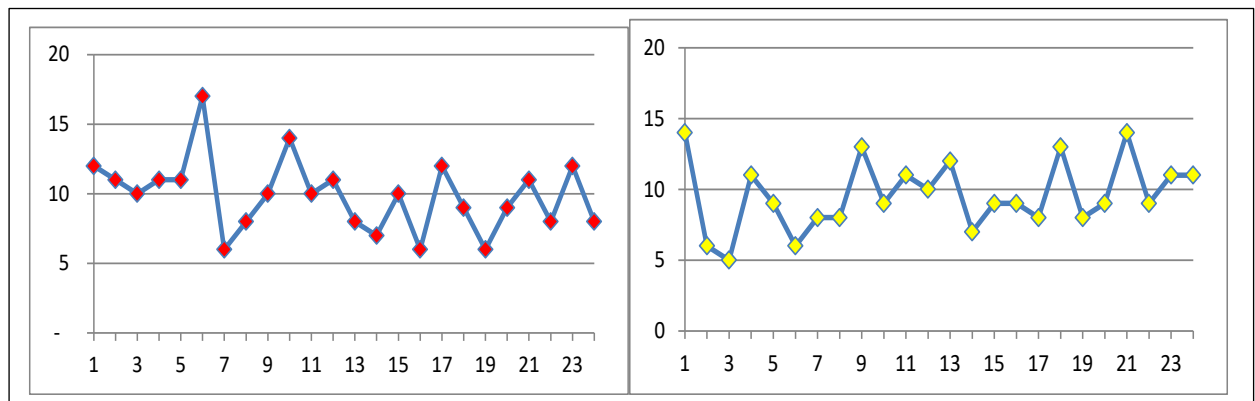


Fig. 17.3-3 Two courses of the same process or courses of two different processes?

However, “common sense” seems to indicate that processes 10 and 11 (related to roulette and dice) are “more unpredictable” or “more random” than processes 4 through 9 because the course of these two processes is governed solely by chance, while the remaining examples feature some observable causes. This belief is the reason why we do not search for a cause when a pair of ones appears in three consecutive dice rolls. However, if our sales figures were very low three months in a row, we would start looking for the cause of this phenomenon. And we would

do the same if we were concerned about a particularly high number of work accidents in a given year or a particularly large cash deficit in a given month.

But is such reasoning always rational? Is the sales process more predictable than a random game of chance?

In order to answer these questions, we must first consider what we understand – or rather, what we should understand – by the notion of process predictability. Indeed, the word “predictable” can be used in two completely different meanings.

In the first sense, a “predictable process” is one in which the successive values occurring in the process’s course can be accurately predicted. This is the case with processes 1, 2, and 3: we can calculate the temperature of the spiral based on the intensity of the current, the position of the body at a given moment in time, or the length of the spring at a given load.

The second type of predictability involves a situation in which we are unable to predict the successive values, but can nevertheless determine the probability with which each of them can appear¹⁵⁶. This is the case with dice and roulette. Further on, we will call such processes *regulated*.

Of course, not every random process is regulated. An example of an *unregulated process* would be a situation in which we drew balls from a mixture of white and red balls with the proportions in the mix changing in a way that remained unknown to us.

Processes 4 through 9 are certainly unpredictable in the first sense, as they are non-deterministic. However, we cannot say *a priori* whether they are unpredictable in the second sense. They may or may not be; in the following sections, I will explain how to distinguish these two scenarios and what practical value is offered by the ability to do so.

17.4 Courses and histograms of random processes

In the language of numbers, each random process can be described in two ways:

1. Directly, showing its course – in the form of a table or a graph.
2. Analytically, showing the probabilities of events (measurement results) for this process by means of a so-called *histogram*.

Looking at a single course of a random process, or even a large group of them, we usually cannot predict what the next course will look like. Each two courses will differ visibly from each other. However, if we performed two series of multiple dice rolls (e.g. 100 each), counted the frequencies of numbers 0 through 7 for each series, and then divided the results by 100 and presented them on charts, then the histogram for each of the two courses of this process would be very similar to the one in Fig. 17.4-1

¹⁵⁶ Readers unfamiliar with the concept of event probability can understand it intuitively as the frequency with which a given event occurs. For example, when dice are rolled, each of the numbers from 1 to 6 occurs once every six shots on average; in other words, the probability for each of these events amounts to 1/6.

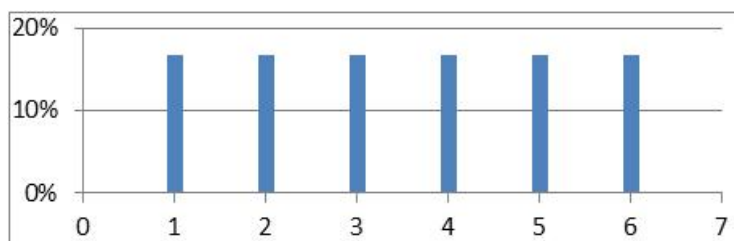


Fig. 17.4-1 Ideal histogram of dice rolls

The frequencies for numbers 0 and 7 are zero (such results simply cannot happen), but the frequency of each of the remaining six numbers is close to $1/6$, i.e., about 16.7%. It is also intuitively quite obvious that no matter who, where, or when rolls the die or how many times this is done (as long as the number of rolls is large enough), the histograms of these processes will always be similar to the one in Fig. 17.4-1

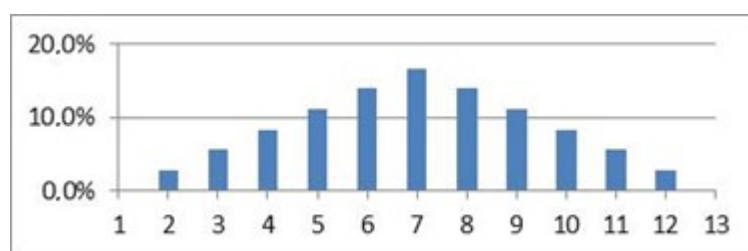


Fig. 17.4-2 Ideal histogram of two dice rolls

And what if we rolled two dice and summed up their numbers? Would the histogram of such a process be similar to the previous one at least in shape? It turns out that it would not, because in this case the probabilities with which the totals of 1 through 13 appear are not the same. For example, a total of 2 corresponds to only one pair of results (1;1) out of the 36 possible ones, while a total of 7 can be obtained from six such pairs: (1;6), (2;5), (3;4), (4;3), (5;2), and (6;1). Therefore, the probability of a total of 2 is $1/36$, while the probability for a total of 7 amounts to $6/36$, i.e., $1/6$. The shape of the ideal histogram for rolling two dice is shown in Fig. 17.4-2.

Histograms of random processes reveal to us the features of the process that are constant, though most often invisible in the course of the process.

While the nature of deterministic processes is well reflected in their graphs, in the case of random processes, this purpose is served by histograms.

Let us now look at two courses of random processes shown in Fig. 17.4-3 where the straight lines are *Excel trend lines*¹⁵⁷.

These courses undoubtedly differ from each other. Not only are the results of the individual measurements different, but the trend line is decreasing in the first graph, while rising in the second one. In fact, each graph is the result of an exercise carried out by a different group of people and at a different time. Do they have anything in common? Not at first glance, but if we

¹⁵⁷ The Excel choice of the term “trend line” is rather unfortunate because the term “trend” is usually used to describe some persisting tendency existing not only in the past, but also in the future. However, the Excel trend line only describes the past.

examine the histograms shown in Fig. 17.4-4, the similarities will become apparent¹⁵⁸. It is also clear that both processes are significantly different from rolling a single die.

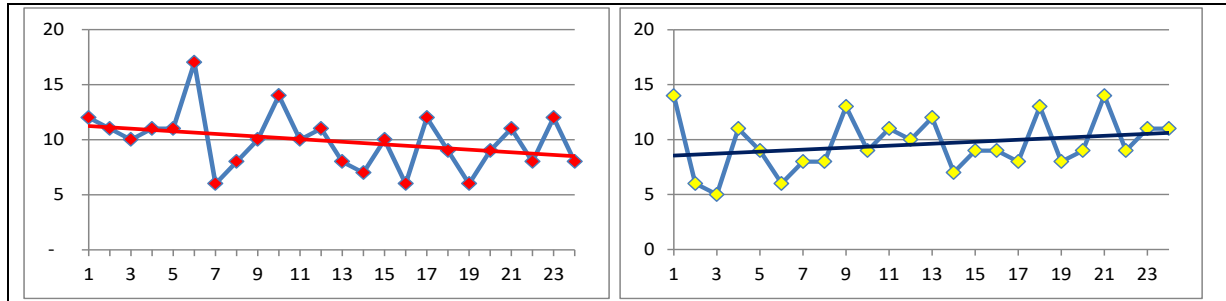


Fig. 17.4-3 Courses recorded in 2008 (left) and 2011 (right)

In fact, both presented courses were generated by an exercise consisting in drawing 50 beads from a mixture of 3,000 white beads and 750 red beads (in other words, the red beads constituted 20% of all beads). The numbers for both courses are the numbers of red beads in each draw. In each of the exercises the draw was repeated 24 times.

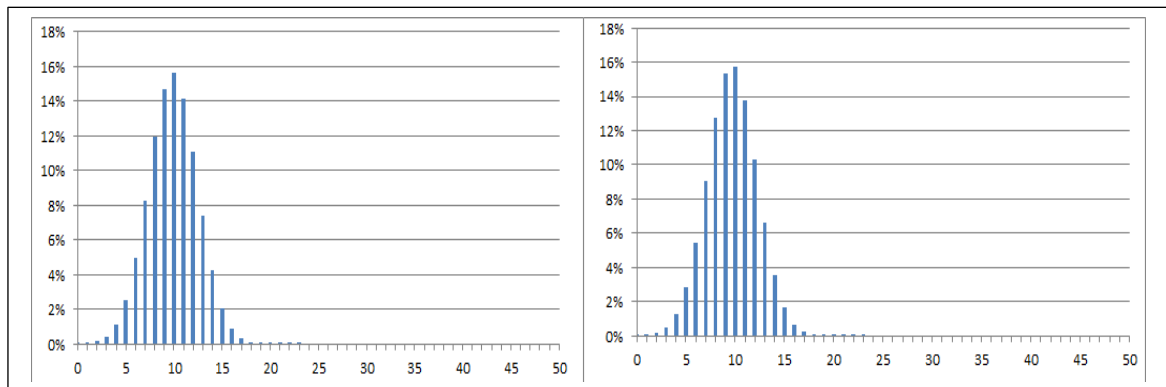


Fig. 17.4-4 Histograms of processes from 2008 (left) and 2011 (right)

In each of the histograms, the horizontal axis scale goes from 0 to 50 because these are the minimum and maximum numbers of red beads in each draw. However, the probability of drawing less than 2 or more than 20 red beads is so low that it is practically invisible on the histogram. In turn, the highest probability was associated with drawing around 10 beads (20% of the 50 beads drawn). The probability calculus also tells us that the average number of red beads from all the draws will approach 10 as the number of draws increases.

The histograms of these two processes differ visibly, though not by much; if the beads were drawn not 24 times, but 1000 times in each case, then the histograms would be indistinguishable to the naked eye. As we can conclude from this example, in the case of random processes, the nature of the process is revealed not by its course, but by the histogram.

¹⁵⁸ In reality, these are histograms of certain idealizations of these processes, namely normal processes (more about them later) with averages and standard deviations (also discussed later) determined by these courses.

*Looking at the histograms of two random processes,
we can usually determine
whether we are dealing with two different processes
or two histograms of the same process.*

The question now arises whether the shape of the histogram can be described in a general mathematical way for random processes whose characteristics are not as apparent as those of dice rolls. It turns out that it can for many cases occurring in both nature and business.

18 The voice of the process

18.1 Normal processes

Let us take a look at two histograms shown in Fig. 18.1-1. The first corresponds to the process of randomly obtaining numbers from 2 to 12 with the same probability for each (1/11, approximately 9.1%), while the second corresponds to obtaining the same numbers by throwing two dice.

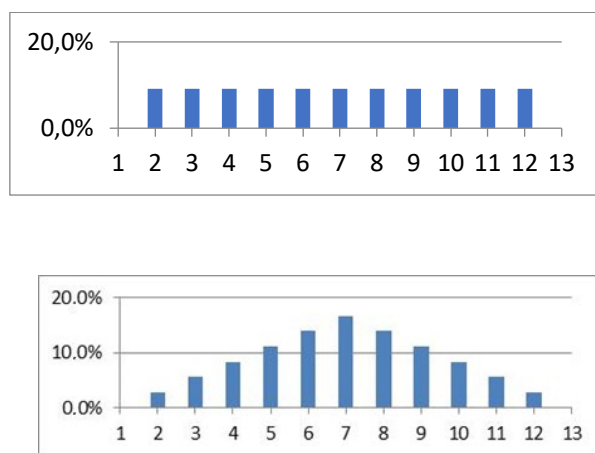


Fig. 18.1-1 Two processes of randomly selecting numbers from 2 to 12

The first process resembles a single dice throw. The second does not because it was generated by a combination of two independent processes, each of which consisted in throwing a single die. In this second process, the probabilities of the appearance of individual numbers are not equal, as I discussed in the previous section.

A characteristic feature of the second process is the fact that it was created by combining two independent random processes. Independent in the sense that the number indicated by the first die in no way depended on the number indicated by the second die. Processes just like this one occur in nature very often. We call them *normal* or *Gaussian processes*¹⁵⁹.

In principle, all the random processes described in section 17 – with the exception of dice rolling and roulette – are the result of multiple processes occurring simultaneously and independently. The same also applies to the drawing of 50 beads described in section 17.4, which is a combination of 50 independent processes of drawing a single bead from a mixture of 3000 white and 750 red beads. All these processes are, therefore, normal processes¹⁶⁰.

I will not deal with processes that are not normal, although these can also occur in practical situations, especially in production. For example, if there are significant thickenings or narrowings of wire in the production of wire, they usually occur in groups. The appearance of a deformation at a given point is more likely if other deformations have occurred near that point. A

¹⁵⁹ Carl Friedrich Gauss (1777 – 1855) – one of the greatest mathematicians of the modern era; among his many discoveries in the fields of mathematics and physics is the description of the class of normal processes, which were later named after him.

¹⁶⁰ In truth, they are not normal processes (because the latter are idealized mathematical entities), but rather processes that are close to normal in terms of their histogram shapes. However, we call them normal processes for the sake of simplicity, bearing in mind that, in nature, there are no ideal phenomena, only approximations. No uniform motion is completely uniform, no uniform acceleration is exactly uniformly accelerated, and so on.

similar phenomenon is well known to mushroom pickers – where one cep grows, there is a good chance that more of them can be found. Processes that are not normal can also be analyzed statistically, but their analysis is more complex, and they are less common in business practice.

Let us, therefore, return to normal processes. Although each such process results in a potentially very long sequence of measurements p_1, p_2, \dots, p_n , a corresponding ideal histogram can be drawn on the basis of only two parameters calculated from these measurements¹⁶¹: the arithmetic *mean* and the so-called *standard deviation* (σ) determined by the following formulas:

$$\text{mean} = \frac{p_1 + p_2 + \dots + p_n}{n}$$

$$\sigma = \sqrt{\sum \frac{(\text{mean} - p_i)^2}{n}}$$

Standard deviation, which is denoted by the Greek letter σ (sigma), shows the extent to which subsequent measurements deviate from the mean. It is, therefore, considered a measure of process variability – the greater the variability, the greater the deviation. The fact that the formula for σ features squares of differences rather than differences as such means that larger differences will have a disproportionately greater impact on σ than small differences. The means and deviations for our two process courses from Fig. 17.4-4 are shown in Tab. 18.1-1.

	2008	2011
Measurement mean	10.0	9.6
Standard deviation	2.6	2.4

Tab. 18.1-1 Characteristics of two courses

As we can see, the 2008 histogram is slightly “wider” than the one from 2011 because it has a greater standard deviation. Notwithstanding, both are symmetrically distributed around the value of the mean. This is one of the characteristic features of normal processes.

The greater the number of independent processes that make up the resultant process and the more measurements we take for this process, the more symmetrical the histogram will be with respect to the mean value. In Fig. 18.1-2 we see two histograms of ideal normal processes. Their courses can contain numbers from 0 to 100; the means are the same (50), while the standard deviations differ.

Finally, a comment on the relationship between the concepts of a random process, its course, and its histogram. The comment (which I wrote in ten-point Arial font) is intended for those interested in a slightly deeper insight into the mathematical theory of normal processes. It is not indispensable for understanding the content on random processes presented further in the book.

A *process* is a certain real phenomenon that generates a sequence of numbers called the *course* of this process. The process (in this sense)¹⁶² is not a mathematical concept, even though the course is. Of course, every process can generate multiple courses.

¹⁶¹ In fact, the histogram generated using these two parameters will only approximate the actual histogram; the greater the number of measurements, the better this approximation will be. Provided, of course, that our actual process is close to normal.

¹⁶² In probability theory, the notion of process is defined in a strict way, i.e., different from the one I adopted in my writing, which in principle refers to intuition rather than to the world of “true mathematics”.

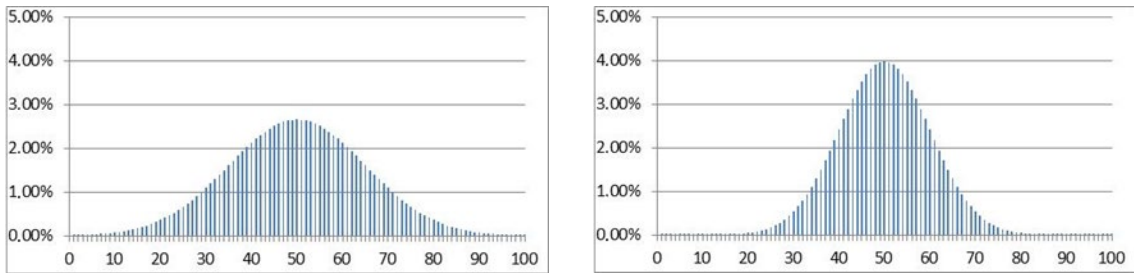


Fig. 18.1-2 Histograms for $\sigma = 15$ (left) and $\sigma = 10$ (right)¹⁶³

For each course (or more precisely: each sequence of numbers regardless of whether it is related to a process or not), its mean and standard deviation can be unambiguously determined. Each can also be represented by a certain histogram, but, in the case of a particular course, we can hardly talk about the probability of a result's appearance, so we should rather discuss the number of its occurrences or the number of its occurrences divided by the number of all measurements, called the *frequency of occurrences*. For example, if we used two dice to generate 11 consecutive numbers, the course and histogram for such an experiment could look like the ones in Fig. 18.1-3.

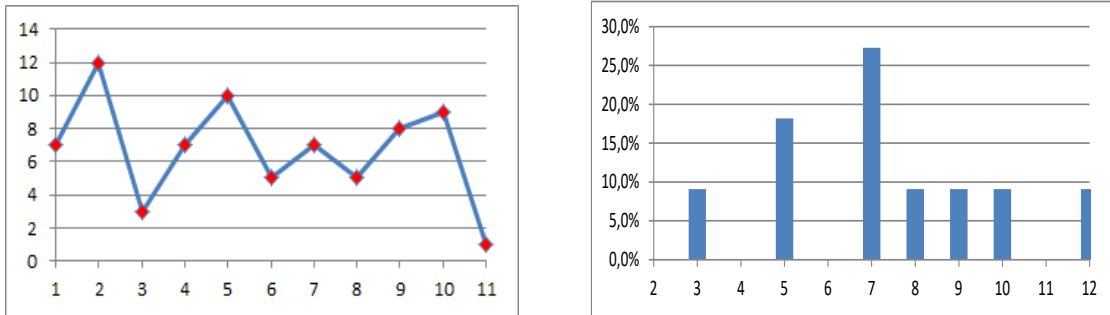


Fig. 18.1-3 The course and histogram for an exemplary process of rolling two dice

As we can see, our histogram is quite different from the one in Fig. 17.4-4, but the general theory of probability tells us that the greater the number of rolls, the closer the histogram would resemble the one in Fig. 17.4-4; in turn, the greater the number of dice involved in the process, the more the shape of this histogram would be rounded and similar to the shape of a histogram of an ideal normal process, e.g., like the one in Fig. 18.1-2. This is because a normal process is only an idealization of processes occurring in reality, just as the process of motion at a constant speed is such an idealization. The former and the latter are described by the following equations:

$$p(x) = \frac{1}{\sigma\sqrt{2\pi}} e^{-\frac{(x-\text{mean})^2}{2\sigma^2}} \quad \text{– probability of measurement } x \text{ occurring}$$

$$d(t) = v t \quad \text{– a body's distance from the starting point at moment } t$$

On the basis of these equations, we can predict how our real processes will behave provided that they are sufficiently close to ideal processes.

In Excel there are functions that allow one to easily calculate the mean (average), standard deviation σ , and probability $p(x)$ of the occurrence of measurement x in a normal process defined by a mean and σ :

¹⁶³ The dark stripes visible on these histograms are only an unintended effect of imperfect compatibility between Word and Excel.

- AVERAGE (cell range) — cell range, e.g., B2:B26, indicates the position of the data
- STDEV.P (cell range) — cell range as above
- NORMAL DISTRIBUTION(x; σ ; σ ; False) — “False” is a parameter that determines the mathematical type of distribution; more about it can be found in the *Excel Help*

The third of these functions is the one used to calculate $p(x)$. In the following sections, whenever I present a histogram corresponding to a real course of a process, it is generated by the functions above, with the assumption that the process in question is close to an ideal normal process.

18.2 Shewhart’s control charts

Shewhart’s control charts are used to detect disturbances that can affect random processes. Process disturbances are events that temporarily change the nature of the process. Fig. 18.2-1 shows the course of a disturbed process of uniform motion.

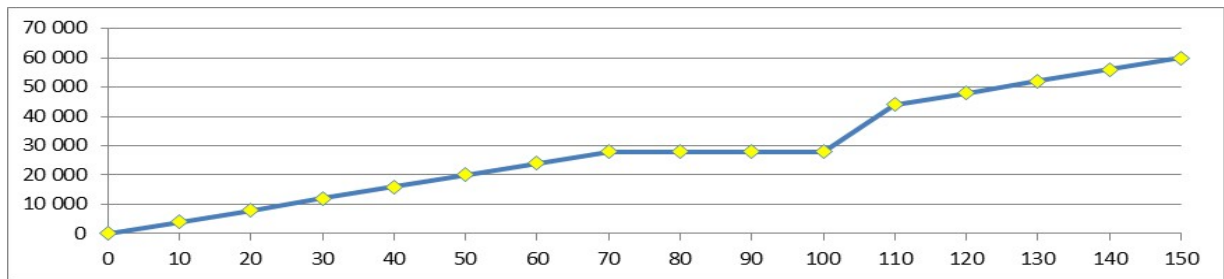


Fig. 18.2-1 A disturbed process of uniform motion

In this process, the body remained motionless for 30 seconds, then made up for the delay over the next 10 seconds, and then returned to its initial speed. The disturbance of a deterministic process can be observed from its course, which is a natural consequence of the fact that the courses reflect the character of deterministic processes well.

Now let us take a look at a random process shown in Fig. 18.2-2. This is the already mentioned process of drawing 50 beads from a mixture of 3000 white beads and 750 red beads (section 17.4). Do the measurements numbered 6, 7, and 21 with the respective values of 17, 6, and 30 indicate any disturbances? We cannot answer this question with as much conviction as in the previous example. However, we have already learned that, in order to assess the nature of a random process, it is necessary to analyze its corresponding histogram rather than its course.

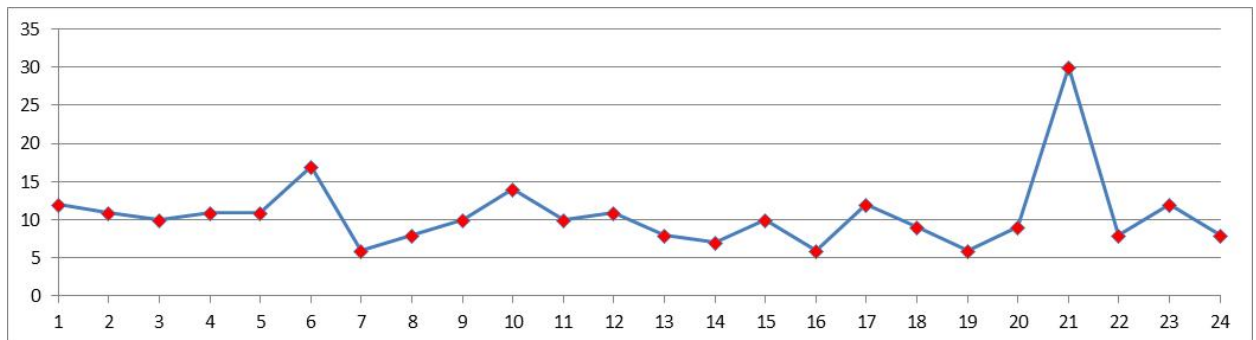


Fig. 18.2-2 The course of the experiment with red beads

So let us look at a histogram corresponding to our process (Fig. 18.2-3). It was generated for a measurement mean of 10.7 and a standard deviation of 4.8. The figure shows three suspicious measurements, while Tab. 18.2-1 shows the corresponding probabilities. In the last column of the table, the probabilities were converted into the frequency of a given result's occurrence, e.g., the probability of 0.0342 corresponds to the result occurring once every 29 draws.

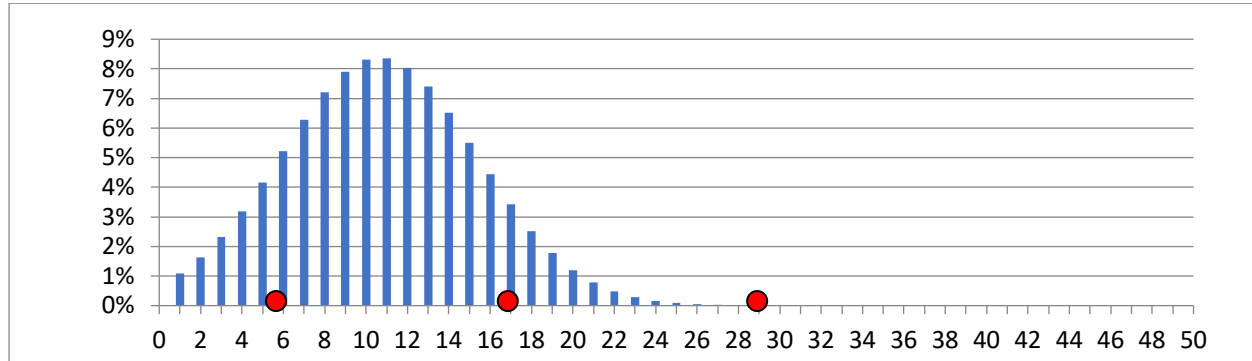


Fig. 18.2-3 Histogram for the process from Fig. 18.2-2

Measurement no.	Value	Probability	Once per ... draws
6	17	0.0342	29
7	6	0.0523	19
21	30	0.000022	47 300

Tab. 18.2-1 Probabilities for three suspicious measurements

As we can see, values 6 and 17 are in the “visible” part of the histogram. The appearance of 17 red beads can be expected, on average, once per 29 draws, and the appearance of 6 red beads – once every 19 draws. However, the probability of 30 beads appearing is so low that the bar corresponding to that result is not visible on the histogram. Such a result can be expected only once in 47,300 draws. What does this mean for the practice of analyzing random processes?

In order to answer this question, we first need to realize why we are interested in detecting disturbances of random process in the first place. What would be its practical value?

While drawing random beads has hardly any practical value, if our process was to correspond to the occurrence of work accidents in consecutive months in a large factory, we would probably wish to know whether the sharp increases in accident rates in the 6th and 21st months were caused by some specific events. We would like to know this in order to prevent these events from occurring in the future. Similarly, if the process described the company’s sales, we would like to know whether the particularly high and particularly low sales figures were just a coincidence or a result of some circumstances that could be either repeated (to achieve higher sales) or avoided (to prevent sales from falling so low). If we had a sufficiently justified suspicion that each of our three measurements had some special cause, we should undertake an investigation in order to identify it by carefully analyzing all the circumstances surrounding each of these measurements. But every such investigation costs time and money, so it would be best to undertake it only in “justified cases”.

Let us now return to measurement no. 21 with the value of 30. There are two possible courses of action that we can take in this matter:

- A. Assume that the result was random and do nothing.

- B. Assume that the result was caused by some specific factor that interfered with the process and look for that factor.

Considering that the probability of the result's occurrence by pure chance is $1/47\,300$, we can expect that choosing option B would be a mistake, on average, once in 47 300 times. That seems to determine our choice. Let us also note, as is clearly indicated by the histogram, that the further up or down the measurement result falls from the average, the more reasonable it becomes to search for its nonrandom cause.

Having come to this conclusion in a particular case, it is now worth considering a rule that would allow similar decisions to be taken on a routine basis. Such a rule was proposed in the first half of the 20th century by the American physicist Walter A. Shewhart. It concerns processes with normal distribution and goes as follows:

The search for the causes of an event that occurred in a normal process is worth undertaking when the corresponding measurement is more than 3σ away from the average.

As can be proven, for all normal processes, the probability of a measurement occurring outside the bounds of

$$\text{mean} - 3\sigma < x < \text{mean} + 3\sigma$$

is approximately¹⁶⁴ $1/370$. The limits of this inequality are known as the *lower control limit* (LCL) and the *upper control limit* (UCL), respectively. And so:

$$LCL = \text{mean} - 3\sigma$$

$$UCL = \text{mean} + 3\sigma$$

Why did Shewhart adopt these specific limits? He probably came to the conclusion that they are sufficient for protecting us from redundant investigations on the one hand and from undetected disturbances on the other. If, for example, we analyze the sales of a store on a monthly basis, then the investigation may be needless on average once every 370 months, i.e., once every 30 years. The experience gained by thousands of companies over nearly a century has also confirmed that, from a practical standpoint, Shewhart's choice was right.

¹⁶⁴ At this point, it should be emphasized that we are talking here about the general probability that the measurement value will lie outside the indicated limits. The probability of the appearance of a specific measurement result outside of these limits will be much lower, of course. For example, in the "red beads" process, the appearance of exactly 30 red beads has a probability of $1/47\,300$, while the probability that the number of red beads will be higher than the mean + 3σ (i.e., 25 beads or more, up to 50) amounts to $1/370$.

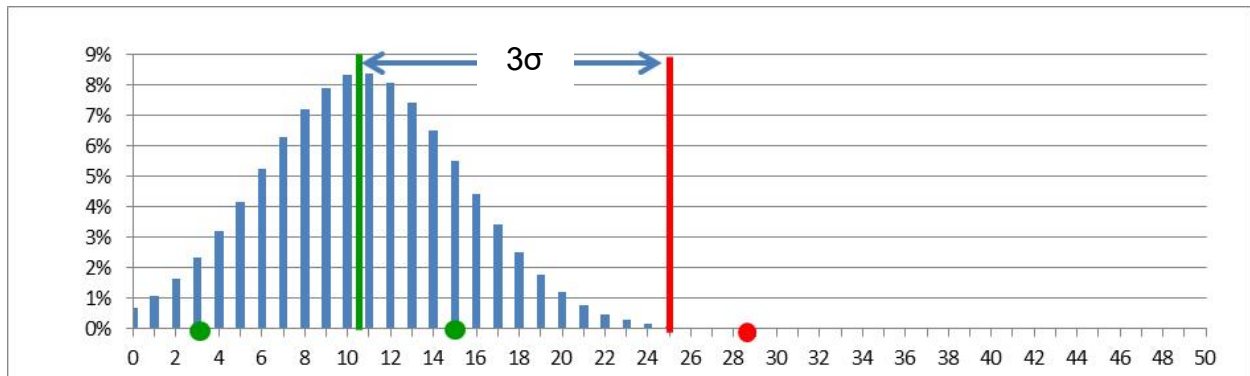


Fig. 18.2-4 Application of the Shewhart rule to the “red beads” process

In Fig. 18.2-4 we can see the position of the UCL on the histogram of the process of drawing red beads. In this case, the lower control limit is negative, so it is not featured on the histogram. In practice this means that the “red beads” process behaves like a normal process only in the area $0 \leq x \leq 50$.

The fact that Shewhart’s rule is based on the distance from the mean has a very important practical value, because it enables the process to be evaluated directly on the graph of its course without generating a histogram. In order to make such an evaluation, we first apply a horizontal line at the level of the arithmetic mean, which we call the *central line*, and then two further lines at the levels of the LCL and UCL respectively. In Fig. 18.2-5 we see such a chart for the “red beads” process. The lower control limit, which is below zero, has not been drawn.

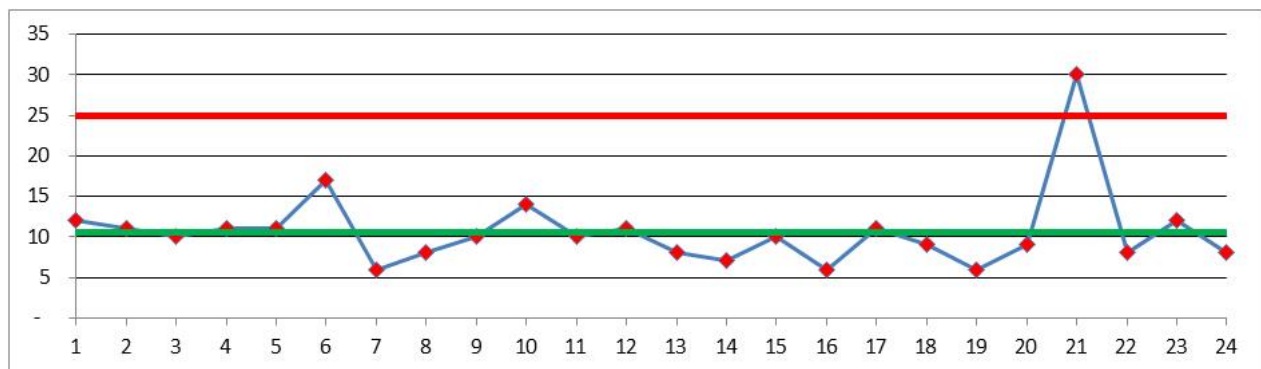


Fig. 18.2-5 Shewhart’s control chart for the “red beads” process

As we can see, measurements 6 and 7 do not justify an investigation, while measurement 21 (showing a value of 30) certainly warrants one. In truth, the analyzed course was created by a deliberate distortion of the actual course at position 21. This distortion was large enough to make the chart “recommend” the investigation.

18.3 Regulated and dysregulated processes

A typical control chart has two control limits at a distance of three standard deviations from the mean and looks like the one on Fig. 18.3-1.

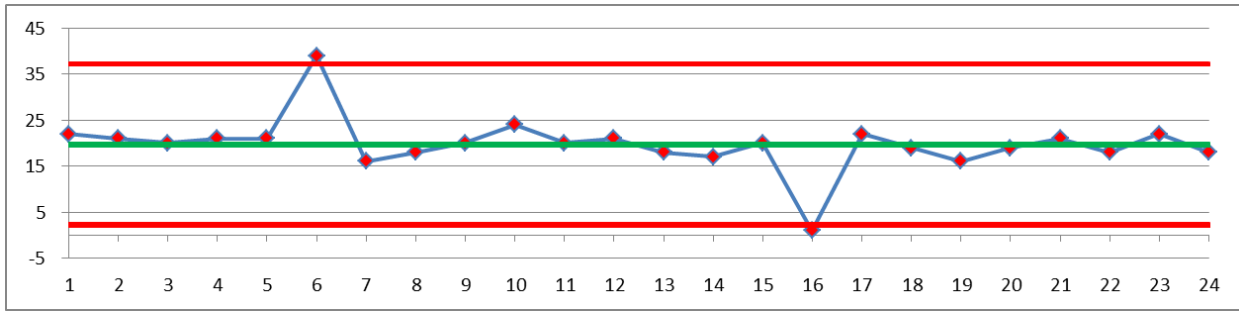


Fig. 18.3-1 A typical Shewhart control chart

This chart features two points at which the control limits are exceeded, which indicates that some disturbances have occurred. Such transgressions are called *dysregulation signals*. In reality, however, dysregulation signals include more than the exceeding of control limits. Today, many specialists distinguish the following signals of dysregulation¹⁶⁵:

- one of the limit lines is exceeded;
- at least eight consecutive values fall on one side of the central line;
- at least six increases or decreases occur in a row;
- at least three out of four consecutive values are closer to the limit than to the average.

The first of these signal groups concerns a single measurement, i.e., a single event. Crossing a limit line indicates a singular short-term disorder. The other three indicate a change, possibly permanent, in the nature of the process over a longer period of time. In section 20, I present examples of such dysregulations.

With regard to processes that do not show any dysregulation, we can say with a high level of certainty that, if there are no external disturbances, they will be predictable in the sense that neither their central line nor their control limits will change significantly. Such processes are called *regulated processes*.

Processes that are not regulated (i.e., in which dysregulation occurs) are called *dysregulated processes*. We cannot predict anything certain about the future course of such processes, because we do not know if and when they will feature any more dysregulations. This is the second kind of unpredictability, which I wrote about in section 17.3.

Regulated processes	Dysregulated processes
1. Playing dice with honest players	1. Playing dice with a crook
2. Barium pressure in good weather	2. Barium pressure before a storm
3. Factory accident rate in stable conditions	3. Accident rate in a factory afflicted by sabotage
4. The status of a cash register in an honest company at the end of the day	4. The state of a cash register in a company afflicted by thievery

Tab. 18.3-1 Examples of regulated and dysregulated processes

¹⁶⁵ These are all events with a probability close to 1/370.

Walter Shewhart called the causes responsible for random process variability *common causes*, and the causes responsible for dysregulation – *special causes*. In Tab. 18.3-1 I have collected some examples of regulated and dysregulated processes.

A Shewhart control chart can be generated in Excel with great ease. For this purpose, to the table in which the measurement results are recorded, we add three lines corresponding to the mean and the upper and lower control limits (as in the example shown in Tab. 18.3-2), and then generate the graph for this table in the usual way.

No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Measurement	22	21	20	21	21	39	16	18	20	24	20	21	18	17
Mean	20	20	20	20	20	20	20	20	20	20	20	20	20	20
UCL	37	37	37	37	37	37	37	37	37	37	37	37	37	37
LCL	2	2	2	2	2	2	2	2	2	2	2	2	2	2

Tab. 18.3-2 Example of a table for generating a control chart in Excel

The mean is calculated using the AVERAGE function and the standard deviation is calculated using the function STDEV.P (section 18.1).

18.4 Statistical process control

Statistical process control (SPC) is, generally speaking, a set of procedures giving the process the shape and position that we desire it to have. First of all, if the process is dysregulated, it is essential to remove the sources of dysregulation because otherwise the process will remain unpredictable. However, the fact that a process is regulated does not necessarily mean that it suits our needs. If it describes sales in consecutive months, we may consider them too low, and if it describes the number of accidents at work, we may wish to reduce this number. We may also want to reduce the process' variability (the dispersion of measurement results around the mean) to improve its predictability. Generally speaking, statistical process control boils down to three types of activities:

1. Removing dysregulations.
2. Changing the position of the central line.
3. Bringing the control limits closer to the central line, i.e., reducing *standard deviation* (variability).

Trying to perform the latter two actions before regulating the process would be a very serious mistake. For instance, what good would reducing costs do in a company where a thief is operating?

In fact, managers unfamiliar with the characteristics of random processes are prone to commit many more errors when making decisions. These errors can be grouped into the following five categories:

1. Attempting to control a dysregulated process.
2. Treating ordinary causes as special causes, known as tinkering (section 18.5)
3. Disregarding special causes where they occur.
4. Confusing control limits with customer expectations (section 19)
5. Setting unattainable goals (section 19.2).

18.5 Tinkering

A particularly common example of tinkering are attempts to “correct” the random variability of a process. To understand it, let us imagine a turner making bushings with a required diameter of 10 mm. His lathe, however, is heavily worn, and the bearings are somewhat loose; as a result, the diameters of the produced bushings range from 9.43 mm to 10.63 mm. The difference between these values is 1.20 mm. Table 18.5-1 shows the results of consecutive measurements of the bushing diameters, and the corresponding control chart in Tab. 18.5-1 demonstrates that the standard deviation of this process is 0.40 mm.

No.	1	2	3	4	5	6	7	8	9	10	11	12
Measurement	9.8	9.6	10.2	9.4	10.6	10.0	9.4	10.0	10.4	9.8	10.6	9.8

Tab. 18.5-1 Initial course of the bushing-turning process

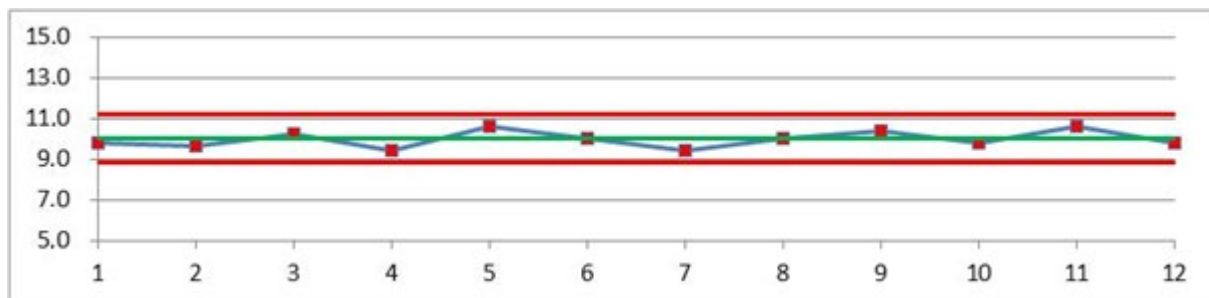


Fig. 18.5-1 Control chart for the initial process of turning bushings

One day, the turner is “encouraged” to sign a “no defects in our work” declaration accepted by the entire crew. He, therefore, starts to “put more effort into his work”. In order to correct the lathe’s errors, he measures the diameter of each bushing and then – before starting to turn another one – adjusts the distance of the cutter from the axis of rotation by the difference between the diameter of the last bushing and the required value (10 mm). In this manner, he is reacting to random errors as if they were systemic errors. He assumes that, if the end of the cutter was too far from the axis in the first turning run, it will be the same the next time around. Meanwhile, the position of the cutter is the result of the process’s randomness and not its constant feature. If it were a constant feature, the diameters of all bushings would deviate equally from the required 10 mm, but this is not the case. In this way, the turner compounds the original variability of the process with the variability of corrections, which is a derivative of the diameter variability, only delayed by one work cycle.

Let us analyze how these corrections impact the course presented in Tab. 18.5-1. In the first measurement, the bushing had a diameter of 9.8 mm, so the turner moves the cutter away from the axis by 0.2 mm. In the second run, the diameter would be 9.6 mm due to the process’s randomness, and, since this randomness is not affected by the correction, the resulting measurement will be $9.6 \text{ mm} + 0.2 \text{ mm} = 9.8 \text{ mm}$. So the turner will again move the cutter away from the axis by 0.2 mm, and as a result the third bushing will have a diameter of $10.2 \text{ mm} + 0.2 \text{ mm} = 10.4 \text{ mm}$. Fig. 18.5-2 shows the changing values of corrections in subsequent runs, Tab. 18.5-3 shows the measurement results for the “corrected” process, and Fig. 18.5-2 presents the corresponding control chart.

No.	1	2	3	4	5	6	7	8	9	10	11	12
Correction	0	0.2	0.2	-0.4	1.0	-1.6	1.6	-1.0	1.0	-1.4	1.6	-2.2

Tab. 18.5-2 Correction values in subsequent turning runs

No.	1	2	3	4	5	6	7	8	9	10	11	12
Measurement	9.8	9.8	10.4	9.0	11.6	8.4	11.0	9.0	11.4	8.4	12.2	7.6

Tab. 18.5-3 Course of the corrected process

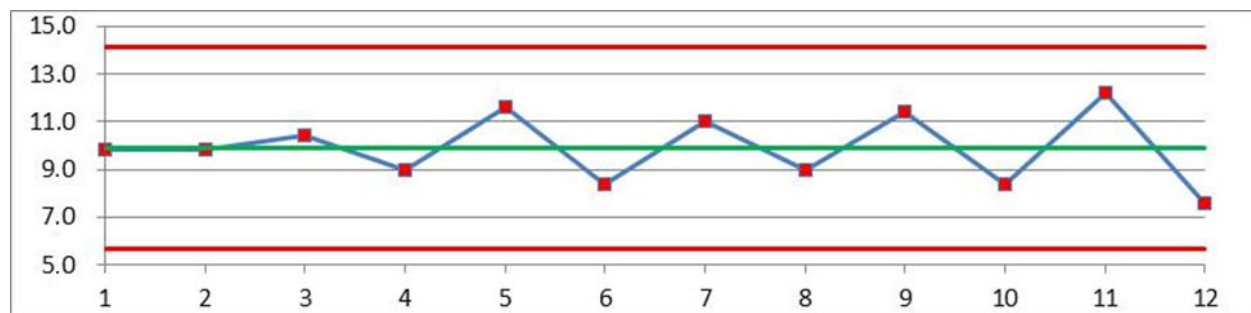


Fig. 18.5-2 Control chart for the corrected process

The scale of both charts is the same, so the visible differences between them are the actual differences. The “tinkered” process not only has a much greater variability than the initial one, but this variability is clearly growing¹⁶⁶. Tab. 18.5-4 shows the differences between the basic parameters of both processes.

	Initial process	Corrected process
Measurement mean	10.0	9.9
UCL	11.2	14.1
LCL	8.8	5.7
Difference between minimum and maximum	1.2	4.6
Distance between limits	2.4	8.4
Standard deviation	0.4	1.4

Tab. 18.5-4 Differences between the initial and the corrected process

The unfortunate turner can now expect to lose his bonus or maybe even his job. After all, it is patently obvious that he behaved like a saboteur. He simply did not want to put any effort into his work. There is no room for such people here!

¹⁶⁶ The presented process is not a real bushing-turning process, but a simulated one. Notwithstanding, the variability of this process is real and comes from the “red beads” experiment described in section 17.4. The initial process for the bushings was obtained by appropriately (proportionally) scaling the numbers of red beads into bushing diameters.

18.6 The pitfalls of evaluating processes with the naked eye

Evaluating a process with the naked eye is very simple. We look at the process, and if it is sales-related, then we are happy when the values are growing, and worry when they are decreasing; conversely, if the process is cost-related, then our emotional states are reversed. Subsequently we react to negative results with penalties and demands for improvement, while rewarding positive results and using them as a basis for raising the targets for the next period. Let us see how this works on the example of three sales teams¹⁶⁷.

18.6.1 Three sales teams

Imagine managing three teams of retail sellers with ten people per store. The sales target for the next month that we set for all sellers is 100 units per person. In order to “adequately motivate” the sellers, we announce that the two best sellers will receive rewards, and their two worst counterparts will be dismissed.

Let us see how the process looks at the end of the month: the measurements in Fig. 18.6-1 are the values of sales achieved by each seller. The vertical lines show the divisions between the teams, and the horizontal line is the sales target.

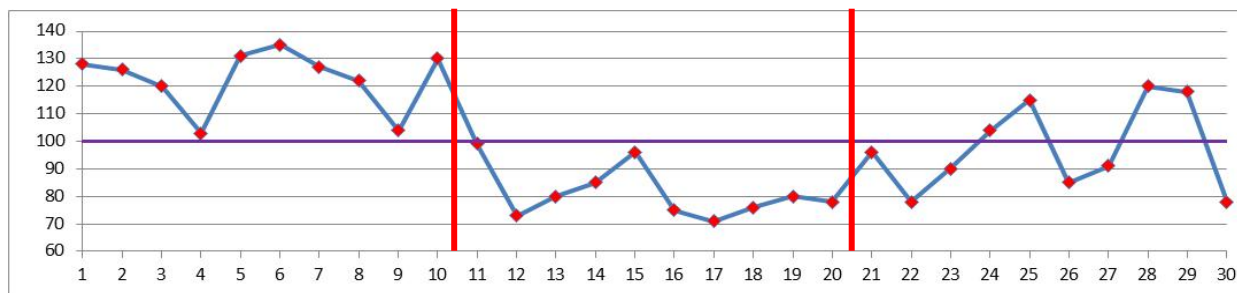


Fig. 18.6-1 Three sales teams as one process

Evaluating the results by eye we see that the first team is surely the best. The prize goes to the sixth and tenth seller, and the whole team exceeded their sales targets. The average value of sales in the team was 120 units. Therefore, this value will be used next month as the sales target for all sellers. Now nobody can say that it is impossible to achieve!

It is worth mentioning that the malcontents from the second team claimed that the goal of 100 units was unattainable. And apparently the word became flesh. If someone does not feel like putting in the work, motivation will not help. Sellers no. 12 and 17 lose their jobs, and the team leader is relegated to the role of a rank-and-file salesman. The average in this team was 80 units.

The third team was pretty mediocre. Only four people achieved the target. Maybe they should be sent to learn from the first team?

Now let us take look at our three teams as three different processes (Fig. 18.6-2). They are certainly different, because each shop is located in a different part of the city, so they operate on different markets. Let us also look not with the naked eye anymore, but with an eye armed with control charts.

¹⁶⁷ I borrowed this example from someone, but I can't find the source. I would appreciate the help of my readers.

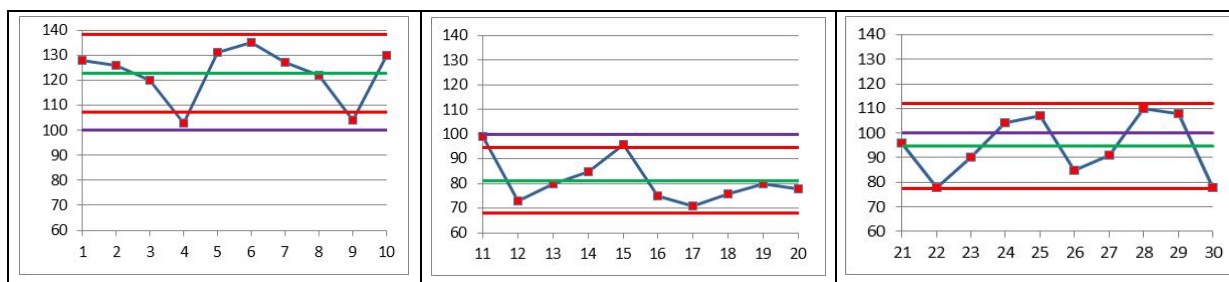


Fig. 18.6-2 Three teams as three processes

As we can see, the market in the first process is so absorbent that the sales target falls below the LCL. The good average is hardly surprising, but the poor results of sellers 4 and 9 are puzzling. The cause should be investigated because the process is not regulated.

The second team has two outstanding sellers who have exceeded the UCL. They are worth keeping an eye on. Maybe others can learn something from them. This process is also unregulated.

The third team does not seem to require any interference. Its process is regulated.

What should the sales manager do now? After all, the average of the three teams was only 100.5 per seller. The target has been achieved, but the company needs higher sales to cover the cost of investments.

The first conclusion from our analysis is that we cannot count on achieving much more if the processes remain unchanged. The results may be improved slightly if the dysregulations from the first process are removed, but this effect can be consumed by the disappearance of dysregulations in the second process. It is, therefore, necessary to change the processes, or more precisely – to increase their mean values. In the third process, appropriate measures can already be introduced, but the other two must first be regulated.

Of course, the control charts will not provide us with an answer to the question of what these “appropriate measures” should be. Maybe they should include more effective marketing, maybe rebranding, maybe a change in pricing policy, maybe some training for sellers, and most likely a few of these measures together. However, there is one thing we know for sure: what is required is comprehensive action aimed at processes, not individual actions aimed at sellers.

At this point someone could say that an appropriate “incentive system” would also constitute a comprehensive measure. This is true. It would be comprehensive, but unfortunately ineffective, as I have already discussed in section 8.

18.6.2 Accidents at the factory

A certain factory analyzed the monthly number of accidents between January 1997 and December 1998¹⁶⁸. The course of the accident process together with the Excel trend line (see section 17.4) is shown in Fig. 18.6-3. The company’s supervisory board expressed deep concern about the situation, especially considering the “rising trend” of the phenomenon. The management board was also instructed to investigate the causes of the high number of accidents in December 1997, May 1998, and December 1998.

¹⁶⁸ Source: [82], p. 74.

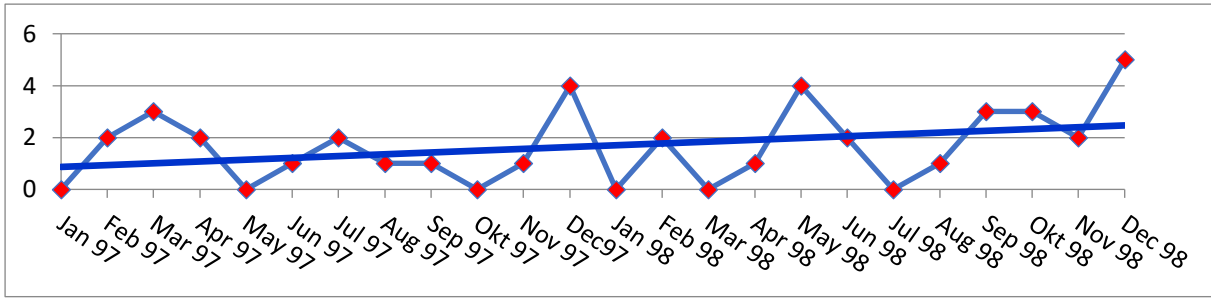


Fig. 18.6-3 Dynamics of accidents at the factory

Let us now look at the control chart of this process (Fig. 18.6-4).

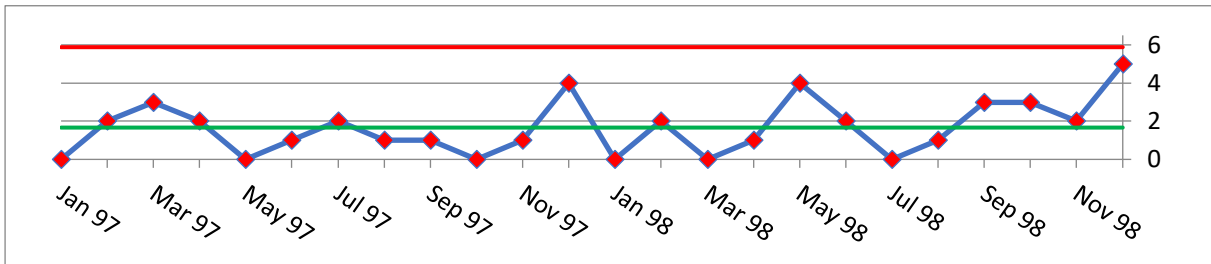


Fig. 18.6-4 Control chart for the accident process

As we can see, the process is highly regulated, so the ordered investigation of causes is completely unwarranted: it will not lead to any useful conclusions, though it will certainly incur additional costs. The rising Excel trend is also not a cause for concern because, as we already know, it does not tell us anything about the future. There is no indication that the number of accidents is going to increase. What is worrying, however, is the fact that, if OSH standards in the factory do not change, we can expect up to six (!) accidents per month, as indicated by the position of the UCL. Therefore, the board should promptly address these standards, rather than waste time and effort on investigating the past.

To conclude this section, I will return to the issue of the *Excel trend line*, which I have already discussed in section 17.4. We would like to understand a *trend in a random process* as a course of this process that gives rise to a reasonable assumption that the character of this process in the future will be different than before. In the control chart model, the character of the process is reflected by its histogram, so the change in the process’s character is a change in the histogram, and such changes – as we already know – are indicated by dysregulation signals, which do not include rising or falling Excel trend lines.

19 The voice of the customer

19.1 Quality regime of the process

Each of us pursues some goals at work. Very often, such objectives are also assigned numerical values: to achieve sales at least at the level of X, to reduce the share of defects in each batch of goods to Y%, to maintain the boiler temperature between T_1 and T_2 , etc. In general, it can be said that each target that can be measured numerically is determined by the three ranges shown in Fig. 19.1-1. The green (middle) range is the desired range, the other two are cause for alarm. The boundaries between them are:

- *The lower tolerance limit (LTL);*
- *The upper tolerance limit (UTL).*



Fig. 19.1-1 General form of a numerically defined target

These two boundaries are called by Wheeler [82] *the voice of the customer*, as opposed to the *voice of the process*, which is constituted by the UCL and LCL described earlier (section 18.2).

How the voice of the customer relates to the voice of the process is most easily understood based on examples of production processes. Let us then assume that we are dealing with the process of producing a drug in the form lozenges in which the weight of the active substance should be within the range of 40 ± 1.6 mg. If the weight is lower, the medicine may be ineffective, and if it is higher – the medicine may be harmful. Suppose that the average weight of the active substance in our process is 40 mg and the standard deviation – 0.8 mg. The histogram for this process along with its control and tolerance limits is presented in Fig. 19.1-2¹⁶⁹.

¹⁶⁹ In truth, I should show here not a histogram that shows the frequency (probability) of occurrence of discrete phenomena (e.g., dice rolls), but a curve corresponding to the function of so-called *probability density*, which describes continuous processes. However, wishing to avoid delving into the nuances of the probability calculus, I will stick to the graphical form of histograms. For the purpose of explaining the difference between the voice of the client and the voice of the process, such a simplified understanding of probability density will be quite sufficient.

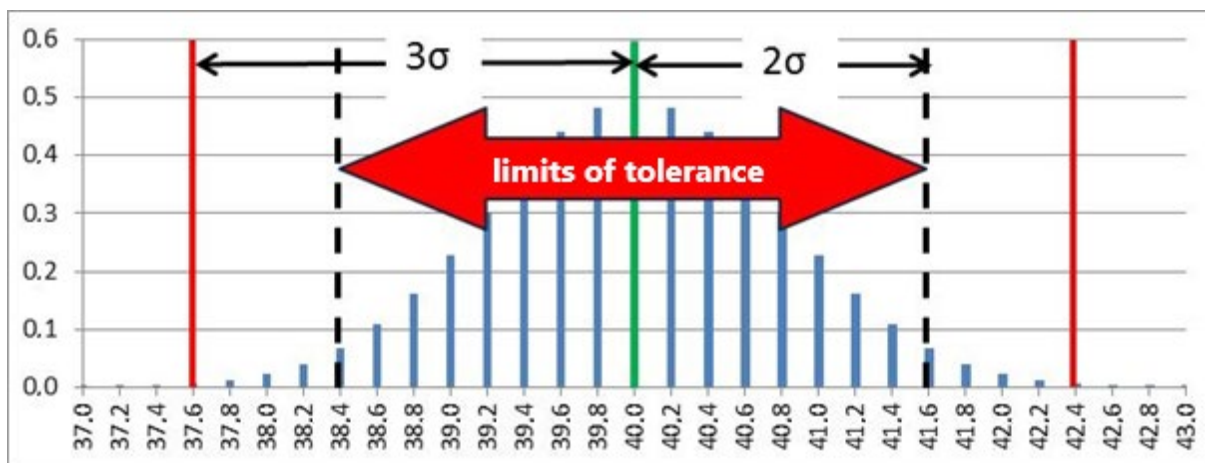


Fig. 19.1-2 Voice of the process and voice of the customer

As we can see, the tolerance limits fall between the control limits, and more precisely – at a distance of 2σ from the mean value. This means that lozenges that do not meet the expected standard may appear with a relatively high probability, which – as can be calculated – will amount to about 45 lozenges for every 1000 produced. Is that much or little? This of course depends on the tolerance of the patient’s body to overdosing or underdosing. This must be decided by doctors and pharmacists, but it seems that 45 ill-treated patients for every 1000 is probably too much.

So what should be done? Of course, we cannot change the patient’s response to the medicine, so if we want to increase the level of safety, we must change the process in such a way that the tolerance limits are outside the control limits. Of course, the further away they are from those limits, the more certainty we will have that the tolerance limits will not be exceeded. This leads us to a certain scale on which the *quality regime of the process* can be defined in relation to the adopted tolerance limits.

Quality regime	Defects per 1 million items
1σ	317 310
2σ	45 500
3σ	2 700
4σ	63
5σ	0.57
6σ	0.002

Tab. 19.1-1 Scale of quality regimes for normal processes¹⁷⁰

¹⁷⁰ Source: [80], p. 251. Source: [79], p. 251. In reality, this matter is a bit more complex, but a simplified version is sufficient to grasp the idea of the scale of quality regimes. Readers interested in deeper insight into this issue are referred to the cited sources.

We can say that, for the adopted tolerance limits, *the process follows a qualitative regime at the level of $n\sigma$* if the tolerance limits are at least $n\sigma$ away from the mean value of the process.

Tab. 19.1-1 shows how different quality regimes translate into different numbers of defective products per 1 million items produced. The well-known *Six Sigma* method – which I described in section 14.1 – took its name from the 6σ regime, which allows for, on average, two defective products per 1 billion produced. To achieve this regime for our example, we would need to reduce the process's standard deviation from 0.8 to 0.25. Then the histogram with our (unchanged) tolerance limits would look like the one in Fig. 19.1-3

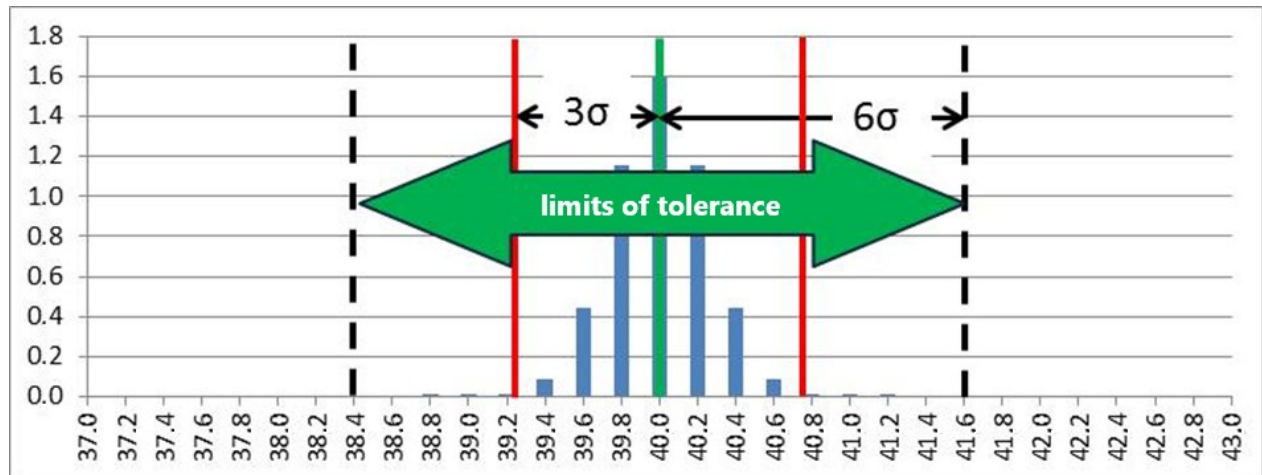


Fig. 19.1-3 Process with a 6σ quality regime

Let us now assume that our medicine is being produced under the 6σ regime. Naturally, samples of the drug are periodically obtained and sent for laboratory analysis. So we establish a control chart for these analyses, which raises the question: what control limits should we set for this chart? Should their distance from the central line amount to 3σ (as recommended by Shewhart) or 6σ ?

To answer this question, please note that Shewhart's rule does not in any way apply to the voice of the customer. Its purpose is to detect anomalies in the process itself, anomalies that may be the result of an external disturbance of the process. There is, therefore, no reason why the control limits should depend on the quality regime.

Someone may ask, however, why we should be concerned about exceeding the control limit by, e.g., 4σ and undertake a search for the possible causes of this situation, if the safety limit is as high as 6σ . Well, that is because crossing the 3σ limit means that there is a high probability that the process was disturbed, and, if this is true, the process is unpredictable, so we can soon cross the 6σ border as well. Considering that we have adopted the 6σ regime, the costs associated with the emergence of non-normative products are probably very high. It is better to investigate after exceeding 3σ when our patients are not yet at risk than to wait for one of them to die from an overdose or underdose.

There is another important aspect of the Shewhart analysis which needs to be addressed, and that is what is measured and how when we analyze a process. If we analyze a process of sales in consecutive periods, we naturally measure the level of sales in each of those periods. The same applies to measuring the number of accidents at work, the number of customers visiting the store, or the departure time of delivery vans from the base. However, in the case of production (and mass production in particular), we usually do not evaluate each product individually. We do not do this for two reasons: firstly, it would take too much time, and secondly, the

measurement often destroys the product (e.g., in the case of medicines). Therefore, we evaluate batches of products by selecting individual items at random and then measuring them. Each batch is assigned a single result, which is either the average from the obtained measurements, or the maximum or minimum value, or another aggregate. In any case, we obtain a sequence of numbers, which we can then analyze using Shewhart's method. Readers interested in using control charts in manufacturing are referred to specialist literature: [79], [80] and [82].

19.2 Setting goals

In the previous section, I discussed the notion of the voice of the customer using the example of a production process, but all the observations made therein apply to non-production processes as well. Of course, in the case of the latter, adopting a 3σ regime will usually be completely sufficient.

It may seem that, in non-production settings, not every voice of the customer is defined by two tolerance limits. For example, a sales target is normally set as the level of sales to be achieved (LTL), while an error elimination target is the level of errors that cannot be exceeded (UTL). In reality, however, the level of sales should not exceed the production capacity, and the number of errors cannot fall below zero. Therefore, we can still assume that each numerically determined voice of the client has both limits.

Mathematically speaking, all numerical targets are subject to the scheme presented in Fig. 19.1-1, but the limits determined by them may differ significantly in terms of management. D. Wheeler ([82] p. 18) lists three categories of tolerance limits¹⁷¹:

1. *Factual tolerance limits*, e.g., boiler temperature, blood cholesterol level, truck speed.
2. *Prognostic tolerance limits*, e.g., meteorological forecasts, market forecasts, budgets.
3. *Wishful tolerance limits*, e.g., expected level of sales or profitability, expected number of customers per day.

The limits of the first type must be strictly adhered to because exceeding them can lead to disaster. A team provided with factual limits should, therefore, have some tool to enable them to maintain the process within those limits.

Prognostic limits are used for monitoring but should not be used as targets. This is quite obvious for meteorological forecasts, but much less so for budgetary targets. Management boards are universally expected to maintain revenue and expenses within the limits defined by the budget. However, this seemingly completely rational expectation causes many companies to make completely needless purchases (a common practice) or cut some necessary costs (an equally common practice) toward the end of the year. In one of the companies I know, the management board realized that they would not achieve the profit expected at the end of the year and decided to make "savings" by cutting the training for sellers; they managed to achieve the budgetary target, but the sales dropped significantly in the following year. Other classic examples of achieving budgetary targets include "sales pushing" (described in section 8.7) and the more general MBO syndrome (described in section 8.9).

If the budget should not be treated as a target, then maybe it is not necessary at all? Well, it depends. It depends on the company's financial condition and the staff's proficiency at

¹⁷¹ D. Wheeler calls them in a slightly different way: facts of life, specifications needed for planning, arbitrary numerical targets.

managing the finances. Because “without a budget” does not mean “without financial management”. section 2.4.1 describes the world’s largest and fastest growing American tomato processing company. This company has a double-digit year-on-year growth rate (while the industry grows at the rate of 1%) and does not use any central annual budgets. However, most companies do, and, unfortunately, the vast majority of them treat budgetary indicators as objectives that simply must be achieved.

An alternative way of treating the budget is to use it as a compass (as I discuss in detail in section 10) that does not impose any course of action or a finish line to be achieved, but only indicates direction. A good analogy for this use of the budget may be a trip between two cities located on the opposite sides of an unfamiliar mountain range. We know the direction we want to go in, and we know where and when we want to arrive, but we also understand that we cannot go in a straight line between the two cities. We also understand that unexpected obstacles may prevent us from reaching the finish line on time or even force us to change the destination. All these unforeseeable events should not result in disciplinary or financial sanctions for the leader of the expedition, even though the route may need to be corrected or perhaps, our resources need to be supplemented.

A budget treated as a compass provides us with answers to questions such as what revenue we need to generate in order to finance our action plan, or how much we need to invest in order to achieve the intended profits in the future.

Finally, wishful limits are those that are detached not only from the observable phenomena, but also from forecasts. A typical such scenario is that of setting “sales targets” when the seller does not have sufficient influence on the parameters (the mean and standard deviation) of the sales process. In such a situation, the adoption of a monthly sales target above the upper control limit of the process forces the seller to resort to manipulation.

Speaking in the most general terms, when we are given a goal that is impossible to achieve with the available process, we have three options:

- A. Improve the process.
- B. Cheat the process.
- C. Cheat the measurement.

Of course, the only correct course of action is A, which usually requires the use of tools from the areas of technology, marketing, motivation, etc., i.e., the entire body of knowledge indispensable for managing the organization in which the process takes place. Most often it also requires the involvement of some of the company’s resources – financial, personal, or technical.

I will not deal with process improvement at this point, because this involves the entirety of management sciences. However, I will show you what happens when an unattainable goal is set, and the person who is supposed to achieve it does not have the tools to improve the process and is forced to choose either option B or C.

Cheating the process entails its modification in a way that introduces activities that guarantee the achievement of the goal, but most often have a detrimental impact for the whole project. Numerous examples of such actions have already been described in this book in boxes with real-life examples:

- an insurance agent persuading their client to take out fewer insurance policies than they intend to (section 8.7),

- glass factory workers breaking defective bottles to increase the proportion of defect-free products in the production batch (section 8.3),
- an eyewear retailer poaching “better customers” for himself (section 8.7),
- a primary care nurse shortening the average time a patient has to wait for a medical intervention (section 8.12.2),
- a management board playing an MBO game with the supervisory board (section 8.9).

Finally, cheating measurements occurs when nothing is changed in the process, but the method of measuring its effect is modified. Here are some real-life examples of this phenomenon described in section 8.7:

- sales pushing for the purpose of obtaining an annual bonus;
- a merchant in a hypermarket who persuades their supplier to increase both the price and the discount;
- a company that does not pay any invoices at the end of the year to achieve the intended profit.

I will add one more example to this collection:

Increase the average purchase value

In a certain company that was unable to increase sales by attracting new customers, the shop assistants were given the task of encouraging customers to buy more. This goal was, of course, accompanied by an appropriate “financial incentive”. Within a short period of time, the value of an average purchase increased quite significantly. It turned out, however, that despite this increase, the value of sales did not rise, while the number of transactions (cash receipts) actually decreased. After analyzing the phenomenon, it was discovered that when customers made small purchases and did not care about the receipt, the sellers would combine the purchases of several customers on one receipt.

19.3 “Hit my stone” syndrome

In the days of my childhood, our backyard group had a trick for newcomers who wanted to join. One of us would bet the new kid that his throwing was more accurate than the newcomer’s, then throw a stone wherever, and say: “Now hit the same spot – it’s very easy, I’ve just done it without even trying.”

Unfortunately, adults often play the same game, although they are usually not aware of it. Tab. 19.3-1 shows the number of defects that occurred in the production of a factory over 24 consecutive months.

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
12	11	10	11	11	17	6	8	10	14	10	11	8	7	10	6	12	9	6	9	11	8	12	8

Tab. 19.3-1 Production defects

As we can see, the number of defects has fallen to six three times during this period. The management, therefore, decided to set this value as the new target. After all, no one can say that it is too difficult to achieve, because it has been achieved three times without making any special effort, so apparently willingness is all that is required.

Let us then look at the control chart for this process (Fig. 19.3-1).

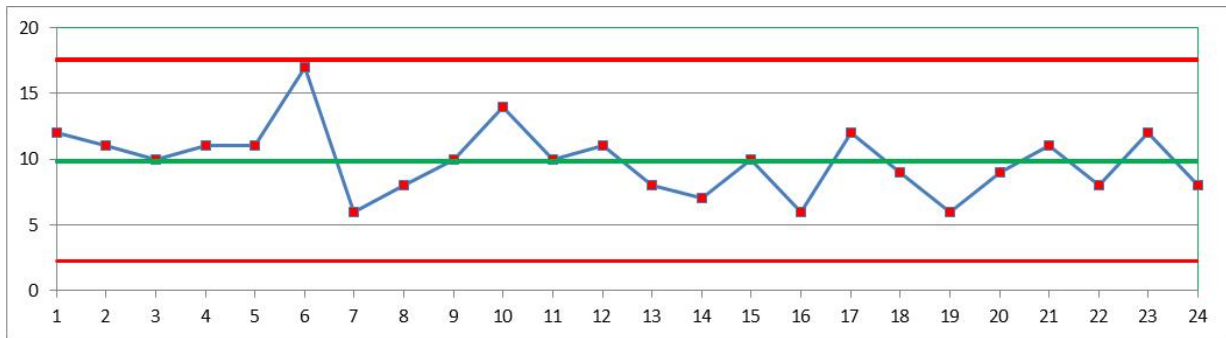


Fig. 19.3-1 Control chart for production defects

As we can see, achieving the new goal without far-reaching changes to the process is impossible. The mean is 9.9, and the upper control limit is as high as 17.5, so we can expect the vast majority of the results to be above 6.

But could we not attempt to reduce the monthly defect rate to a maximum of 6? Can't such goals be set at all? Of course they can. We can take 6 as an objective, but we must understand that achieving it will require us to change the process so that the UCL drops from 17.5 to 6. This may be very difficult, and the argument that it is not so because the value of 6 has already been achieved three times is simply rubbish.

20 Revealing hidden disturbances

20.1 Jammed signals

Imagine entering a room where a jackhammer is working, while someone is playing drums, and someone else is playing the classical guitar. Of course, at first you will only hear the hammer. When it is switched off, you will hear the drums, and only when they also go silent will you be able to listen to the guitar.

In the case of random processes, it often happens that a very strong dysregulation drowns out or “jams” a weaker dysregulation. As we remove subsequent dysregulations, additional ones are revealed.

Let us take a look at a control chart for the red beads process (Fig. 20.1-1): two results are clearly distinguishable from the others, but the chart indicates dysregulation only in position 10.

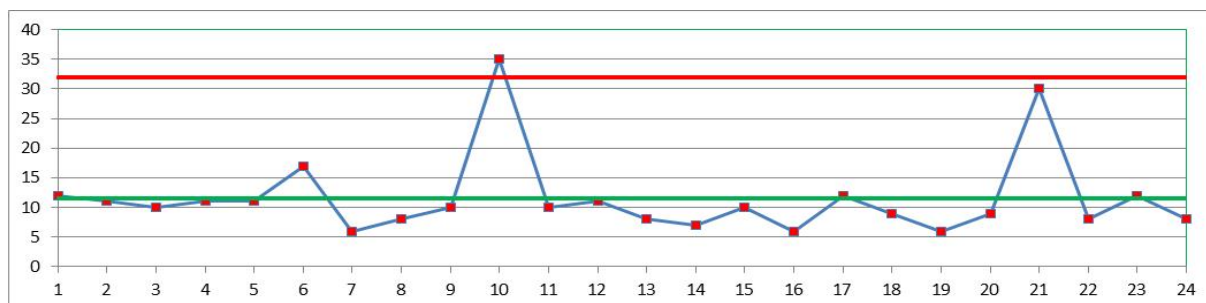


Fig. 20.1-1 Measurement no. 10 drowning out measurement no. 21

If we remove the first of the dysregulations, reducing the value of measurement 10 from 35 to 14, the recalculated chart will show a disturbance in position 21 (Fig. 20.1-2). The removal of the large deviation lowered the UCL so much that drawing 30 red beads became a very unlikely event. In other words: it is no longer “jammed” by the previously occurring measurement at the level of 35.

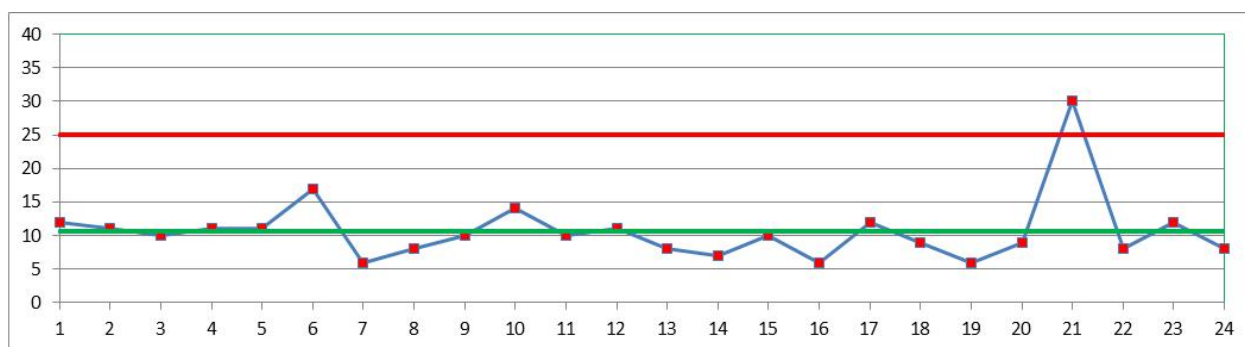


Fig. 20.1-2 Measurement 21 is visible as a dysregulation

From these considerations a very important conclusion emerges, which I will call the *law of strong disturbances*:

Strong disturbances can conceal neighboring weaker disturbances.

When a process features many disturbances, the weaker ones can be drowned out by the stronger ones. As a consequence, the removal of one dysregulation may result in the appearance of new ones. Of course, each time the chart needs to be recalculated, revealing the new mean and the new control limits. Someone once compared removing the subsequent layers of disturbances from a process to peeling onions: not only do we discover a new layer under each layer, but we also cry at each of them.

As we can see, control charts with a range of 3σ may not detect all disturbances. So why not bring the control limits closer to the mean, e.g., at a distance of 2.5σ ? Of course, it could be done, and we would then detect the drowned out disturbances, but we would also raise more false alarms, so this is always a trade-off. All in all, it seems that almost a century of experience with 3σ has provided sufficient justification for the choice this particular standard.

20.2 When exceptions become the rule

When we talk about dysregulated processes, we use the notion of *process disturbance*, by which we mean an event that deviates from what we would call a normal course of a process. However, the theory of control charts does not include the concept of a “normal course”. Dysregulation is a measurement result that is very unlikely in the context of the last several or several dozen measurements, which means that it clearly stands out against the backdrop of neighboring measurements. In order for a measurement to be indicated by the control chart as a “deviation from the norm”, it must fulfil two conditions:

1. It must differ significantly from adjacent measurements.
2. It must be singular, not repetitive.

In order to understand these, let us look at an example by Donald Wheeler ([82], p. 67). In an American chemical factory, a production manager was required to report weekly on the financial value of production so that the management could follow its dynamics on an ongoing basis. Tab. 20.2-1 shows the reported results in thousands of dollars for consecutive 22 weeks.

1	2	3	4	5	6	7	8	9	10	11	12
21.6	23.9	23.3	22.6	28.8	22.7	23.8	22.8	28.7	22.9	24.2	23.3
13	14	15	16	17	18	19	20	21	22		
28.6	22.8	23.9	23.2	23.7	28.5	23.2	23.5	23.1	27.7		

Tab. 20.2-1 Weekly production values at a chemical factory

Evaluation of this table “with a naked eye” did not indicate any extraordinary behavior of the process, but after its course was plotted on a graph (Fig. 20.2-1), cyclical and quite clear value jumps were observed. After the chart was confronted with the calendar, it turned out that the value jumps always occurred in the last week of the month. After a search for an explanation, it was discovered that, due to the high labor consumption of calculating the value of production, the values were estimated roughly in the first weeks of the month; they were only calculated precisely in the last week, and the report was adjusted. Over the course of the month, the estimates were cautious so that no downward adjustment would be necessary at the end, as experience had shown that larger falls would always cause the management’s concern.

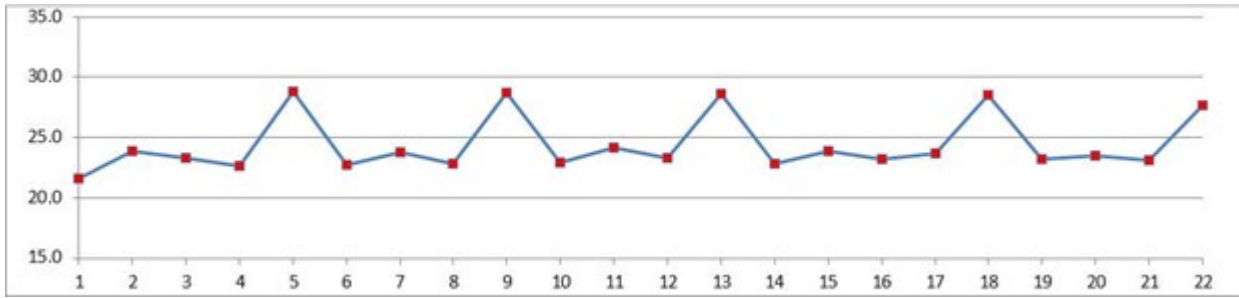


Fig. 20.2-1 Weekly production values at a chemical factory

The management did not use control charts at the factory, but even if they had, no dysregulations would have been detected anyway (see Fig. 20.2-2).

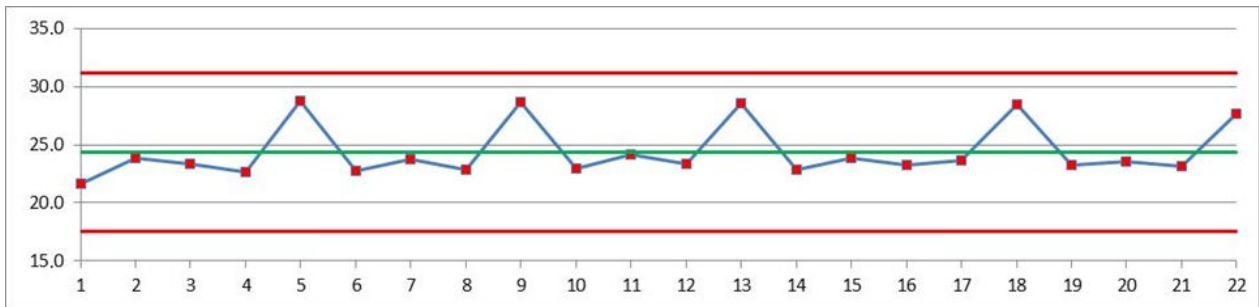


Fig. 20.2-2 Control chart for weekly production values

The practice of falsifying the results was so frequent and regular that it became part of the nature of the process. But let us look at what the control chart would have looked like if the production manager had come up with his creative reporting only in the 13th week and the norm was defined based on what had happened during the first 12 weeks.

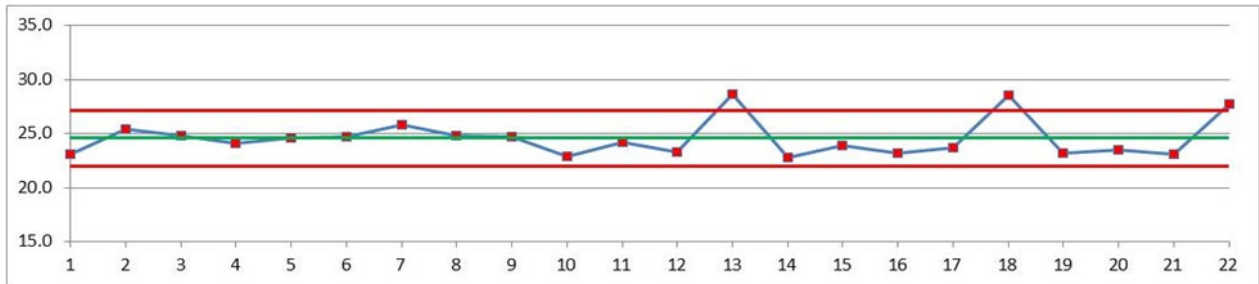


Fig. 20.2-3 Control chart with historical reference

The control chart in Fig. 20.2-3 has been modified in comparison to the previous one so that the peaks during the first 12 weeks are “smoothed out” in a way so that the mean would not change, and for these 12 weeks the new sigma was calculated. Now the reports for weeks 13, 18, and 22 show clear signals of dysregulation, which means that the process from week 13 to 22 was significantly different from the process from week 1 to week 12.

Control charts whose limits are calculated for a certain period ending in the past I will call *control charts with historical reference*. We use these kinds of charts to find out whether what is happening at present is significantly different from what was happening in the past¹⁷².

Note that the procedure performed on the chart in this section is significantly different from the procedure performed in section 20.1. There we removed the dysregulation, but calculated the mean and deviation for the unchanged period. This time we have calculated both parameters for the historical period. Let us see what our control chart would look like without historical reference, i.e., for data such as those in Fig. 20.2-3, but with control limits calculated for the whole period of 22 weeks (Fig. 20.2-4).

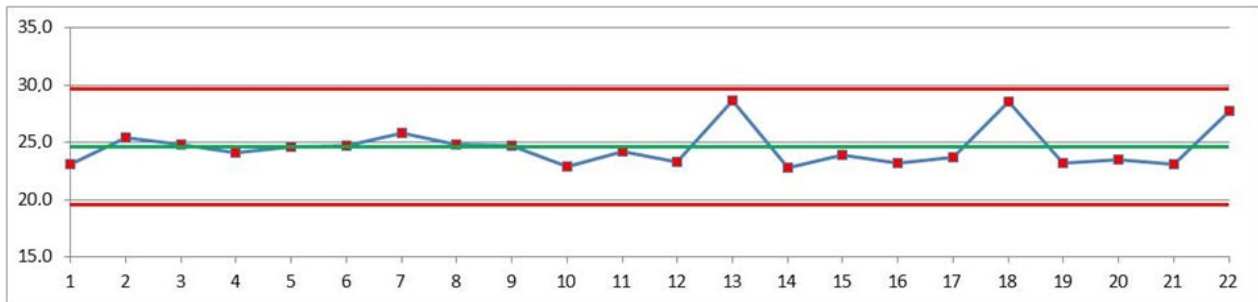


Fig. 20.2-4 Control chart with the data smoothed out but no historical reference

As we can see, this chart does not show any dysregulation. The cheating in the second period was frequent enough for the chart to “consider” it the norm.

20.3 When a precedent creates a new standard

Let us now consider another example, this time concerning the dynamics of a certain company’s annual gross profit (data in thousands of PLN). At the end of 2008, the company underwent major changes: the management board was completely changed and all the previous directors were dismissed. The corporate culture also underwent radical changes. Under the new management, the company recorded a loss of 1906 thousand at the end of 2010. Since the company had regularly recorded losses for the previous five years (although never so high), the new management maintained that this level of loss was only a natural consequence of the state of the company, which had been brought about by its predecessors. As proof they offered a control chart which did not show any dysregulation in 2010 (Fig. 20.3-1). It was, therefore, assumed that, statistically speaking, this loss could have happened at any time, and it was just a coincidence that it happened under the new management board.



Fig. 20.3-1 Chart for the past six consecutive years in thousands of PLN

¹⁷² Such charts are discussed by Wheeler [82], although he does not call them that.

This first chart, in accordance with Wheeler’s recommendation [82], was calculated only for the past six consecutive years. Then, to make sure the hypothesis was correct, the period was extended to ten years and the obtained chart again showed no dysregulation (Fig. 20.3-2).



Fig. 20.3-2 Chart for the past ten consecutive years in thousands of PLN

In this chart, the 2010 result is close to the LCL, but does not exceed it. Only when the chart is extended to include the last 15 consecutive years (Fig. 20.3-3) does the 2010 result indicate a dysregulation, although it is quite small (profit: -1.906; LCL: -1.883).

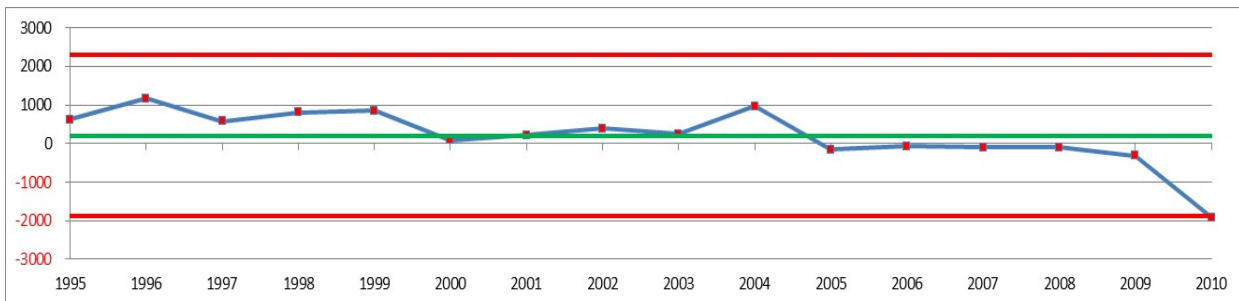


Fig. 20.3-3 Chart for the past fifteen consecutive years in thousands of PLN

However, if we calculate the control limits for the period of the previous board’s activity, i.e., for the years 2000 – 2008, then the chart will show a very strong dysregulation in 2010. (Fig. 20.3-4).

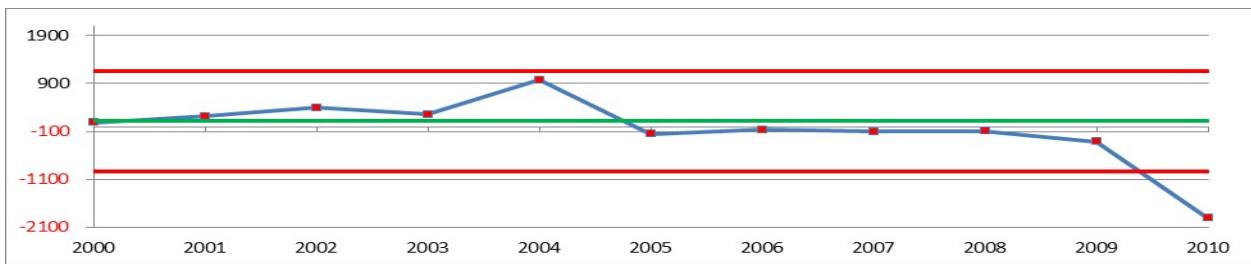


Fig. 20.3-4 Chart with reference to the historical period of 2000 - 2008 in thousand PLN

How should the results of this analysis be interpreted? Well, in a company, in which a loss of 1906 thousand occurred at least once in the period of five years, or even ten years (Fig. 20.3-2), the possibility of losses exceeding even 2 million should be taken into account. However, in the years 2000 – 2008, such a loss, practically speaking, did not have the right to happen in the company. As can be calculated, the probability of such a loss occurring in the company in the period of 2000 – 2008 amounted to 1/18 300 000 000 000.

Wheeler gives another example of an analysis with historical reference ([82], p.26). In the period from January 1987 to December 1988, the US budget deficit in foreign trade was highly variable, but the control chart for this period did not show any disturbance (Fig. 20.3-5).

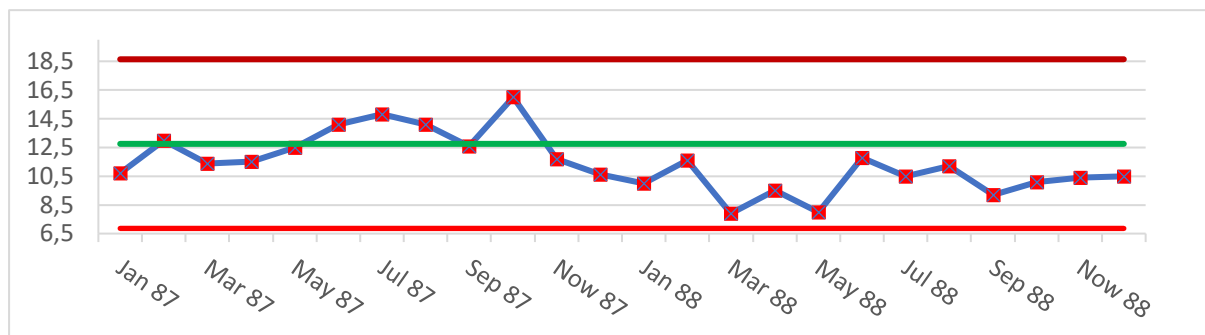


Fig. 20.3-5 US foreign trade deficit

In turn, a chart with historical reference to 1987 not only does show a disturbance, but the disturbance is quite apparent (Fig. 20.3-6).

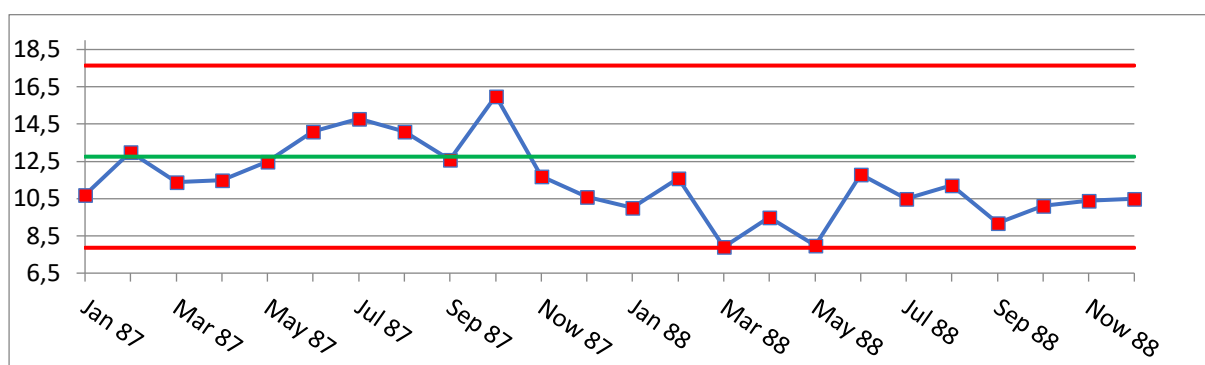


Fig. 20.3-6 Foreign trade deficit with historical reference

There is a very clear dysregulation of the process: as many as 14 measurements fell below average (section 18.3) from November 1987 to December 1988, which indicates a significant change in the American economy during that period.

20.4 How many measurements

From the discussion above, we can draw three general conclusions:

1. Control charts with limits calculated for the whole analyzed period are used primarily to assess what can be expected from the process in the near future, and more precisely – what mean can be expected, and within what limits the results may change. These charts also allow the detection of dysregulations that need to be eliminated.
2. Control charts with historical limits, i.e., control charts calculated for some initial part of the analyzed period, are used to assess whether there has been a significant change in the process in the recent past. The dysregulations detected in this manner may not be possible to remove, as they have already become an inherent feature of the new process after the change.
3. If we construct a control chart for a very long period of measurements, the historical character of the process may disturb the analysis of its current part in such a way that its current immanent features will be indicated as dysregulations. Therefore, concluding that “the more measurements, the better” is definitely unwarranted.

A question is then in order: how many measurements must be included in the control chart in order for it to be considered reliable? Unfortunately, there is no unequivocal answer because it depends on the context in which the chart is used. It is usually assumed that 24 consecutive measurements are a good standard. However, if such a number of measurements is not available because, for example, we have been measuring the monthly sales values of a facility that has been in existence for only a year, then most authors agree that 12 measurements should provide the chart with sufficient reliability. We just need to be more cautious in drawing our conclusions. Wheeler [82] goes even further, claiming that as few as six consecutive measurements can provide an initial assessment of process stability. However, having only six measurements requires even more caution than having 12, as shown by the example in section 20.3. Therefore, the decision concerning the number of measurements depends each time on the objective we want to achieve, the data we have available, and the context in which we are analyzing the process. It should be emphasized that understanding this context is an immanent element of interpreting the control chart.

Conclusions concerning the optimal number of measurements can also be drawn from the mathematical model of the control chart. It should be noted that the smaller the number of measurements, the greater the influence of a single measurement disturbance on the mean and standard deviation. Therefore, a chart with a small number of measurements is more likely to “conceal” disturbances than a chart where the measurements are more numerous.

Part VI: PROCESS TOOLS

21 Process management

21.1 Process atlas of the company

A full description of the company's process structure, which consists of a process map and descriptions of processes, is called *the company's process atlas*. Its creation begins with establishing a map of the company's *main processes*¹⁷³. A main process is any process that is not a subprocess (i.e., a part of a different process). Fig. 21.1-1 shows the process map of the A. Blikle company from 2009.

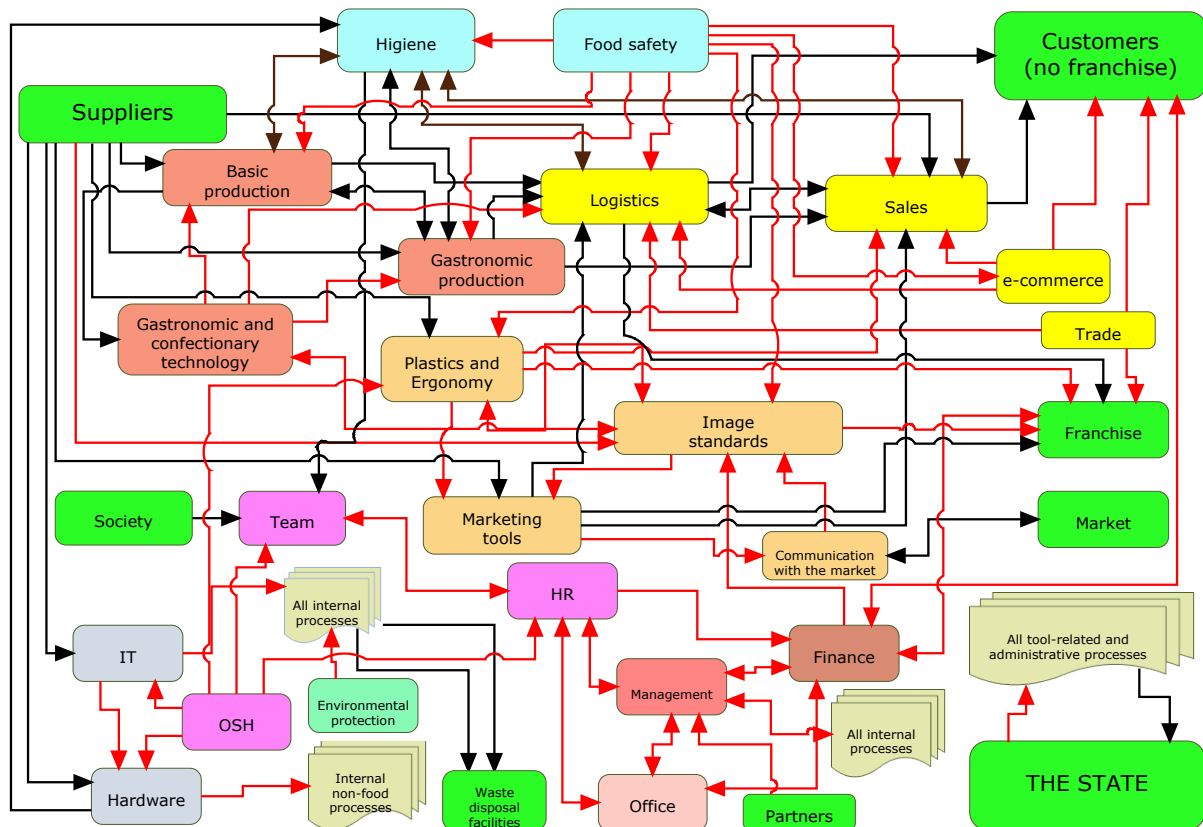


Fig. 21.1-1 The process map for the A. Blikle company from the year 2009

¹⁷³ Some authors (cf. [21], p. 44 in Polish version) define main processes as processes that we classify as *genba* (section 12.3), dividing the company's processes into main and auxiliary ones.

For each such process, we specify the following attributes:

1. Products created by the process and sent to other processes.
2. Recipients of products — recipient processes of a given process.
3. Activities performed in the process.
4. Knowledge necessary to perform the process activities.
5. Main performers of the process.
6. Auxiliary performers of the process.
7. Ingredients and their suppliers — ingredients for further processing and the processes that supply them.
8. Tools and their suppliers — tools and the processes that supply them.
9. Recipients — processes receiving the products of a given process.
10. Process owner.

In order to facilitate the task of defining the processes and introduce some standardization, which is quite useful in this context, the following table can be used (Tab. 21.1-1). Of course, this table may look a little different in each company.

Attribute	Description
Products	<ul style="list-style-type: none"> • paper and electronic accounting documents: receipts, invoices, cash reports, etc. • analytical financial documents: financial elements of business plans, cash flow models, exchange rate reports, etc. • accounting and HR databases (payroll) • cash
Recipients of products	<ul style="list-style-type: none"> • customers • suppliers • employees • management board • the state
Activities	<ul style="list-style-type: none"> • creating the documents described above • entering data into databases • modifying entries in databases, e.g., when assigning costs to individual accounts • modifying the database structure, e.g., when establishing a new account plan • checking the correctness of financial documents received by the company from external sources • collecting cash from customers • transferring cash to the company's own or external bank accounts
Knowledge	<ul style="list-style-type: none"> • accounting knowledge • general legal knowledge required for bookkeeping, calculating taxes and social security payments, etc. • general economic knowledge

	<ul style="list-style-type: none"> • knowledge about the company: products, raw materials, suppliers, customers, markets, etc.
Main performers	<ul style="list-style-type: none"> • personnel of the accounting department, Director of Finance
Auxiliary performers	<ul style="list-style-type: none"> • HR staff preparing payrolls • company employees issuing cash receipts, invoices, and other accounting documents, e.g., GR (receipt of goods from external suppliers). • employees receiving invoices and other accounting documents from suppliers • managerial staff approving financial documents to be sent outside the company, e.g., signing tax returns submitted to the tax office
Ingredients and their suppliers	<ul style="list-style-type: none"> • external contractors submitting invoices and other financial documents • HR staff providing personnel data necessary for the preparation of the payroll (dismissals, overtime, etc.)
Tools and their suppliers	<ul style="list-style-type: none"> • employees of the IT department installing and servicing financial/accounting, cash management, and warehouse management software • external companies installing software for creating documents (e.g., Word) and spreadsheets (e.g., Excel) • legal and tax advisors providing opinions and recommendations on financial matters • the state supplying legislation

Tab. 21.1-1 Example of a description of the Finance process

I would like to point out that, when describing process and process-related activities, we should use everyday language rather than “process” language, so that all interested employees can understand it. For example, it would be better to talk about “running the raw materials warehouse” than “modifying the states of the raw materials warehouse”, which would be a more technical “process-based” description of the activities of entering and removing goods from the warehouse.

21.2 Products and their quality standards

The variety of products present in all processes of all companies and organizations is obviously enormous, but among them one can distinguish certain types (groups) that recur relatively often, which enables us to examine examples of some typical quality standards. In this section, I will not describe any commercial end products because these depend on the nature of the company; instead I will focus on internal products that are passed on to each other by auxiliary processes, which are more or less the same for all companies.

21.2.1 Documents

A *document* is any printed or electronic text that is a standard of the *Book of Standards* (section 22): a report, product documentation, a letter, etc. Documents do not include signboards, product labels, posters, information printed on packaging, etc., but they do include leaflets, catalogues, and other advertising materials.

We will say that a document meets the *quality standard for documents* when:

1. It is correct in substance:

- 1.1. It does not contain content that is untrue.
- 1.2. It is comprehensive with regard to its subject matter.
- 1.3. It complies with general norms and legal regulations.
- 1.4. It complies with the company's internal standards.
- 1.5. It does not violate any generally accepted social norms of communication and coexistence.

2. It is communicatively correct:

- 2.1. It is understandable to the audience.
- 2.2. It does not include any ambiguities or internal contradictions; lack of internal contradictions means that no two provisions of the document contradict each other.

3. It is correct in form:

- 3.1. It is correct in terms of language (spelling, punctuation, grammar, stylistics, relevance, vocabulary, etc.).
- 3.2. It is correct in terms of editorial layout (division into sections, lists, tables, paragraphs, etc.).
- 3.3. It is correct in terms of typographic layout (font size and typeface, distinguishing marks, vertical and horizontal spaces between paragraphs, etc.).

It is best to create uniform rules for the entire company, defining the editorial and typographic layout of documents. This makes it easier to both read and create documents. Unfortunately, tips on how to do this cannot be found in typical text editor manuals, which are usually limited to the description of tools. For the A. Blikle company, I personally wrote a manual entitled “*Editing electronic documents*”, which was included in the *Book of Standards*. I defined there a group of so-called *styles*, which largely automate the creation of documents with appropriate layout. This digital version of my book was written with the use of these styles.

21.2.2 Tools

The tools used in processes to perform activities are divided into two groups: material and intellectual. A special case of the latter are standards, i.e., documents recorded in the *Book of Standards*.

Material tools include all kinds of equipment, instruments, installations, as well as buildings and their interiors in which process activities are performed. From a process point of view, this also includes people and teams.

Intellectual tools include computer software, all kinds of standards, and knowledge. These are tools in the same sense as material tools. In order to produce doughnuts, we need not only dough kneaders and fryers, but also recipes and descriptions of the frying process. At this point someone could say that recipes could be treated as ingredients in the same way as flour or yeast. This, however, would contradict the essential nature of ingredients, namely that they are consumed when transformed into products and thus disappear when the product is created, while tools remain. So in this sense a recipe is a tool, not an ingredient.

Intellectual tools also include management decisions that are the products of the *Management* process. Treating management decisions as tools may require a fairly high level of abstraction, giving rise to criticism that it leads to a model that may be too difficult for a business practitioner. Indeed, the level of abstraction in this case exceeds the standards of a traditional

company. However, it enables us to discuss the quality of management decisions, i.e., an aspect of quality management that is of fundamental importance for the quality of the final product. Unfortunately (or fortunately), in a knowledge-based economy, we must continue to learn and change the habits of our thinking throughout our lives.

A special type of intellectual tools is constituted by *standards*, i.e., the company's binding documents included in the *Book of Standards* (section 22), such as: recipes and technological procedures, decoration patterns for the interior of commercial venues or confectionery products, instructions for issuing invoices, rules for editing documents, price lists and product lists with descriptions (so-called *dictionaries*), regulations, etc.

21.2.3 Product documentation

In the 21st century economy, which features systems of product quality and safety as well as marketing techniques, each product is associated with certain information recorded in the form of one or more documents, which we call *product documentation*. In the case of technical products, this usually includes:

1. Basic technical specifications of the product.
2. A safety certificate.
3. Instructions for use and maintenance (servicing).
4. Marketing information including, e.g., how the creation of the product was inspired, which famous people used it or use it, or how many customers already have the product.
5. Instructions for submitting complaints and warranty conditions.

In the case of food products, the documentation contains:

1. Information allowing the reader to identify the batches of raw materials from which the product was made as well as the producers of those batches along the so-called path *from field to table* – this is the so-called *trace of the product*, the presence of which implements the principle of *product traceability*¹⁷⁴ in accordance with the BRC standard.
2. List of ingredients and allergens, food attestation, and, possibly, dietary recommendations.
3. Storage conditions and the use-by date.
4. Consumer advice (equivalent of an instruction manual) with instructions on, e.g., how to defrost the product, how to portion it, how to heat it or bake it.
5. Information of a marketing nature, e.g., that the product (cake) was first produced by our company for General Charles de Gaulle.
6. Instructions for submitting complaints and warranty conditions.

Food product documentation is created along the entire path from field to table and reflects the changes that the product itself is undergoing. For example, at the output of the production

¹⁷⁴ The ability to monitor the flow and origin of food products and raw materials at every stage of collection, production, processing, and distribution. Traceability of product origin is important not only for food products, but also for many others, if not all.

process, the documentation contains information about the product's trace and conditions of storage and consumption; after leaving the sales process, it contains all the remaining elements.

We will say that the documentation meets the *quality standard for documentation* if:

1. It describes the relevant product in a way that is sufficient for all its users.
2. The documents it includes meet the quality standard for documents.

Regrettably, it should be noted that many documents available on the market do not meet the standard presented above.

21.2.4 Product complexes

As I have already mentioned, each product on the market is much more than just its part that is used by the customer. In order to be able to discuss such products, I am introducing the concept of a *product complex*, which consists of three elements:

1. The basic product.
2. Packaging.
3. Documentation of the basic product and packaging.

Depending on the nature of the basic product, we can talk about a *food complex*, a *raw material complex*, a *technical complex*, or an *IT complex*. The activities that make up product complexes are called *complex activities*. In fact each complex activity consists of three activities, each of which creates or processes a different element of the complex.

In the case of an IT complex, the basic product is the IT hardware and/or software, and in the case of a technical complex — any other technical device. Technical and IT complexes belong to the group of *material tool complexes*.

We can consider a food complex to meet the *food quality standard* if:

1. The corresponding basic product complies with its documentation and additionally meets:
 - 1.1. The expectations of the external customer in terms of organoleptic, visual, grammage, and documentary characteristics.
 - 1.2. The standards required by internal customers (if it is passed on to such customers at a given stage).
 - 1.3. Technological and food safety standards.
2. The packaging meets the food quality standard for packaging.
3. The documentation meets the quality standard for documentation.

21.2.5 Technical tool complexes

Technical tool complexes are product complexes in which the basic product is a non-IT material tool.

We can say that a technical tool complex meets the *technical quality standard* if:

1. The relevant technical tool meets the OSH as well as other binding safety standards of the industry applicable in the tool's current location (e.g., a confectionery machine must be clean and disinfected when standing in a production hall, but not necessarily when it is in a repair shop).

2. The tool is suitable for the tasks for which it is intended and is technically sound.
3. Its documentation meets the quality standard for documentation.

21.2.6 IT tool complexes

An *IT tool complex* is a piece of computer hardware along with any software that is installed on it. We can say that an IT tool complex meets the *IT quality standard*, if:

1. Its constituent equipment meets the technical quality standard.
2. The software has been obtained without violating any rules required by its creator or creators and has not been altered in violation of such rules.
3. The tool is suitable for the tasks for which it was intended (is operational).
4. Its documentation meets the quality standard for documentation.

For IT tools, I have added one additional criterion of quality (number 2), which was not present in the case of technical tools. Translated into the language of technical tools, it would state that the tool has not been purchased from a thief (and we have not stolen it ourselves). However, we can omit this because it is obvious to everyone. There is also no provision stating that no changes may be made to the purchased tool, because they may, though making them can result in losing the warranty.

It is different with IT tools. First of all, there are numerous illegal copies of software in circulation, the use of which is tantamount to an act of theft. Legal copies are either purchased from a legal source or obtained free of charge if the creators allow it (as is the case with the Open Office system or the Joomla! system used for building websites). In addition, introducing any changes to any paid product (as well as many products that are free of charge) constitutes a copyright infringement against the author of the software.

21.2.7 Databases

Every modern company creates numerous databases for its own use. These are personnel databases, customer address databases, recipe databases, sales databases, databases of letters sent to business partners, documents stored on the computer, etc. A financial and accounting system is also a database.

In computer science, a *database* is a collection of information, i.e., a collection of simple or complex data (including documents) having an internal structure that allows one to determine the algorithms of entering information into the database and searching for it. In principle, databases can be either physical (a file cabinet) or electronic (computer memory records). In our model, however, the former will be called *file catalogues*, while the term *database* will be reserved for electronic databases.

With every database — either physical and electronic — there is the issue of balancing its user's effort between two types of activities:

1. Entering information into the database.
2. Searching for information in the database.

In general, simple search algorithms require more effort at the stage of entering records. Conversely, less effort at this stage means more work when searching for entries. For example, if we simply toss incoming correspondence on our desk, then finding the specific letter that we need after a year has passed will require us to spend a few hours searching for it. Making entries

in a database requires minimal effort, but searching for them involves a lot of work. If we wish to simplify this work, we need to introduce some sort of a system for classifying the correspondence, e.g., according to topics, and within the topic categories — according to the time at which the information was entered into the database. Then we put more work into the process of entering the information into the database, and less into the process of searching for it.

As with other products in our process-based model, databases are linked with appropriate documentation. At the minimum, the documentation of a database should describe how information is to be entered and searched for and specify the category of the information stored within.

We can say that a database meets the *database quality standard* if:

1. Entering and searching for information in the database can be carried out in a way that allows convenient and effective use of the database by its users.
2. Data protection in the database effectively protects the interests of the company, and the database is equipped with effective tools for archiving data.
3. The database meets any existing binding legal requirements related to, e.g., the protection of personal data or the completeness of accounting data.
4. The database software meets the IT quality standard.
5. The database documentation meets the quality standard for documentation.

This quality standard is, of course, very vague, but making it more specific would require referring to rather advanced IT knowledge, which, for understandable reasons, I would rather avoid at this point.

21.2.8 File catalogues

Just as databases are collections of data and documents stored in computer systems, file catalogues are collections of documents stored on paper or on other non-computer media such as microfilms. All the remarks about databases from section 21.2.7 can be applied by analogy to file catalogues, and the same goes for the quality standard.

We can say that a file catalogue meets the *file catalogue quality standard* if:

1. Placing and searching documents in the file catalogue can be done in a way that allows convenient and effective use of the file catalogue by its users.
2. The measures used to protect the documents in the file catalogue effectively protect the interests of the company.
3. The file catalogue meets all applicable legal requirements.
4. The file catalogue's documentation meets the quality standard for documentation.

21.2.9 Operational decisions

Nothing happens in any company or organization until an appropriate decision is made. It may be a singular decision, e.g., to produce a specific batch of goods or to deliver it to a wholesaler; it may be a decision of a repetitive nature, such as “Bread should be delivered to the shop every morning”; or it may be a decision to implement some rules and regulations. From the process point of view, decisions are tools that are required to launch a process activity. To produce dough, one needs not only resources (raw materials, equipment, and employees), but also a decision that the dough should be produced. Of course, the decision may be either wrong or

correct; it may contradict a previous decision or be in accordance with it; it may be clear and unambiguous or leave too much room for interpretation. In other words: the quality of decisions is also subject to evaluation, so decisions must also be included in our process model.

In order to incorporate decision making into the process paradigm, we will introduce two more concepts: the decision pair and the decision document.

A *decision pair* is a pair consisting of:

[a *decision question* and a *decision*]

A decision question can be any question about doing something (“Should this be done?”, “How should it be done?”, “When should it be done?”, “Who should do it?”, etc.) or about adopting a certain rule. The answer, i.e., the “decision”, is any adequate answer to a decision question.

A special type of decision is constituted by so-called *empty decisions*, expressed by the words: “No decision”¹⁷⁵. This somewhat strange concept is in fact very important because it allows us to describe the behavior of processes in situations when expected decisions were not made. It also allows managers to see a truth, which they do not always remember, that failing to make a decision is also a decision that can result in as many consequences (unfortunately usually negative) as any other.

	DECISION QUESTION	DECISION
A	Are we going to open a new retail outlet within the next year?	No decision
B	Are we going to open a new retail outlet within the next year?	Yes, but only in a very good location
C	Where are we going to open the next retail outlet?	In Katowice
D	Are we going to open a confectionery on Marszałkowska Street?	Yes; description of the premises and the financial model
E	What should be done about violations of work discipline?	Disciplinary regulations
F	What does the production shift have to do on June 4 th , 2001?	Instructions for the production team
G	Are we going to organize an Excel course for employees?	Yes; course curriculum
H	Who is working at the stove today?	Billy
I	When should the lard in the fryer be replaced?	On Friday, August 24 th , 2001, before the work starts
J	What retail prices should be adopted from July 1 st , 2001?	Price list
K	According to what rules should long-term and short-term plans be constructed?	Development strategy

Tab. 21.2-1 Examples of independent decision pairs

¹⁷⁵ In the process-based theory of management, an empty decision plays a role similar to that played by the zero in mathematics. Before the ancient Persians “invented” the zero, one could not subtract a number from itself because there was no number that would denote the result of this operation. This led to difficulties, e.g., in keeping records of cattle that was being purchased or sold. A modern operation of $5 + 3 - 8 + 2 + 9 = 11$ could not be written in full with numbers. It required the following entries: (1) $5 + 3 = 8$ cows were brought to the farm; (2) all cows were led out of the farm; (3) $2 + 9 = 11$ cows were brought into the empty farm.

A *decision document* is a collection of decision pairs. Decision-making activities occurring in management processes transform *input decision documents* into *output decision documents*. Input decision documents usually (though not always) contain empty decisions. A situation in which we transform one decision into another is simply a change of decision.

The examples of decision pairs in Tab. 21.2-1 differ from each other quite significantly, so they will probably not be elements of a single decision document. They are shown primarily to illustrate the concept of a decision pair.

The decision-making process sends its products (decisions) to other processes as tools. Here are some examples:

1. Decision pair D is a tool for the launched process of opening a new confectionery.
2. Decision pair F is a tool for the production process.
3. Decision pair G is a tool for launching a training activity.

We can say that an operational decision meets the *quality standard for operational decisions* when:

1. It complies with the company's standards and common law.
2. It does not contradict any current decisions.
3. It clearly defines who (which team or position) should implement it.
4. It complies with the SMART principle (section 9.11.2).
5. The related documents (if there are any) comply with the quality standard for documents.

21.2.10 Different levels of decision making

Decision making is an activity that can be performed at two different levels of management. The first level is *managing within the structure*. At this level, decisions are made using the current process structure without making any changes to it. Examples of such decisions are provided in section 21.2.9; others may pertain to:

- establishing the instructions for production for a given day;
- establishing the retail price list for a given period;
- creating a work schedule for the employees of a given team;
- the purchase of a new computer;
- building a new factory;
- adopting a quality management training program;
- adopting work regulations;
- adopting a long-term pricing strategy for the company;
- extending the baking time of a given batch of products by 3 min;
- adopting technological standards for the production of confectionery products.

All these decisions, though quite different in character, have one feature in common — none of them changes either the current structure of the company or the process map. These decisions are necessary to perform process activities, but do not interfere with the structure of individual processes or their map.

The second level of decision making is *managing the structure*, which includes decisions that change the process structure of the company, i.e., change the processes themselves, the

relationships between them (i.e., the **supplier-recipient** relationship), as well as process descriptions. Here are some examples:

- establishing (describing) the company's process structure in a company in which it has not been done before;
- supplementing the existing processes with new activities, such as launching a new line of products or services;
- eliminating existing activities, e.g., ceasing to sell ice cream;
- introducing new processes, e.g., introducing a *Teaching* process in a company where no systematic training of employees has been carried out so far;
- eliminating existing processes, e.g., removing the *Production* process when the company's profile changes from production and sales to sales only;
- making changes to the supplier-recipient relationship at the product level, e.g., deciding that confectioneries will not place their orders directly in the production department, but only in the distribution section;
- making changes to the supplier-customer relationship at the tool level, e.g., deciding that the marketing department will be providing the sales department with customer information about our products.

As we can see, the latter decisions can be as routine in character as the former. However, what sets them apart is the fact that the relevant processes cannot simply be inserted into the process map, because the decisions concern making changes to this very map. The process of making these second-level decisions could become part of a higher-level process map (a metamap) should we wish to create one. Such a map would need to be created if these decisions were to be encompassed by formalized quality management.

To a reader who is not used to thinking about the company in process terms, the concept of these second-level decisions concerning the management of the structure may seem like an idle intellectual exercise. This would indeed be the case for companies that neither modify their structure nor optimize their processes. Today, however, as the market demands constant changes in the company's structure and continuous improvement of quality and efficiency under pain of being pushed out of the market, this level is at least as important (if not more so!) as the first. This, however, does not mean that it must be formalized to an equal extent. At this level, we can continue to use intuitive thinking at least until we have fully mastered the first level of process management.

21.2.11 Teams

It is an often repeated slogan that people are the most important resource of any company¹⁷⁶. This is indeed true. And since they are a resource, they must be looked after and evaluated; their quality must be improved, and appropriate activities must be performed. In order to incorporate all this into the process model, we need to introduce the concept of a *team*.

¹⁷⁶ I very much dislike referring to people as 'resources', because this is most often associated with treating employees as objects rather than subjects (section The weak and the strong — opponents 7.4). Here, however, I am making an exception so that the management of teams of workers can be incorporated into the process model, which by no means entails treating them as objects.

Generally speaking, a *team* is a group of people working jointly to accomplish a common task. This concept is, of course, quite capacious: it can denote the team of all the people employed in the company as well as a team of confectioners, an accounting team, or the staff of a confectionery shop. Teams can also be cross-departmental (e.g., *ad hoc* project teams) or include only one person.

From the process point of view, teams are the products of the *Team* process. Though this may sound a little strange, they also have their own quality standard. We will say that a team meets the *quality standard for teams* when:

1. The team members have the knowledge and skills required to:
 - 1.1. perform the tasks entrusted to them,
 - 1.2. work as a team,
 - 1.3. improve the quality of products and services.
2. The cooperation between team members is in accordance with social and legal standards.
3. The team members have been deemed fit to work by the company doctor.
4. The team members meet all safety standards of the industry required by the place and specificity of the work; e.g., in food production, they have up-to-date sanitary and epidemiological certificates, clean working clothes, caps, etc.

Activities belonging to the *Team* process should be carried out by the Human Resources department, all team leaders, as well as process owners. The HR department is also responsible for the activities of the *Office* process concerning the creation of files and databases related to the team of employees. Unfortunately, the HR department often limits itself to office activities, forgetting about the much more vital category of duties, which is team building.

21.2.12 Market states

One of the most important functions of marketing is to shape and thus change the market. In order to be able to define the activity of shaping the market, it is necessary to introduce the concept of a market state. Let us start by observing that every market for a product or products is characterized by many parameters. Examples of important market parameters include:

- the market's geographical scope — where our customers are located;
- market saturation with our customers — how many of them are there in relation to all potential customers;
- the company's market share — the ratio of the company's sales to the value of the entire market;
- the level of familiarity with our company in the target population;
- our customers' opinion of the company;
- the level of familiarity with our products among our customers;
- our customers' opinion of our products;
- non-customers' opinion of the company;
- our customers' readiness to purchase our products.

Of course, these are only examples. Each specific set of market parameter values will be called a *market state*. An example of such a state is presented in Tab. 21.2-2.

Attribute	Value of the attribute
Geographical area of the market	Cities in Poland with at least 100 thousand inhabitants
Market saturation	20% in Warsaw, 10% in other cities
Market share	Less than 5.2%
Brand familiarity	4 on a scale from 0 to 10
Opinion of the brand	7 on a scale from 0 to 10
Product familiarity	3 on a scale from 0 to 10
Opinion of the products	6 on a scale from 0 to 10
Non-customers' opinion of the company	7 on a scale from 0 to 10
Readiness to buy	3 on a scale from 0 to 10

Tab. 21.2-2 Example of a market state

Now we can say that shaping the market is any action that changes the state of the market. It can be viewed as a function that takes the current market state as an argument and returns a new state as a value. For example:

1. Distributing folders with product descriptions to customers increases the level of customer familiarity with these products.
2. Organizing a promotional tasting, broadcasting a radio advert, etc. increases the readiness of customers to purchase our products and increases the number of our customers.
3. Broadcasting a television film about the history of our company increases the level of knowledge of the company in the target population.

Market states are the products of the *Market Shaping* process, so a corresponding quality standard needs to be defined.

We will say that the market state meets the *quality standard for the market state* if it meets the expectations of the *Sales* process, which is a recipient of the *Market Shaping* process.

21.2.13 Localized products

Transporting things and people from one place to another is an activity carried out in every company. Can such activities also be described as process activities? After all, delivering bread from the bakery to the store does not create a new product, nor does it change any existing ones.

In order to be able to describe transporting operations, it is necessary to introduce the somewhat abstract concept of a *localized product*. A loaf of bread while still in the bakery is one product, but becomes another product when moved to the shop. The act of transporting turns the former into the latter. Formally speaking, a localized product is described by two types of attributes:

1. The attributes of the product proper, e.g., bread with specific characteristics; this can also be a product complex.
2. The attributes of the location, e.g., bakery.

A third attribute can also be added to these two, namely time. Then we can say that the morning transport of bread to the shop converts one localized product (bread, bakery, 7:15) into another localized product (bread, shop, 8:05).

It should be noted that transporting activities may also, although not necessarily, change the characteristics (states) of the product proper. For example, a loaf of bread may be fresh when it leaves the bakery, but it may already be stale when it arrives at a distant shop. Transporting activities include not only the transport of goods over longer distances, but also moving them, e.g., within a production hall or a warehouse; it also includes the transfer of data between computers.

The *quality standard for a localized product* consists of two parts:

1. The quality standard for the product proper (product complex).
2. Designation of the place.

21.3 Types of process activities

As we already know, products, information about products and their quality, and orders flow between processes. All these flows are, of course, associated with the relevant activities, but, since the processes in these activities do not differ from each other, we will not treat them as process activities, but as *process-related activities*. The term *process activities* will be limited to the activities that are directly responsible for creating the products of a given process.

In order to organize our knowledge of process activities, we will introduce two independent classifications of these activities: by *type* and by *class*. The *type* of an activity determines its nature, which does not depend on the process as part of which it is carried out, but on the type of product. Examples of activities that differ in terms of type are described in the following sections. The *class* of an activity determines to which processes the activity belongs. Examples of activities belonging to different classes are described in section 21.4.

In addition to activities that create new types of material objects out of other material objects (e.g., dough made of flour, yeast, and water), there are several types of activities with different characteristics that occur with equal frequency in the activities of companies and organizations. At this point, I must warn the reader that, at the first reading of the following sections, these new activities may seem strange or unnatural (like some of the types of process products discussed above). In fact, the activities themselves are completely natural, but the way they are discussed is novel. The purpose of this new way of describing or treating activities is to present all activities, despite their significant differences, within a single process model based on the concept of the supplier-recipient relationship.

21.3.1 Manufacturing activities

The most typical *manufacturing activities* are production activities in the normal sense of the word, i.e., those that transform raw materials, consumables, and semi-finished products into products of a nature that is fundamentally different from what was received at the input. These activities result in the creation of a product of a different type than its components. Making dough from ingredients, assembling a car from components, or refining petrol from crude oil are just a few examples of such activities.

A slightly different type of manufacturing activities is involved in the creation of an intellectual product. An architect who creates a design for a building starts with a blank sheet of paper or a blank computer screen, and then creates the first and subsequent elements of the

technical drawing. The architect does not create these elements out of something they received “at the input”, but rather “out of thin air”. Although the architect uses design instructions received from the investor, these instructions are tools rather than materials, because they are not consumed by the process of creating the design like ingredients used to make dough or components used to assemble car. Of course, if we delve deeper into the design process and observe its individual activities, we will encounter situations in which a “semi-finished product” of the design is sent from one activity to another in order to be expanded. For example, after designing the architecture of a building, the architect sends their drawing to the designers of the electrical network, so that they can supplement the drawing with the design of the network. A similar situation occurs when a computer programmer adds new lines of code to an already existing software or when an author of a financial report supplements it with additional charts and tables.

A special type of activity in manufacturing processes is constituted by activities that conclude the manufacturing process, which consist in supplying the finished products with technical documentation, safety certificates, manuals, or packaging. Obviously, these are also manufacturing activities.

Apart from typical manufacturing activities, each company and organization features many other types of activities, as discussed in the following sections.

21.3.2 Change of state activities

Consider the case of a car workshop that takes in a car for repair. The repair activities do not result in the creation of a new car, but only change the state of the car they received “at the input”. The same holds true for all repair and servicing activities, as well as others. These are *change of state activities*, and there are many other examples of such activities:

- activities of an IT network administrator;
- activities of a website administrator;
- activities of a telephone network operator;
- activities of updating a computer database or an office file catalogue;
- activities of cleaning (or polluting!) the air, water, soil, etc.;
- farming activities related to agriculture;
- breeding activities involving a change in the state of the herd;
- medical activities changing the patient’s health condition.

A special case in the group of change of state activities are activities that change the state of consciousness, knowledge, or emotions of individuals or groups:

- educational activities changing the state of knowledge of the student;
- providing information, conversation, etc.;
- activities changing the state of a team of employees by developing positive interpersonal relations;
- activities aimed at raising brand or product awareness in a specific social group;
- Negotiation and persuasion activities changing the emotional state of individuals or groups, such as commercial negotiations with customers;

- activities aimed at building a sense of civic responsibility among the citizens of a given state.

Of course, change of state activities could also be treated as manufacturing activities: an object in some state is transformed into an object in another state, so, formally speaking, it becomes another object. It seems to me, however, that most management practitioners will find it easier to think of such activities as changing not the object itself, but only its state. If, for example, a customer's readiness to make a purchase changes during negotiations, it would be hardly intuitive to claim that we are now dealing with a new customer.

21.3.3 Transport activities

These are all kinds of operations which take a localized product as the input (section 21.2.13) and return also a localized product but with a different attribute of location. Sometimes the attributes of the product proper can also be altered by this activity, e.g., unripe citrus fruit can ripen in the ship's hold, and bread can dry out during transport.

21.3.4 Activities without a supplier

All processes on our process map (Fig. 21.1-1) have their suppliers. Even the *Suppliers* process has them (in the form of wholesale stores and production companies), but they are not included on the map because determining the quality expected from them and placing orders with them does not lie within the scope of our responsibilities. We expect appropriate quality from our suppliers, and they transfer these expectations to their own suppliers.

It turns out, however, that activities of companies and organizations do include activities, and therefore processes, which do not have a supplier responsible for quality. For example:

- PR activities changing the state of the community's awareness of our company do not have any supplier from whom any initial quality of awareness "at the input" could be required, but they do have recipients with expectations concerning the level of this awareness after the end of the PR action; these could include, e.g., the *Market Shaping* process;
- many activities in the field of environmental ecology receive as the input a certain state of the environment with regard to which no expectations can be formulated;
- energy derived from natural environment by hydroelectric or wind power plants similarly has no supplier.

Of course, the map could theoretically be supplemented with processes that "provide" subsequent processes with a proper environment from the company's surroundings, but we do not do this because the ultimate goal of building a map of processes is not to demonstrate the flows of products and tools, but to present the flows of quality expectations. The fact that, initially, we mainly think of product flows when constructing the map can be mostly attributed to the fact that it is easier for us as we are more accustomed to product- rather than quality-oriented thinking.

It should also be noted that not all activities changing the state of consciousness are characterized by a lack of a supplier. An example can be found in marketing activities that change the state of the community's familiarity with a specific product, which are often preceded by PR activities building the company's image. While the PR activities in this case do not have suppliers, the marketing activities do. In order to effectively promote the product, marketing specialists may demand from their PR colleagues that at least 70% of their potential clients think

positively about the company. Similarly, PR specialists building sympathy for the company in a new foreign market can expect their state to first garner an appropriate level of sympathy for their country.

21.4 Classes of process activities

While there are basically only a few types of activities, there are many more classes, which stems from the diversity of companies and institutions and their functions. Only the most common classes are described in the following sections. Activities related to the manufacture of products that reach the customer are omitted because they depend on the industry in which the company operates and would not be difficult to describe for any industry specialist.

21.4.1 Sales activities

Sales activities are a rather heterogeneous group. They include, among others:

1. *Negotiation activities* belonging to the group of activities involving a change in the customer's emotional state from a state of indifference to the state of readiness to make a purchase. This group also includes activities related to handling complaints.
2. *Activities complementing the product* (or more often the product complex) with elements not included in the production process, such as individual packaging, decorative elements, instructions for use, or financial documents.

There are certainly several other subclasses of sales activities that could be mentioned, depending to a large extent on the nature of the company. Their diversity means that, for many companies, placing only one sales process on the process map may be too much of an oversimplification. After all, negotiation activities certainly refer to a different area of knowledge than basic sales activities.

21.4.2 Logistic activities

Logistic activities are related to the preparation of products for dispatch. They consist in equipping products with logistic documentation specifying, e.g., to whom, when, and how a given product is to be sent. When a company produces large quantities of small products, logistics can also consist in arranging single products into shipment batches.

21.4.3 Marketing activities

Like sales activities, *marketing activities* are also divided into several subclasses, but with the difference that they can be ordered in a fairly clear hierarchy:

1. Creating marketing standards concerning the principles of marketing messaging: vocabulary, graphic designs, etc.; this belongs to the type of manufacturing activities.
2. Creating specific marketing messages, e.g., printed leaflets, radio or TV spots, elements of websites. As far as type is concerned, these are also manufacturing activities.
3. Changing customer awareness. In terms of type, this belongs to change of state activities.

So again, as in the case of sales, there should be several marketing processes on the company's process map. The activities of the first and second group will be carried out by the marketing

department, while the third group will be carried out by the PR department (shaping opinions about the brand) and sellers (shaping readiness to buy).

21.4.4 Office activities

These include the creation of non-financial documents, such as agreements, contracts, reports, and all personnel files. Office activities also include creating and updating paper file catalogues and computer databases (change of state activities). In a typical company, office activities are performed mainly by the office and the HR department, but also independently by many employees from outside these departments. For example, team leaders produce documents that specify the number of hours worked by their team members.

21.4.5 HR activities

There are several different types of activities associated with HR (which I personally interpret as *human relations*, not *human resources*):

1. Recruiting employees for the company.
2. Team building.
3. Updating the employee database.
4. Creating documents, e.g., employee reviews.

Team building encompasses all activities aimed at creating and maintaining properly functioning teams (typical change of state activities). This includes training in communication, developing positive interpersonal relations, organizing teamwork, resolving conflicts, helping employees in difficult personal situations, etc. These activities should be performed by the relevant HR services, but also by all team leaders in relation to their team members, and some of these activities (e.g., training) should be performed by the process owners.

In the context of this and previous section, it is worth noting that the HR department in a typical company performs activities of a very different nature: office activities and activities related to team building. It is quite clear that the predispositions and knowledge required to perform these two types of activities are as different as the activities themselves. Therefore, hiring one group of employees to perform both seems to be a far-reaching simplification.

21.5 Typical processes in a business organization

The typology of process activities presented in sections 21.3 and 21.4 provides a basis for characterizing typical processes occurring in business organizations. In Tab. 21.5-1 I present the characteristics of each process on the map by listing the related products and activities. I omit process-related activities because they are identical in nature for all processes. I have already described their nine types in section 21.8. It should also be emphasized that the following process characteristics are not universal. These are just examples, as they may look a little differently in each individual company.

PROCESS	OUTPUT PRODUCTS	ACTIVITIES
Manufacturing	Products offered on the market	Manufacturing of products

Dispatch	Products prepared for shipping or shipment batches (section 21.4.2)	Preparing products or shipment batches for dispatch. Creating documentation
Delivery	Localized products where the product proper is a ready-to-ship product or a shipment batch (section 21.3.3)	Transport operations
Sales	Emotional states of the customer, sold products complemented with instructions, decorative elements, packaging, financial documents, etc.	Trade negotiations, complementing products
Design	Product designs as tools for the <i>Manufacturing</i> and <i>Market shaping</i> processes	Creating projects based on information from the <i>Customer</i> process (information about the expectations of the individual customer) and from the <i>Market shaping</i> process (information about the average expectations of the market)
Technology	Technological (technical) descriptions of products, their components, and manufacturing procedures	Creating technological descriptions
Market shaping	Group awareness of customers related to their readiness to make purchases. Content and media for marketing communications	Creating and emitting marketing messages
Market research	Descriptions of market conditions important for the company. Reports	Research activities: surveys, interviews, literature studies
Office	Documents, databases, file catalogues, including personal data of employees	Creating documents, changing the state of databases and files. Administrative tasks of the HR team
Finance	Financial documents (invoices, cash reports, balance sheets, payroll, etc.) and financial databases, including the accounting database	Creating financial documents and changing the state of financial databases
IT	IT hardware and software	Installing and servicing hardware and software. Developing software for business purposes

Technology	All technical equipment other than IT equipment	Installing and servicing equipment
Decision making	Management decisions within the structure	Making decisions
Team	Emotional states and states of knowledge of employee teams	Providing support for developing positive relations, resolving conflicts in a win-win manner, internal PR, building a sense of partnership Please note: The HR department carries out only some of these activities. Many others are performed directly by team leaders

Tab. 21.5-1 Internal processes of a business organization

21.6 Flows between processes

Descriptions of products and activities related to processes do not yet form a comprehensive picture of the company's process structure. The process map defines the directions of flow, but does not show the types of flowing products. Tab. 21.6-1 describes the types of products flowing between the processes presented in Fig. 21.1-1. As in the previous section, these are only examples, although some of them occur in many companies.

Supplier	Recipient	Transferred product
Suppliers¹⁷⁷	Manufacturing	Raw materials for production
Suppliers	Dispatch	Collective packaging and other materials complementing the products on their way to the customer
Suppliers	Sales	Individual packaging, information brochures, product supplements (e.g.: a first aid kit that comes with the car)
Suppliers	Market shaping	Advertising materials
Manufacturing	Dispatch	Products that are technologically ready, but are not yet ready for wholesale or retail trade.
Dispatch	Delivery	Products prepared for wholesale trade
Delivery	Sales	Localized products
Sales	Customers	Products prepared for retail sale, advertising materials
Customers	Finance	Cash and related documents, e.g.: bills of exchange and other financial commitments
Design	Manufacturing	Technical designs of manufactured products
Design	Technology	Technical designs of manufactured products

¹⁷⁷ The **Suppliers** process is most often carried out by many business entities. Hence the diversity of the products supplied by this process.

Design	Market shaping	Functional project descriptions intended for customers and used to develop their product awareness, e.g.: utility parameters of a passenger car
Technology	Manufacturing	Technical specifications of products and production processes
Technology	Market shaping	Customer-specific technological and technical information about the product, e.g.: maximum mileage between two consecutive car service appointments
Market research	Design	Information about customer expectations regarding products
Market research	Market shaping	Information about customer expectations regarding products
Market research	Office	Information about customer expectations regarding commercial documents, e.g., contracts
Market shaping	Sales	Price lists for products, marketing information for customers, e.g., catalogues
Market shaping	Customers	Product marketing information; from the customer's point of view, it is a tool used to make purchasing decisions
Market shaping	Finance	Product price lists
Finance	Customers	Financial documents, e.g., invoices, direct debits, information on receivables
Finance	Market shaping	Financial information and documents, including access to the financial database, needed to develop market shaping tools, e.g., reports on the sales values and profitability of individual products
Finance	Office	Financial information needed to prepare reports for the management board and external institutions, including access to the financial database
Office	Finance	Documents relevant for financial management, e.g., lease agreements, service contracts, data required to create the monthly payroll, including access to the personnel database
Office	All internal processes	Documents of <i>the look of procedures</i> related to the product's standard of quality or safety (ISO, TQM, HACCP, etc.); e.g., made available through a computer database
IT	All internal processes	Computer hardware and software
Hardware	All internal processes	All material tools other than computer hardware and software
Decision making	All internal processes	All decisions related to taking actions at the level of process activities
Team	All internal processes	Employee teams

Tab. 21.6-1 Flows between typical processes of an economic organization

As mentioned above, this table may look a little different in each particular company.

21.7 The level of detail of the company's process model

When we work on a process model for a company, the question invariably arises about the level of detail with which this model should be described. In order to answer it, we can employ the analogy of using geographical maps when managing a country.

The government uses a map that covers the whole country and, consequently, does not go into too much detail. Regional governors use maps of their regions, which do not show the whole country, but provide more details concerning the given region. Even more detailed maps are used by the mayors or village administrators. And the same applies to companies. The board needs a map that includes the basic processes but without their “interiors”, while individuals managing particular processes, i.e. process owners (see section 12.9) may require maps showing the division of each process into sub-processes or even activities. Many (though certainly not all) of these activities will have their own descriptions in the form of procedures or instructions in the *Book of Standards*. However, only those activities whose performance is not “sufficiently obvious” for the employees carrying them out should be described.

For example, every company requires an accurate description and continuous improvement of the process of transferring documents and the process of transporting raw materials and goods. However, whether or not transporting equipment between departments requires description depends on the nature of the company.

The movement of employees within the company is also a process belonging to the group of transport processes. Should this process be described formally? Again, this depends on which group of employees we are talking about. Describing the process of accountants moving around the office is certainly redundant. However, the way waiters move when picking up orders in the kitchen may require improvement and, therefore, also a description.

While creating the process model of the company, one should also be aware of the fact that this is not a task that can be performed mechanically, because there are many different ways of dividing the same company into processes and processes into activities. For example, the whole enterprise can be considered to be one big process or, conversely, each activity can be considered to represent a separate process. Of course, neither of these structures will have any practical value. The practical solution lies somewhere in between and depends on the specificity of the company. Its choice is a creative act on the part of the authors of the specific process structure.

As I have already mentioned, the division of a company into processes can be compared to the division of a country into administrative regions. It is of course a matter of choice whether we wish to have 7 or 15 regions, but the aptness of this choice will determine the efficiency of the state administration and the costs incurred by it. The same applies to processes in a company. The number of processes and the density of internal divisions should be adjusted to the nature of the company.

Maps are used to present information about a region's resources (tools assigned to activities), population distribution (employee teams), and communication routes (inter-process flows, i.e., supplier-recipient relationships). They are made in different scales, depending on the level of management at which they are to be used.

It is worth noting that, when creating both geographical and process maps, we are describing objectively existing realities. Mountains, rivers, cities, natural resources, and transport routes exist in a given geographical area regardless of whether a map has been drawn for that area. The same holds true for companies. The activities, processes, the related knowledge, and the supplier-recipient relationships will exist regardless of whether we adopt the process-based management model.

So is the creation of the enterprise's process model only a description of an already existing reality? Indeed it is, but this should not lead us to think that the task is easy or inconsequential. All natural sciences are concerned with such tasks. The planets and the Sun were moving in relation to each other in the manner described by Nicolaus Copernicus long before his theory was developed. Attempts were also made to describe these movements before Copernicus, but their authors placed the observer on Earth and not on the Sun. The descriptions obtained in this fashion were not incorrect or contradictory to reality, but were very complex and, therefore, of little use for calculating the position of the Earth in relation to the Sun and planets. From a managerial perspective, it could be said that these descriptions were of little use for "managing" the motion of the planets and the Sun.

The discovery of Copernicus consisted in the realization that, by placing the observer on the Sun, a very simple description of the motion of all planets can be obtained; a description enabling us to predict the location of any of the planets at any point in the future with sufficient accuracy. The Copernican revolution thus consisted in abandoning the popular (and seemingly quite logical) belief that if humans (Earthlings) were to understand the motion of planets, they should describe it from their own geocentric perspective.

The Deming Revolution shows some analogies to the Copernican Revolution. We are moving away from a management-centric view of the company in favor of its image as seen through the eyes of the suppliers and recipients of processes. If an inhabitant of Earth wishes to understand the motion of the Earth and the Sun in relation to themselves, then they should look at this movement from the perspective of the Sun. If a manager wishes to understand the dynamics of a company, they should examine them not from the comfort of their chair, but from within each of the processes individually.

Developing a process-based business model is, therefore, a creative act in every respect. Its suitability for management purposes will largely depend on how the model looks like. Today's techniques for creating process-based business models are still far from perfection. They resemble maps from the pre-Columbian period. The most important thing, however, is that they have begun to emerge. Corporate cartography has a great future ahead of it, and I am sure it will develop quickly.

There is another similarity between maps of terrain and company maps, namely that they both serve two purposes:

1. They make it easier to move around in a given area, which in the case of companies corresponds to current operational management.
2. They enable us to plan the introduction of changes to the described reality and to predict the effects of these changes.

The latter aspect is very important. While it is possible to move around a small area without a map, planning changes such as urban development or the construction of a road network would be very difficult without a map.

In the case of companies, the changes concern the structure of the links between activities and processes, the addition of some links or the removal of others, the introduction of new products as well as corresponding activities and areas of knowledge. In modern companies, such management activities are becoming increasingly important (cf. managing the structure in section 21.2.10).

Finally, it is worth noting that, when building a process-based business model, we do not necessarily have to include all the activities performed in the company. In principle, the model should cover those activities that we wish to improve, and we generally improve those activities

that are significant for the company's operation. For example, we would not include a process description of emptying waste paper containers in a small accounting company, but the disposal of harmful waste in a chemical industry plant should be described by the process model.

21.8 Different enterprise descriptions

While creating the process model of the company, one should keep in mind that the model will not contain all the knowledge about the company. Different characteristics of enterprises are described by different models. Some examples are given in Tab. 21.8-1. Each of the descriptions presented there has its own application.

If, as a potential business partner of a company, we are considering signing a cooperation agreement with it, we are interested in the company's power structure because we need to know with whom the proposal should be negotiated, and who will make the final decision. The power structure is also of interest to the employees as they need to know who decides about their work schedule, holidays, and promotions.

If we are interested in buying shares in a company, we are interested in its ownership structure.

If we wish to get to know the interpersonal relations in a company, especially its informal leaders, we are interested in the structure of interpersonal relationships.

If we wish to manage the activity of a company treated as a group of cooperating teams, control the flow of raw materials and products, comprehensively improve the level of the company's quality, as well as nurture and develop knowledge treated as one of the company's resources, then we are interested in the process model.

Object of the description	Type of description
Structure of power — who is in charge here?	Hierarchy of managers
Ownership structure — who is the owner?	Diagram of the company's ownership links with other entities
Interpersonal relations	Graph of relations between individual employees, e.g., who respects whom, who considers whom as an authority, who fears whom, and who considers whom to be an idiot
Cooperation structure – who does what, who receives what from whom, who supplies whom	Process model of the company

Tab. 21.8-1 Examples of different enterprise descriptions

22 Book of standards

The *Book of Standards* (BoS), sometimes also referred to as *the Book of Procedures*, is an important tool for quality management, including process-based management. Generally speaking, it is a collection of documents describing the products manufactured in the company, the methods of their production, and the rules of conduct. The true importance of the book, however, lies in the fact that it comprises rules that are not established once and for all, but rather are subject to constant modifications originating from the process of continuous improvement. Since the book is an entity that changes along with the improvements that are being introduced to the company and encompasses several dozen, several hundred, or even several thousand documents, it requires management to ensure that the following conditions are met:

1. The particular BoS documents are always available at all relevant workstations.
2. The BoS documents are updated in a way that precludes the creation of two different updates of one document (coordination of the updating process).
3. The BoS documents have an established standard form to facilitate their creation, updating, and use.
4. There are procedures for creating and updating BoS documents to guarantee that both industry specialists and the users of these documents participate in this process.

Systematic fulfilment of the conditions above requires a definition of the principles of managing the BoS. Below I present the rules that were introduced in the A. Blikle company in 2009 and 2010. This is not a standard of any kind, but an example that has proved its worth, so I decided to share this experience with the reader. The material presented here may not be very captivating, but I hope that it will allow the reader to avoid the technical burden of creating their own rules.

Our *Book of Standards* was developed on the basis of a *Book of Procedures* which was established in 1995 by formalizing the principles of book management created for the purposes of maintaining the BRC food safety standard, which I already mentioned in section 4.2.1. Hence the presence of some entries that are specific for food safety systems. We replaced the former name of the *Book of Procedures* with the *Book of Standards* because the concept of a standard is broader than the concept of a procedure. Every procedure is a standard, but — as I will demonstrate shortly — there are many standards that are not procedures.

22.1 Documents of the Book of Standards

22.1.1 Types of documents

In terms of the purposes they serve, the documents contained in the *Book of Standards* are divided into two types: BoS standards and documents related to managing the BoS.

1. *Standards* include all documents that describe the functioning of the company. They are divided into 11 types:
 - 1.1. *Instructions* — documents describing the rules of performing complex activities, e.g.: “Instructions for accepting and identifying products in venues”, “Instructions for placing orders in the distribution department”, “Instructions for making purchasing decisions”.
 - 1.2. *Manuals* — comprehensive instructions for large groups of activities, e.g., “Seller’s manual” or “Editing electronic documents”.
 - 1.3. *Procedures* — a specific type of instructions which includes the order in which each step of a complex activity is performed; a procedure can always be described by a network of activities.
 - 1.4. *Regulations* — documents defining the rules of conduct and behavior in specific situations, e.g.: “Basic work regulations”; regulations differ from instructions in that they do not describe any activity, either complex or simple, but only contain rules of conduct as well as obligations and rights of a specified group of persons in a given situation.
 - 1.5. *Scopes of rights and obligations* — documents listing and describing all the rights and obligations at a given job position, e.g.: “The rights and obligations of a member of the management board”, “The rights and obligations of a confectionery manager”, “The rights and obligations of a bartender”.
 - 1.6. *Canons* — documents defining the general management principles effective in the company; e.g., “Processes in the A. Blikle company”, “The organizational structure of the A. Blikle company”.
 - 1.7. *Templates* — documents containing the editorial structure of the target standard as well as all the content that is universal for a given family of standards, e.g., a “Procedure template”; templates facilitate maintaining a uniform structure for all documents of a given type.
 - 1.8. *Technological documentation* — documents containing technological information about a single product (e.g., a doughnut) or product category (e.g., yeast cakes).
 - 1.9. *Lists* — lists or tables of short entries, such as the “List of BoS documents” or the “BoS logbook”.
 - 1.10. *Dictionaries* — lists of terms or names with assigned definitions, e.g., a dictionary of our confectionery products, a dictionary of terms used in the BoS.
 - 1.11. *Description charts* — documents describing complex objects, e.g., a product passport, a utility description of a product.
2. BoS management documents are documents that belong to the BoS, but are not standards, e.g.: “BoS logbook”, “BoS dictionary”, “List of BoS documents”; the BoS management documents are modified only by the keeper of the BoS (more about this role below), and the rules of their modification are different from those applying to other BoS documents.

All the standards are additionally divided into two groups:

1. *Systemic standards* — these are most often general standards concerning company management and quality management systems.
2. *Operational standards* — these are most often standards related to processes.

The keeper of the BoS decides to which of these groups a given standard is assigned.

22.1.2 Keeper of the Book of Standards

Managing a large and constantly modified collection of documents requires the appointment of a person responsible for this task. This person is the keeper of the *Book of Standards*. Their rights and obligations are described in the following sections.

22.1.3 Indexation of documents

Each BoS document has its own individual index, which determines its location in the BoS. This index is a string of digits and/or letters consisting of the segments listed below separated by “/” signs:

1. *Association with food safety standards*: S (Safety) means that there is such a relationship, while N (Neutral) means that there is not; e.g., instructions for ordering packaging will be of type S, while instructions for invoicing will be of type N.
2. The *abbreviation for the process* to which the standard is related or NAP (Not Assigned to a Process) if the standard is not assigned to any process in the company’s process model; symbols assigned to processes (internal only) are presented in Table 22.1-1

Abbreviation	Process
Osh	Occupational safety and health
Off	Office
FS	Food Safety
Dis	Distribution
Fin	Finance
Tra	Trade
eC	e-Commerce
IT	Information Technology
HR	Human Resources
Mar	Marketing
EP	Environmental protection
Pla	Plastics and Ergonomics
Prb	Basic production
Prg	Gastronomic production
Sat	Table sales
Sas	Store sales
Tch	Technology
Tec	Confectionery technology

Teg	Gastronomic technology
Man	Management

Tab. 22.1-1 Process symbols

1. *Group of documents*: S — systemic standard, O — operational standard.
2. *Access level*:
 - 0 — public access without restrictions, anyone can gain access to read this standard: it can be made available to internet users on our website, it can be quoted in press releases, etc.; an example of such a standard is the “Mission of the company”.
 - 1 — access only for employees and partners of the company, e.g., “Work regulations”, “Instructions for managing the BoS”.
 - 2 — access for employees only.
 - 3 — access only for selected groups of employees, e.g., recipes and technological procedures.
3. *Standard type*: Ins (instructions), Can (canon), Pro (procedure), Man (manual), Ted (technological documentation), Reg (regulations), Dic (dictionary), Lis (list), Tem (template), Sco (scope of duties), Des (description chart).
4. *Sequence number*: assigned in chronological order to all indices corresponding to the same process, i.e., having the same abbreviation in the second segment (point 2).
5. *Version number*: also assigned in chronological order.

To give an example, an index of FS/Prb/O/2/Pro/12/4 denotes that the document:

- FS — is associated with food safety,
- Prb — is associated with the process of basic production,
- O — is operational in nature,
- 2 — is only available to employees,
- Pro — is a procedure,
- 12 — is the 12th document included in the group of documents associated with the process of basic production,
- 4 — is the fourth version of this document.

Documents removed from the BoS receive an index in the form of R/index, where the “index” is the index of the document before its removal. For example, if a document with the index FS/Prb/O/2/Pro/12/4 is removed from the BoS, it will receive the index of R/S/Prb/O/2/Pro/12/4 and will be moved to the collection of removed documents. The procedure for removing documents is described in section 22.2.3.

22.1.4 Indexation of supplements

The *basic index* of a BoS document is the part of the index that remains after deleting the version number. The supplement of a document with a basic index *IndexB* would have a following

index: *IndexB/Sn/k*, where “n” denotes the number of the supplement in the list of the document’s supplements, and “k” denotes the version number of the document. For example:

FS/Prb/O/1/Pro/12/S3/2

would be the index of the third supplement to the standard with the basic index *S/Prb/O/1/Pro/12*. A removed supplement receives the prefix *R/*, e.g.:

R/S/Prb/O/1/Pro/12/S3/2.

In view of this system for indexing supplements, it is recommended that, when a new supplement is added to a standard, it should be added at the end of the list of existing supplements to avoid the need to change the indexes of previously existing supplements.

I would also point out that the index of a supplement does not indicate that it belongs to a particular version of a document. The supplement is assigned to the document regardless of the version, although it can also have its own versions.

22.1.5 Numbering of standard versions

The first version of the standard after its creation is always number 1. The subsequent versions receive consecutive numbers. This applies both to primary documents and to supplements.

22.1.6 File names

BoS documents are created and made available in digital form, i.e., as electronic files. In order to unify the names of files included in the BoS, we require each file name to consist of four elements:

1. A three-letter prefix specifying the standard’s type in accordance with point 5 in section 22.1.3,
2. Shortened title of the document without special characters¹⁷⁸; spaces between words, not underscores _.
3. Document version number.
4. A file name extension specifying the file’s type (*doc*, *docx*, *docm*, *xls*, etc.).

Here is an example of a file name for a canon titled *Knowledge management in the A. Blikle company*:

Can Knowledge management in the A. Blikle company 1.doc.

22.1.7 Storing and accessing BoS documents

The *Book of Standards* is kept in the form of two sets of documents:

1. The *Main Book of Standards (MBoS)* containing documents that are printed and signed by persons approving them.

¹⁷⁸ Windows PC operating systems already allow the users to create file names containing special characters and diacritics. However, I do not recommend using them, as computers with non-standard encoding of such characters are still in circulation. On such a computer, files with special characters in the name may fail to open. This can be easily dealt with by removing the special characters from the name, but not everyone knows this, so it is safer to avoid using such characters in the file names.

2. The *Electronic Book of Standards (EBoS)* containing electronic versions of the MBoS documents as well as non-text files, e.g., created in Excel, PowerPoint, Access, etc.

The physical security of the MBoS and physical access to it is the responsibility of the office manager. The documents contained in this book may not leave the office, but paper photocopies of these documents may be issued in accordance with their access levels as determined by the keeper of the BoS. Paper copies are issued only if it is necessary to make a copy that includes the signatures of the persons approving the document. If this is not necessary, BoS users can simply print out copies of the electronic version themselves. It is recommended to use electronic versions of documents whenever possible, as this is the only way to ensure that the document we are using is always up to date¹⁷⁹.

The Electronic Book of Standards is stored on the company's server. All MBoS documents have two counterparts in the EBoS: a text file in an editable format (e.g., .docx), and a non-editable file (e.g., .pdf). However, the EBoS also contains files that do not have any printed equivalents in the MBoS. These are either files used for managing the book or supplements to documents contained in the MBoS. There is a total of five groups of such files:

1. *Book management files*: BoS dictionary, BoS logbook, list of BoS documents.
2. *Templates* (e.g., in Word) for documents that are not part of the BoS, e.g., a template for a delivery contract; the template is a BoS document, but the resulting contract is not.
3. *File workbooks* (e.g., in Excel) containing spreadsheets adapted for use in a company, e.g., a workbook for counting costs associated with a product.
4. *Presentations* (e.g., in PowerPoint) used to disseminate the knowledge contained in BoS documents, e.g., a presentation on the process structure of the company.
5. *Other auxiliary files*, e.g., *Smart* graphic files containing maps of processes or activity networks.

When using (as opposed to editing) the BoS, the users have access only to electronic versions, observing the following principles:

- A. Files that have their printed equivalents in the MBoS are available only in non-editable version in PDF format.
- B. Other files are available in editable versions.

Each user is also assigned an access level (see section 22.1.3) defining the scope of documents to which they have access. They can copy these documents to their own computer's hard drive and then print them and distribute them in accordance with the document's access level. Only the keeper of the BoS has the right to download all editable files to their computer. However, the keeper may provide access to editable files pertaining to standards when a procedure to modify a standard is launched and registered (section 22.2.1).

Each of the two books consists of two parts:

1. *Collection of current BoS documents* — these are documents that are currently binding and written in the currently binding format for BoS standards.
2. *Collection of documents removed from BoS* — this collection contains all outdated versions of documents.

¹⁷⁹ The paper copy becomes obsolete when a new version of the standard is released, and information about this is not available on the paper copy.

Documents removed from the BoS are never physically removed from the MBoS or the EBoS. They remain in the collection of removed documents so that they can be accessed at a later time. Such a need may arise, for example, when it turns out that some standard refers to an already removed document, or when it is necessary to determine whether someone in the past acted in accordance with a standard that is no longer current. Removed documents are stored only in PDF format so that they cannot be changed. This part of the book is available only to the keeper of the BoS.

22.1.8 BoS logbook

The *Book of Standards logbook* is a document containing the records of all modifications of the BoS, which can belong to one of three groups:

1. c — creation of a new standard.
2. m — modification of an existing standard, i.e., introduction of its new version.
3. r — removal of an existing standard.

Only the keeper of the BoS has access to editing the BoS logbook, and all entries are made in the form of a table in the following format (Tab. 22.1-2):

Initial date	Index	Action type	Document name and reason for action	End date

Tab. 22.1-2 Format of the table in the Book of Standards logbook¹⁸⁰

Both dates should be entered in the *dd-mmm-yyyy* format, e.g., 21-Feb-2009. In the *Action type* column, we enter one of the three letters listed above: c, m, or r.

The *Book of Standards logbook* is stored only in the electronic *Book of Standards*, and its editable version is an MS Word file titled *BoS logbook.docx*. Its access level is 1, which means that all employees and partners of the company have access to it.

When modifying a standard, the keeper of the BoS notes in the *Action type* column the version of the standard being modified, the standard's new version number after modification, and a brief description of the changes made. Here is a sample entry in this column:

Version 2.5 of the standard “Instructions for placing an order for the design of a commercial venue” was modified to version 2.6 by adding the line “IT equipment” to the table in section 3 of supplement 1.

22.1.9 List of BoS documents

Each BoS document is described in the *list* in a single row of a table formatted as in Tab. 22.1-3. The referenced documents must be listed in the table because, when documents are being removed from the BoS, all references to them in other documents must be removed as well. If there are no references to other documents in a given document, we enter **none** in the *Documents referenced* column.

¹⁸⁰ Usually this table is created in a horizontal page layout, which allows the columns to be expanded.

Document title and file name	Documents referenced	Index of the document	Entry date
<i>Document title (in italics)</i> File name (in bold simple script)	<i>Titles of documents referenced (in italics)</i>	Index of the document (in simple script)	dd-mmm-yy

Tab. 22.1-3 Format of the table in the list of book of standards documents

In the *Entry date* column, we enter the date when the document was last modified in a shortened format, e.g., 02-Sep-09.

22.1.10 BoS dictionary

The *Book of Standards dictionary* is an Excel spreadsheet containing a list of all terms defined in the BoS standards along with their definitions. It is stored only in the EBoS as a file titled *BoS dictionary.xls*. The excel format was chosen for its ease of use.

The level of access to the dictionary is 1, making it accessible to all employees and partners of the company.

The BoS dictionary consists of three spreadsheets:

1. *Data* — here we copy the definitions from standards.
2. *Dictionary* — here we collect all the definitions sorted alphabetically.
3. *Manual* — contains instructions for using the dictionary as described below.

In order to enter new definitions into the dictionary, the users should follow the following instructions:

1. Paste all new definitions into the *Data* sheet in a way so that the *A1* cell features the name of the standard from which the definitions originate, and the cells from *A2* onward include the definitions. Long names of standards can be shortened to include only the first few words followed by three dots (...).
2. Make sure that there are no empty rows in the definition block because the program launched in the next step will rewrite definitions from *A2* to the first empty row in the *Dictionary* spreadsheet. All definitions should also be formatted in the way specified in the template *Template for standards of the first type.doc*. The defined term should be separated from its definition by a colon (:). This is necessary for the proper functioning of the program referred to in point 3.
3. After pasting the definition into the *Data* spreadsheet, click the **Load** button in the *Dictionary* spreadsheet. This will move the definitions from *Data* to *Dictionary*, divide them into three columns and sort the entries.
4. If any of the definitions lacks a colon separating the defined term from its definition, the program will ask you to insert one, indicating the line number where this should be done. Then click the **Load button** again.
5. If duplicate entries appear in the dictionary (which may be the result of an oversight by the standard's author who has redefined terms that had already been defined), remove these duplicates, remembering to remove them from the standard as well. Then click the *Sort* key to delete the empty rows.

I can provide an Excel spreadsheet customized for dictionary maintenance free of charge to interested individuals or institutions

22.2 Creating, modifying, or removing BoS standards

22.2.1 Coordinator's procedure

Although standards are usually developed by process owners, each employee or group of employees has the right to take the initiative to develop a new standard or to improve or remove an existing one. Should such an initiative arise, the following procedure should be followed:

1. **Start of the initiative(s)** — the initiator(s) prepare a preliminary description of their initiative in writing.
2. **Selection of the initiative's coordinator** — the initiators select the **coordinator of the initiative** from among themselves. If there is only one initiator, he or she becomes the coordinator responsible for coordinating all the work carried out during the development of the standard.
3. **Submission of the initiative** — the coordinator submits the initiative to the owner or owners of processes to which the submitted standard is or should be assigned. The coordinator also submits the initiative to the keeper of the BoS, who makes an appropriate entry in the BoS logbook and, if the initiative involves updating an existing standard, issues an editable copy of the standard to the coordinator.
4. **Selection of the owner-coordinator** — if more than one process owner is involved, they choose the **owner-coordinator** from among themselves. If only one process owner is involved, he or she becomes the owner-coordinator.
5. **Preparation of the draft** — the coordinator of the initiative prepares a draft of the new standard, the update of an existing standard, or the removal of a standard.
6. **Negotiations** — the coordinator of the initiative sends the draft to all **interested individuals** which include:
 - 6.1. the project initiators;
 - 6.2. the owners of processes to which the created standard is related;
 - 6.3. the individuals who will be obliged to comply with the standard in the future; if there are many such individuals, then the involvement in the work on the draft's development can be limited to their representatives.
 - 6.4. The coordinator sets the date by which comments on the draft are to be submitted. When determining this date, they should take into account the possible absences from work of the persons concerned. The coordinator can declare that no comments can be submitted after that date. The coordinator organizes a meeting for discussion if they deem it necessary, or if the individuals concerned so wish. If changes are introduced to the draft as a result of the comments, the draft is renegotiated through correspondence or meetings. Otherwise, the document goes to the owner-coordinator.
 - 6.5. If the draft concerns the removal of a standard from the BoS, the coordinator and the owner-coordinator of the initiative are obliged to check what effects the removal will have on the standards referring to the standard being removed. In such a case, they should consult their work with the owners of the relevant processes and with the keeper of the BoS.
7. **Evaluation by the owner-coordinator** — after assessing the document, the owner-coordinator makes one of three decisions, each of which, together with the date of its adoption, is entered into the BoS logbook in the line related to the initiative being developed:

8. The proposal is returned to the coordinator for renegotiation (point 6).
9. The proposal is rejected definitively, ending the procedure; the initiators have the right to appeal this decision to the management board; if the board accepts the appeal, the whole procedure is restarted from the beginning. The coordinator and the group of initiators can be subject to change by the keeper, but should be consulted with the coordinator of the initiative and the owner-coordinator.

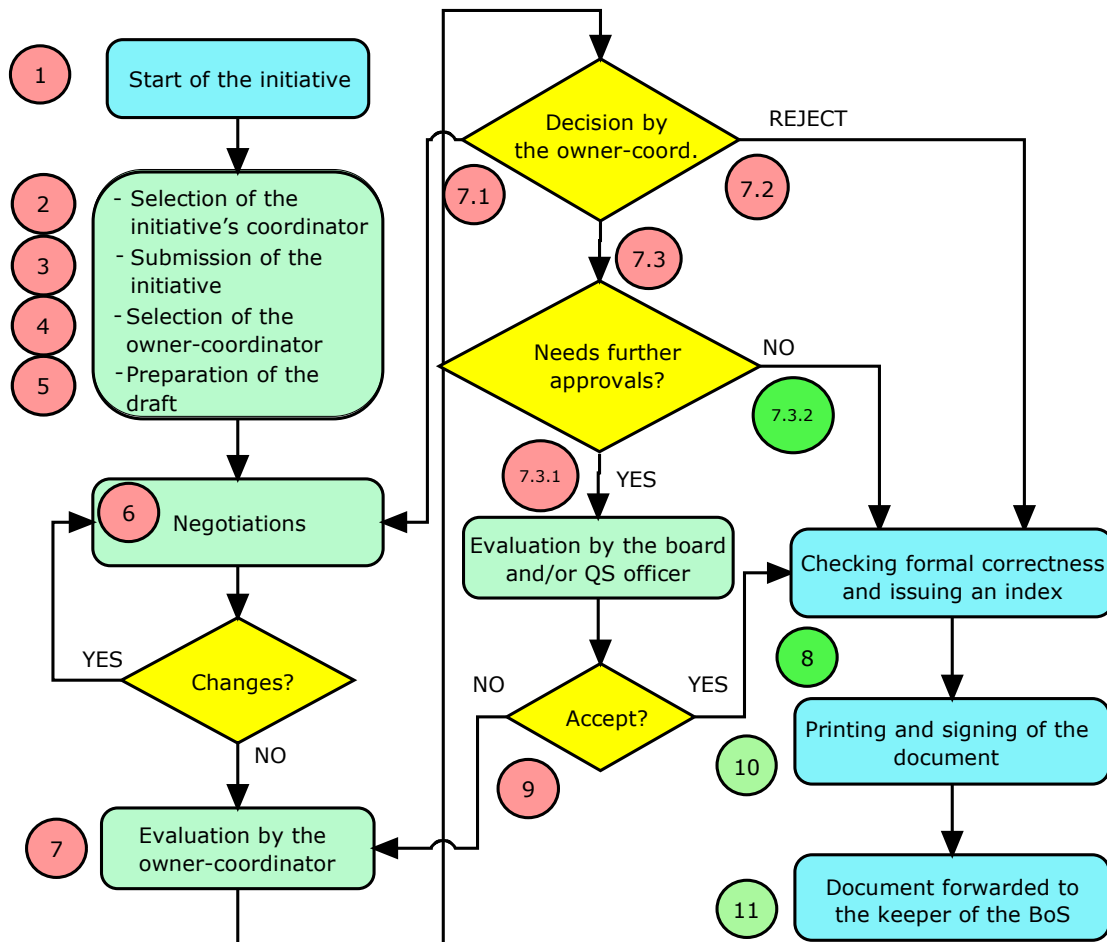


Fig. 22.2-1 Procedure for creating, modifying, or removing BoS standards

10. The proposal is accepted, in which case the owner-coordinator takes one of two actions:
11. If the standard must be approved by the quality systems officer¹⁸¹ and/or the president of the management board, then the proposal is sent to these individuals. If a new standard is being approved or an existing standard is being modified, they sign the paper version of the standard, and if a standard is being removed, they sign the initiative's submission document.
12. If no further approvals are required, the draft is sent to the keeper of the BoS.

¹⁸¹ The quality systems officer is an employee responsible for coordinating all works related to quality and safety systems in the company. They report directly to the president of the management board. Their specific responsibilities are described in section 22.3.2.

13. If the draft obtains all the required approvals as a result of the actions described in point 7.3, the project's coordinator forwards it to the keeper of the BoS, who provides the document with an index, records the date of its introduction to the BoS, pastes the definitions of new terms (if such terms appear in the standard) into the BoS dictionary, and makes appropriate entries in the BoS document list and the BoS logbook. The keeper of the BoS also checks whether the standard complies with the rules described in section 22.1 (especially with regard to the file name). If this is not the case, the keeper of the BoS sends the standard back to the initiative's coordinator for corrections. Minor editorial corrections can be made. The keeper of the BoS sends the document in PDF format to the coordinator, who prints it out, signs it, and hands it over to the person verifying the document for signing. The verifier signs the document and hands it over for to the person approving the document, who signs it and hands it back to the keeper of the BoS.
14. If the standard is not adopted as a result of the action described in point 7.3.1, it is returned to the owner-coordinator along with a justification for the rejection. The procedure restarts from point 7.
15. When the project reaches the keeper of the BoS, they take the actions described in point 22.2.3.

The flow diagram corresponding to the procedure is shown in Fig. 22.2-1. The numbers in circles correspond to the steps of the procedure. The green circles mark the adoption of the project.

16.

The procedure described above is quite complicated as it covers all the possible circumstances that may arise during the work on a standard. In practice, it is most often going to be much more straightforward. For example, when a process owner creates a standard that involves only their own process, and there are no protests from the standard's future performers, the procedure is as follows:

1. The process owner takes the initiative to create a standard and writes its draft, becoming both the coordinator of the initiative and the owner-coordinator. This completes steps 1 through 5.
2. The draft is sent to all interested parties and agreed upon after any amendments.
3. If the nature of the standard so requires, it is sent to the quality systems officer and/or the president of the management board.
4. The project (original with signatures) is approved and goes to the keeper of the BoS.

The most important issue in the whole procedure is to consider the opinions of all those who can make a significant contribution to the document's content while it is being created.

22.2.2 Principles of verifying and approving BoS documents

Each document, apart from some BoS management documents, includes a table on the title page, which should contain the signatures of three persons: the document's author, the person verifying the document, and the person approving the document (Tab. 22.2-1). It is assumed that both the verification and the approval pertain to all supplements, so we do not put tables with signatures on the latter.

	Surname and first name	Date	Signature
--	------------------------	------	-----------

Authored by:	Anna Kalisiak	November 17 th , 2009	
Verified by:	Elżbieta Kochańska	November 17 th , 2009	
Approved by:	Andrzej Blikle	April 19 th , 2010	

Tab. 22.2-1 Example of a table on the title page of a document

In the field designated for the author, the signature is placed by the coordinator of the initiative referred to in section 22.2.1. Very often it will be simply the person who wrote the document or the owner of the process associated with the document.

The document's verification should be done by someone who will be required in the future to either comply with it or to enforce such compliance. The document can also be verified by a team, e.g., a college of directors. In this case, a reference to the relevant protocol is entered in the field of the verifier's signature.

The purpose of verifying the document is to provide a high degree of assurance that:

1. The document has been written in accordance with all the rules described in this manual, and especially in accordance with the relevant template.
2. There are no gaps in the document, i.e., the document fully explains the rules of conduct in relevant circumstances; this is particularly important for instructions and procedures.
3. There are no internal contradictions in the document, i.e., the documents features no provisions that would contradict any other provision of the document.
4. The document does not contradict any other BoS documents.
5. The document does not contradict any binding regulations or the common law.
6. The document contains references to all other documents and records which the reader should be familiar with to use the document properly.

Once the document has been checked, it must be approved. The purpose of approving the document is so that a specific individual can take responsibility for its implementation and use. The most suitable person for this is the owner of the relevant process.

The management board can suspend the introduction of an approved BoS document if it concludes that the document:

1. does not comply with the law.
2. significantly endangers the interest or image of the company.
3. significantly impedes the proper functioning of the company.

Such a decision requires a resolution by the management board recorded in the minutes of the board's meeting.

22.2.3 Procedure for the BoS Keeper

When the keeper of the BoS receives a document as a result of completing the procedure described in section 22.2.1, they perform the following actions:

1. If the procedure concerned the creation of a new standard or the modification of an existing one, the keeper:

- 1.1. checks whether the paper version contains all the required signatures; if not, the keeper sends the standard back to the individuals whose signatures are missing.
 - 1.2. hands over a paper version of the standard to the office manager in order for it to be placed in the main BoS.
 - 1.3. places both files of a given document (DOC and PDF) in the electronic BoS (this does not apply to Excel files). The keeper makes sure that the only difference between the names of these files is the extension.
 - 1.4. notifies all division directors about the introduction of a new standard (or the change to an existing one) by e-mail, simultaneously sending them the new version of the BoS in its entirety. The directors are obliged to forward the new version of the BoS to all their charges.
2. If the procedure concerned the removal of an existing standard:
- 2.1. The keeper checks whether the initiative's document contains all required signatures; if not, the keeper sends the document back to the individuals whose signatures are missing. The keeper also checks whether any owners of processes whose standards refer to the standard being removed have protested against the removal of the standard.
 - 2.2. The keeper checks whether the documents referring to the standard being removed have been modified accordingly; if not, the keeper notifies the process owners concerned and suspends the introduction of changes in the BoS until appropriate modifications have been made.
 - 2.3. If the conditions described in points 2.1 and 2.2 are fulfilled, the keeper proceeds to the next steps of the procedure.
 - 2.4. The keeper updates the list of BoS documents by moving the removed standard to the list of removed documents and by deleting the references to the removed standard from the records of other standards.
 - 2.5. The keeper makes an appropriate entry in the BoS logbook.
 - 2.6. The keeper changes the index of the removed document by adding the R/ prefix to the existing index and introduces appropriate changes to the electronic and paper versions of the document. The office manager places the document in the collection of documents removed from the BoS.
 - 2.7. The keeper removes all definitions originating from the removed document from the BoS dictionary. If these definitions are needed because they are used in other documents, they should be transferred to another BoS document, and the name of this document should replace the one being removed in the dictionary.
 - 2.8. In the electronic version of the BoS, the keeper transfers the removed document to the collection of documents removed from the BoS.

22.2.4 Document describing standards

Each standard has an individual and unique index that identifies it in the *Book of Standards*. The rules for assigning indexes are described in section 22.1.3.

As to form, each standard — apart from the exceptions described below — should conform to the template for standards. In order to facilitate the implementation of this principle, standards should be described by copying the template and then filling it with content. The template

contains comments with instructions, which, among other things, describe what kind of information should be included in the standard and where¹⁸².

The template for documents describing standards does not need to be adhered to by the following documents:

1. *Recipes* (raw material compositions) because their format is imposed by the computer database.
2. *Technological procedures* because these documents should be brief so that they can be made available on paper at production workstations.
3. *Description charts* because they have a special format.
4. *Manuals* which may optionally contain preambles, and the references may be limited to associated documents only. Manuals may also have page headers that are closer to publishing standards than the header applicable to other documents.

With the exception of recipes and technological procedures, any document describing a standard should meet the quality standard for documents. In particular, it should be correct in terms of spelling, punctuation, grammar, stylistics, editing, and typography. Each section header of any level should be formatted in the header style, and each reference (including the table of contents on the first page) should be inserted as a field indicating the referenced source (*References* tab in MS Word).

22.3 Scopes of responsibilities

22.3.1 Keeper of the BoS

The keeper of the BoS is responsible for:

1. Ensuring that both versions of the BoS are fully up to date and mutually concordant.
2. Carrying out the activities assigned to them in sections 22.1 and 22.2, in particular:
 - 2.1. Providing new standards with indexes, creation dates, version numbers, and file names.
 - 2.2. Providing updated standards with update dates and version numbers.
 - 2.3. Notifying all individuals concerned about changes to the BoS.
 - 2.4. Transferring removed standards to the collection of removed documents.
 - 2.5. Maintaining the BoS logbook on a current basis.
 - 2.6. Maintaining the list of BoS documents on a current basis.
 - 2.7. Maintaining the BoS dictionary on a current basis.

The keeper of the BoS is appointed by the management board.

22.3.2 Other roles

The following individuals have specific responsibilities in relation to the management of the BoS:

¹⁸² Such templates should be created by each company according to its own specificity. I am not presenting here the template used by the A. Blikle company because it was created in accordance with the rather specific BRC standard.

1. The *coordinator of the initiative* is responsible for carrying out all the duties assigned to them in the procedure described in section 22.2.1 as well as for carrying out any other tasks that may prove necessary for the proper and efficient functioning of the procedure but have not been included in the responsibilities of other individuals.
2. The *owner-coordinator* is responsible for communication (transmission of documents) between the coordinator of the initiative and other process owners and for preparing the collective position of the owners if the owner-coordinator concludes that circumstances so require. The most common such circumstance would be that the owners disagree to the standard and/or have no joint position on the matter.
3. *Managers of organizational units related to the standard* are responsible for taking part in the negotiations referred to in point 6 of the procedure described in section 22.2.1. Whenever they are informed by the keeper of the BoS about a new standard being approved, an already existing standard being updated, or a standard being rejected, they are obliged to forward this information to all interested parties under their care.
4. The *quality systems officer* is responsible for issuing their opinion on any standards that require their approval. In this context “issuing an opinion” means either issuing a negative opinion during the procedure described in section 22.2.1 or approving the standard by signing it in the appropriate box on the title page of the standard’s paper version.
5. The *president of the management board* is responsible for issuing their opinion on all standards that require the approval of the management board. “Issuing an opinion” here is understood in the same way as in point 4.

Part VII:
MANAGING
THE FLOW OF
INFORMATION

23 Collective knowledge

The collective knowledge of a team is the sum of what everyone knows, but only after it is shared by all. Until this exchange takes place, we are dealing with dispersed knowledge. In the knowledge economy, which I have already discussed in section 12.2, the task of building collective knowledge of the employee community is one of the more significant challenges as well as one of the more important ways of gaining competitive advantage for the company.

23.1 The wisdom of herds

In large groups of living organisms, such as ants, fish, birds, or even higher-organized animals such as antelopes, we can observe an interesting group of behavioral phenomena, which involve a certain kind of collective wisdom.

In Fig. 23.1-1 we can see a flock of starlings preparing to escape from an attacking falcon. This is a frame from a movie, which can be viewed on YouTube. Faced with an attack, the flock splits into two parts, between which the falcon flies. The predator is not able to make a quick turn, as it attacks with a diving flight speed exceeding 100 km per hour. A moment later the flock is reunited again.

How can starlings implement such a collective tactic without having any central command? They do it by following four simple *rules of a starling flock*:



Fig. 23.1-1 A flock of starlings attacked by a falcon

1. Stay close to the center of the flock.
2. Fly 2 – 3 body lengths from your neighbor.
3. Do not fly into your neighbor.
4. If a predator attacks, get out of its way.

Thanks to these four principles the complex flock maneuver carried out by tens of thousands of birds is carried out entirely through the “bilateral contacts” of each bird with its nearest neighbors. Global coordination is achieved by means of local rules, just like in the process-oriented business model, where every process fulfills the orders of its suppliers and places orders with its recipients. Synchronization between the operation of all processes is achieved by synchronizing the operation of each process with the operation of its process neighbors. As it turns out, however, this neighbor-to-neighbor synchronization may hold some pitfalls, which should also be borne in mind.

The naturalist William Beebe once noticed a strange phenomenon in the Guyana jungle. He observed ants moving around a circle with a diameter of 30 m (Fig. 23.1-2). They circled like this for two days until they all fell dead.

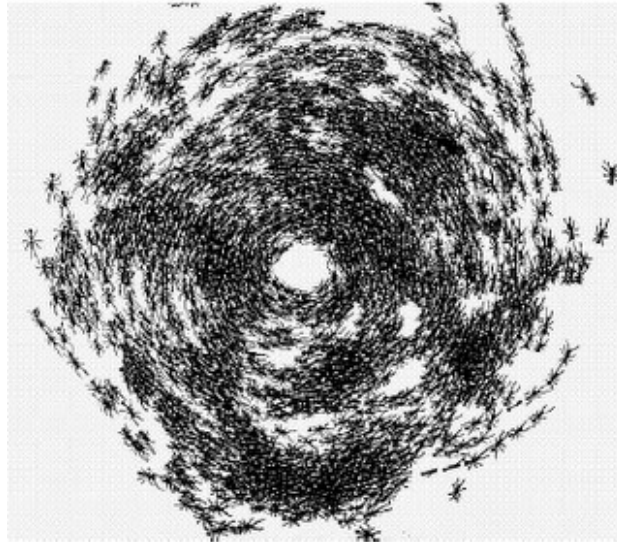


Fig. 23.1-2 An ant circle of death

This circle is also a phenomenon explained by the rules of herd behavior, this time exemplified by an ant swarm. The rule for worker ants moving to retrieve food along a path originally marked out by scouts is very simple: “Follow the ant in front of you”. This principle allows the ants to reach the food and then return to the anthill. And everything goes well until some returning ant makes the mistake of following an ant that is moving in the direction of food. Then the whole swarm begins to wind around the food as if it were a spool.

It turns out that the ant circle syndrome can occur in human societies following the principle of “think like others”. According to James Surowiecki, this syndrome was at the root of the behavior observed in the American intelligence services, which disregarded the signals indicating that the Japanese were about to attack Pearl Harbor and, a few decades later, misjudged the chances of the American landing operation in the Bay of Pigs in Cuba.

23.2 The wisdom of crowds

Social scientists have long been interested in the question of how much a crowd treated as a whole knows in relation to what is known by its constituent individuals. One of these

researchers, Francis Galton, in 1906 attended the West of England Fat Stock and Poultry Exhibition in Plymouth. It was a tradition for the fair to begin the day with an ox being displayed to the assembled crowd; the people would then wager how much the meat of the animal would weigh after being “slaughtered and dressed”. Anyone could buy a stamped ticket for a sixpence, write their estimate on it, and then place it signed into the ballot box. Over the course of the fair, the ox was butchered, its meat was divided and weighed, and at the end of the day the results of the competition were announced. The best guessers received prizes.

One memorable day after such a contest, Galton collected all 787 tickets and then calculated the arithmetic mean of the predicted weights, which amounted to 542.2 kg. The actual weight of the meat turned out to be 542.6 kg. What a remarkable coincidence!

A similar phenomenon was observed during the attempt to locate the American submarine USS Scorpion, which had been lost in unknown circumstances. The boat sank in 1968 during a routine patrol cruise in the waters of the North Pacific Ocean. The location from which it transmitted the last radio message was known, but there was no information on the ship’s direction, speed, or time of sinking. The area of the ship’s likely position on the ocean floor was defined as a circle with a diameter of 30 km.

John Craven, a naval scientist, was asked to aid the search for the boat. He organized a team of experts in various specialties, including mathematicians, submarine specialists, and marine rescuers. He then presented its members with several possible scenarios for the disaster and asked each to try to estimate the likely location of the boat separately. Crucially, the team members worked completely independently, each in the comfort of their own office. The hypotheses obtained in this way were subjected to statistical calculation using the so-called Bayesian theorem. Five months later the USS Scorpion was found 200 meters from the location indicated by the team.

The “wisdom of crowds” phenomenon could also be observed during the catastrophe of the space shuttle Challenger on January 28th, 1986. Challenger exploded 74 seconds after the launch, as Americans immediately saw on screens of their TV sets. The media pointed to four companies that might have been responsible for the disaster:

- Rockwell International, manufacturer of the shuttle and its engines;
- Lockheed, which provided ground support;
- Martin Marietta, manufacturer of the external fuel tank;
- Morton-Thiokol, manufacturer of the solid fuel carrier rocket.

Eight minutes after the disaster, it was reported by the Dow Jones Newswire, a stock exchange news agency, and the stock prices of the four companies began to fall. Twenty one minutes after the explosion (i.e., 13 minutes after the news was reported), the following drops were recorded:

- Rockwell International — 6%;
- Lockheed — 5%;
- Martin Marietta — 3%;
- Morton-Thiokol — a trading halt was called because the stock was dropping rapidly; one hour after the explosion it was down 6%, and at the end of the day it was down 12%.

Six months later, it was determined that the explosion was caused by gaskets in the Morton-Thiokol carrier rocket.

Thus we have another example of a situation in which crowd wisdom has proved to be significant. A question, therefore, arises as to whether this holds true in any circumstances or whether some special circumstances are required for this to happen. And indeed, such circumstances are necessary. Not every crowd is wise. In order for the knowledge of a collective to be greater than the knowledge of its constituents, four conditions must be met:

1. **Diversity of information** — everyone has slightly different information.
2. **Independence of opinion** — opinions are not agreed upon.
3. **Decentralization of competences** — individual units have different areas of competence (diverse education).
4. **Aggregation of information** — there is a mechanism that links individual judgements into a common assessment.

It should be noted here that while the first three conditions may be met by chance, as in the case of cattle fair participants or stock exchange investors, the fourth requires a conscious choice of an appropriate mechanism. In the case of the cattle fair, the aggregate was the arithmetic mean, in the case of the USS Scorpion — Bayes's theorem, in the case of Challenger — the mechanism of the stock exchange.

As it turns out, the mechanism of the stock exchange is especially well suited as an aggregate of dispersed knowledge. This was used to construct so-called *virtual prediction markets* for predicting various types of events, such as the results of US presidential elections or NBA finals. Online access to one such market is provided by the College of Business of the University of Iowa under the name Iowa Electronic Markets (available at <http://tippie.uiowa.edu/iem/>). Anyone can play, and the rules of the game (e.g., when predicting the results of presidential elections) are as follows:

1. The investor opens an account and deposits a certain amount between \$10 and \$100. Suppose that 5000 investors opened accounts worth \$250,000 in total.
2. Shares traded on the market concern the victory of a selected candidate. The market operator offers for sale a certain number of shares of each candidate at some starting price.
3. A secondary market develops where shares can be sold and bought.
4. After the election is settled, the \$250,000 pot is divided among all the shares of the winning candidate and paid to the shareholders (the winner takes all) or divided among the shares of different candidates in proportion to the election results.

As it turns out, IEM forecasts are often more accurate than surveys carried out with the use of statistical methods. This is all the more puzzling because the group of players is in no way representative of the electorate community.

Another prediction market is the Hollywood Stock Exchange (available at <http://www.hsx.com/http://www.hsx.com/>). It is used to predict revenues generated by films entering the American market. Yet another example is the market used for selecting projects to be implemented at the Morning Star company, as described in section 2.4.1.

Situations in which the lack of an aggregation mechanism precluded the use of collective knowledge have also been observed. One example was the cooperation of the US intelligence services prior to the terrorist attack on September 11, 2001. As it was later determined, the sum of knowledge available to all these services would have been sufficient to predict the attack, but there was no aggregation mechanism. After some time, such a mechanism was created in the form of a communication platform, as discussed in section 24. Another example was the

second Iraqi-American War. In terms of knowledge of the situation on the front both armies met the first three conditions. The field commanders on both sides received diverse information coming from different areas of the battlefield; they did not contact each other and had different competences. However, only the Americans had a system of satellite communications that allowed them to collect, process, and forward aggregated information about the current state of the war theatre to their subdivisions.

In turn, the already mentioned communication platforms can serve as an example of a situation in which the idea of crowd wisdom has been applied in the virtual world.

23.3 The wisdom of website crowds

How does the Google search engine find thousands or tens of thousands of answers to a query within just a few seconds? How is this possible, considering that the engine has to seek these answers on more than 3 billion websites existing today? Well, there are two mechanisms at play here. Firstly, special software for collecting information constantly searches all websites and records the findings in Google's databases. Secondly, in order to distinguish more credible sources from less credible ones, the software maintains and updates a website credibility ranking built according to two rules:

1. The more websites link to the website in question, the more reliable it is.
2. The credibility assessment takes into account not only the number of links, but also the credibility of the linking websites.

This ranking is carried out by the PageRank algorithm, which is Google's technological secret.

Let us now look at websites as if we were observing a crowd and note that they meet the four conditions for wisdom described in section 23.2:

1. **Diversity of information** — each site not only has different information, but this information most often originates from different sources.
2. **Independence of opinion** — opinions expressed on websites are not agreed upon and very often do not refer to a common area of knowledge.
3. **Decentralization of competences** — the creators of individual websites have diverse knowledge (specializations).
4. **Aggregation of information** — this is what the Google search engine does with its PageRank algorithm.

Of course, other search engines perform similar functions, but — as James Surowiecki [76] pointed out — Google's search engine was the first to treat the collection of websites as an intelligent crowd.

24 Company 2.0 - communication platforms

At the beginning of the 21st century, the idea of a website network called Web 2.0 took shape. It was so named to distinguish it from the era of Web 1.0, characterized by the division of the Internet user community into developers and users of websites. In the 2.0 era, the difference between developers and users has begun to fade. Wikipedia, Facebook and other social forums, Twitter and blogs of all kinds, and finally Google's search engine based on PageRank — these are all examples of websites featuring content that is created primarily by their users. So again we are dealing with the use of the phenomenon of crowd wisdom.

24.1 Channels and platforms

McAfee's [57] idea of company 2.0 is related to this very idea of using Web 2.0 technology and experiences to organize a “wise crowd” consisting of either the company's employees or the wider community of its stakeholders.

In companies following the traditional model of creating and distributing knowledge and information, the basic tool for exchanging information is the *communication channel*. Historically, the earliest channels of communication came in the form of direct contacts and mail, followed by telephone and, over the last 20-30 years, e-mail. The paradigm of communication channels is characterized by the following traits, which are particularly evident in the use of e-mail:

1. A communication channel is a medium connecting basically one sender with one recipient; sending e-mails to many addresses grouped in a single list is simply using numerous bilateral channels.
2. In order to send information through a channel, the sender must be able to identify the recipient and must conclude that the information being sent may be of interest to the recipient.
3. If you wish to ensure that all interested parties receive our information, you have to accept the fact that it will also be received by many uninterested parties; this is how the phenomenon known as spam is born¹⁸³.
4. In order to receive information from different senders, you need to inform them not only of your existence, but also of your areas of interest.
5. If you wish to receive all the information on a given subject, you must agree to also receive large amounts of information that you are not interested in; this can lead to the

¹⁸³ Etymologically, the word ‘spam’ comes from the colloquial name for canned pork products (SPiced hAM) fed to American soldiers during World War II.

phenomenon of informational noise, i.e., a situation in which it is difficult to separate informational grain from chaff.

6. The more users use the common channel, the less efficient it is; this phenomenon, known as server flooding, is employed by Internet users to put pressure on well-known institutions, e.g., governmental ones.

As I mentioned in section 23.2, the US intelligence services failed to foresee the September 11 attack even though, together, they had sufficient information on the matter. However, this information was fragmentary and dispersed among these services, as it was mainly exchanged via channels.

An alternative to an information channel is an *information platform*, which resembles a bulletin board on which information is displayed so that all interested parties can use it. Of course, the board only serves its purpose in small teams exchanging limited amounts of information. In order to effectively manage thousands of users and millions of messages, communication platforms require advanced IT tools that provide them with six basic features:

1. **Searchability** — a mechanism for finding the required information, which is usually implemented by installing a search engine on the platform.
2. **Linkability** — the ability of users to create links between content.
3. **Bloggability** — the ability of users to post their content on the platform.
4. **Taggability**— the ability to categorize content by assigning tags, e.g., as in Twitter; instead of traditionally assigning each piece of content to a single category, we assign categories to each piece of content¹⁸⁴.
5. **Expandability** — the platform remembers user preferences, e.g., as in the Amazon: “*Customers who bought this item also bought...*”
6. **Notifiability** — the platform sends notifications about new content, e.g., through RSS (*Really Simple Syndication*) on websites; this mechanism relieves the user of the need to constantly monitor the platform even when no new content is available.

Platforms with these features are called Emergent Social Software Platforms (ESSPs). Today, they are used by many companies and organizations, including, among others:

- Google (the company’s internal communication platform, not the search engine);
- the investment bank Dresdner Kleinwort Wasserstein;
- the US Director of National Intelligence;
- the US Intelligence Community (established after September 11, 2001);
- the American printing house Vistaprint;
- the Polish family printing house JM Stefko.

It is worth noting that communication platforms are not burdened with any of the aforementioned disadvantages of communication channels:

¹⁸⁴ Assigning content to categories is a method dating to the era of file cabinets in which each document is placed in some kind of a category. This makes finding specific documents much easier than if they were all simply stacked on top each other. However, a disadvantage of such categorization is that sometimes a document “fits” into more categories, and we can only assign it to one. In a file cabinet, categorization is forced by its physical characteristics, but there is no such limitation in the case of files stored in computer memory.

- A. Reaching interested recipients with your information does not require you to know them (their addresses) or to know everybody's interests. As a result, there is no need to send information to a surplus group of people — no need to create spam.
- B. The user can ensure that all of the information they are interested in on the platform will reach them without risking that they will receive unwanted information.
- C. The more people use the platform, the greater its effectiveness.

If communication platforms are such a good tool, then why so few companies use them? I will try to address this question in the following sections.

24.2 Social layers on the web

Man as a social being is always within the sphere of other people's influence. To put it a bit allegorically, we could say that each person constitutes the core of a group of concentric social rings with gradually decreasing strength of social ties: close family, distant family, friends, acquaintances, acquaintances of acquaintances, inhabitants of the same city... (Fig. 24.2-1). The list can go on and on.

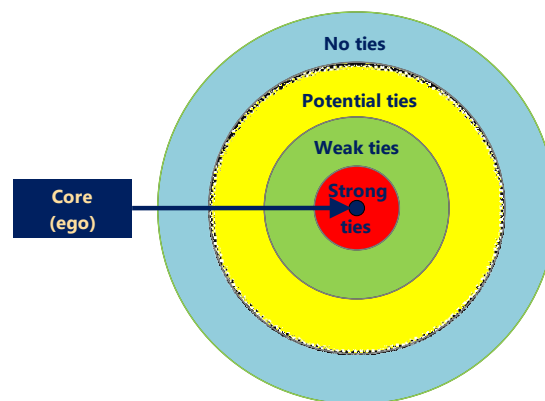


Fig. 24.2-1 Rings of ties around the network user

As McAfee noted [57], similar social layers can be identified among network users, and recognizing them is important to understand how ESSPs work:

- **core (ego)** — the unit around which the layers are formed;
- **strong ties** — people we know well, people we meet, phone, or e-mail often;
- **weak ties** — friends from social forums such as Facebook; we know some things about them, we sometimes exchange comments and other types of information; these links generate links between networks and candidates for strong ties;
- **potential ties** — readers of our blogs or websites; we do not know them, but they know us; we can get to know them if they initiate contact; potential links generate candidates for weak ties;
- **no ties** — players in the same prediction market as us; these ties generate knowledge that we can use.

24.3 Concerns and prejudices against platforms

As with any novelty that disrupts our way of thinking, ESSPs also give rise to numerous concerns. Paradoxically, these concerns can be divided into two mutually exclusive groups:

- I. Concerns that no one will use the ESSP.
- II. Concerns that someone will use them after all.

The first concern is quite justified. Each breakthrough in thinking or behavior initially spurs resistance, and each requires intensive and systematic work to implement it. I will discuss this concern and appropriate measures to counter it in section 24.6. The concerns from the second group have their roots in doubts about the consequences of using the ESSP. This is what companies are most afraid of:

1. Reprehensible interactions between employees: slander, quarrels, etc.
2. Reprehensible actions of employees towards the company: disclosure of internal dirt and/or trade secrets.
3. If we make the platform available to suppliers and customers, it can become a forum for criticizing the company and disclosing its weaknesses.
4. Waste of working time by employees: personal matters, holiday photos, etc.
5. Courts may require us to disclose ESSP material in lawsuits.
6. The appearance of unreliable information — if anyone can write what they like, then how can such information be relied on?

According to McAfee [57], practice shows that these concerns are unfounded.

Negative, aggressive, and hostile actions are usually not a problem, because ESSPs are not anonymous platforms, and their users usually have a sense of community, so they react quickly to negative behavior. As a preventative measure, codes of good practices are established (as discussed in section 24.4). In addition, many potential ESSP users are already using publicly available platforms such as Wikipedia or social forums, so they are familiar with and comply with their codes of conduct. Moreover, moderators can be formally appointed to monitor the platform and prevent negative behavior.

It is also worth keeping in mind that negative information about the company is often an important source of feedback for the company, so having a mechanism for their appearance provides an early warning system. Regardless, the presence of negative information on the platform makes positive information more credible. We should also remember that anyone who wants to write and talk badly about the company has plenty of other opportunities to do so, including many public forums — regardless of whether the company has an ESSP or not.

The last issue, and probably the most important one, is related to the information's unreliability as the information does not come from professional sources and is posted on the platform by unverified authors. I must admit that I had similar doubts about Wikipedia. After all, who checks the reliability of information on Wikipedia and the competence of its authors? It is different with sources such as *Encyclopedia Britannica*. There, the authors of entries are carefully selected, and the entries are reviewed and edited. And yet? Let us consider an experiment described by McAfee [57].

One of the most prestigious American scientific weeklies, "Nature", published the results of a comparative study between *Encyclopedia Britannica* and Wikipedia on December 22, 2005. The same 42 entries were examined in both sources. Among the *Britannica* entries, 123 errors

were detected, including 4 serious ones, while the Wikipedia entries featured 162 errors, including 4 serious ones. *Encyclopedia Britannica* won the comparison, though by a margin smaller than expected. Notwithstanding, the Wikipedia entries were all corrected within a month, while the errors in *Encyclopedia Britannica* obviously remained. This correctability constitutes a very important advantage of Wikipedia over traditional encyclopedias.

Nonetheless, to complete the picture, it should be mentioned that Wikipedia has its downsides. The experiment with *Encyclopedia Britannica* concerned entries related to science, culture, economy, etc., because only such entries are included in encyclopedias. As it turns out, the situation may be worse when it comes to other types of entries. As reported by the American quarterly “Public Relations Journal” (vol. 6, no. 2, 2012; <http://www.prsa.org/intelligence/prjournal/documents/2012distaso.pdf><https://prjournal.instituteforpr.org/wp-content/uploads/2012DiStaso.pdf>) in the article *Measuring Public Relations Wikipedia Engagement: How Bright is the Rule?* by Dr. Marcia W. DiStaso, *in 60% of cases, information about companies on Wikipedia is judged to be incorrect by these companies. Moreover, as many as 25% of e-mails indicating errors in descriptions of companies were ignored.*

The issue of Wikipedia’s credibility as a source of information remains, therefore, debatable. However, this should not undermine confidence in the concept of ESSPs for the reasons already mentioned above.

24.4 Code of conduct for an ESSP

Following McAfee [57], I quote the code of conduct for Wikipedia. The general rule is:

An atmosphere of love and respect motivating to responsible action. If you want your writing to survive, you really have to strive to be cooperative and helpful.

This general rule is followed by five specific rules:

1. Wikipedia is an encyclopedia, not a place for source texts or promoting worldviews. It is not a newspaper.
2. Wikipedia has a neutral point of view, present alternatives.
3. Wikipedia is a free collection of knowledge available under a Creative Commons license and the GNU Free Documentation License.
4. Apply Wikipedia etiquette. Respect other authors, even if you disagree with them.
5. Wikipedia does not have firm rules apart from these five general principles.

24.5 How to design an ESSP

The creation of an ESSP consists in two activities. The first one is, of course, constructing the technical layer of the platform, i.e., appropriate software. This task may seem simple, as it can be entrusted to a specialist IT company or to the company’s own IT specialists. The Web today also features many tools, either available commercially or free of charge, which allow their users to build such platforms relatively quickly. However, IT professionals, especially those hired from outside, may not know what the company expects from the platform and/or what the platform’s purpose is supposed to be. It is, therefore, necessary to start by establishing the expected results. And who should establish them? The future users, of course. However, not everyone may have been persuaded that the platform is a good idea; perhaps most of them remain unconvinced. In their eyes a revolution is coming, and this invariably gives rise to the fear: “Will I be able to handle it?”

In this situation, it is good to create an initiative group comprising enthusiasts of new technologies. We should look for them mainly among young people who use the Internet, search engines, Wikipedia, and social forums on a daily basis. But we should not give up on older candidates if they wish to join us. They may be instrumental in convincing their peers that the ESSP is also available to them and delivering them from the “It’s not for me” syndrome.

Once we have our initiative group, we can task it with assessing the current state of affairs regarding:

- the set of information available in the company: what this information is about and how it is stored (e.g., as computer files, paper documents, records in memories of measuring devices);
- the location and availability of this information, i.e., where it is (e.g., in the central database, in the computers of individual employees, in the accounting system, or the file cabinets);
- the ways in which we can learn about whether the information we seek exists or not (e.g., by sending e-mails to people who might know something about it);
- the ways of informing potentially interested parties about new information appearing in the company.

Of course, we could pose more questions than that. In the list above, I only presented the most important examples.

Once we have established the current state of affairs, we should ask ourselves what we lack most. To answer this question, we can use one of the tools of quality incubators, such as a carousel of ideas (section 15.6) or, if rather delicate measures are required, affinity diagrams (section 15.2.5).

We should be prepared for the fact that, a result of the needs analysis, we may encounter communication barriers, which are by no means related to technical problems, but rather to emotional ones. After all, access to information is a power that not everyone will want to give up freely. However, at this point we are delving into the realm of leadership-related issues, which I have already discussed earlier in the book.

Once the current state of affairs and its shortcomings are established, it is time to think about the target state. However, this is not yet the time to think about how our platform should look like. Now it is time to answer a few fundamental questions:

1. What kind of information (documents) should be available on the platform?
2. Is everything to be accessible to all, or are we going to group information into categories with specific access levels for different user groups? If we wish to adopt the latter approach, we can distinguish several more subcategories in each user category, e.g., users that can only search and read documents, users who can edit documents, and users who can upload or remove documents.
3. What commands should the platform follow? For example: “find a document”, “find all documents on a given topic”, “create a report on a given topic”, “show statistics describing the functioning of the platform”.
4. What other features do we expect from the platform?

To answer the latter question, we can discuss it with IT specialists, who will tell us what features we can expect from the platform on the one hand, and on the other they will curb our appetite as it may lead to high costs associated with both the platform’s development and maintenance.

This is not only about the money spent on IT, but also about the costs of labor of the future users of the platform. For example, we may wish to know how much each of our facilities spends globally on electricity; we may wish to split these costs into lighting, heating, and machine operation; or we may wish to calculate how much each electricity receiver costs us each month. Each of these choices impacts not only the laboriousness of placing data on the platform, but also the laboriousness of using it. Therefore, it is worthwhile to consider carefully what information we will need to make decisions and how much we are willing to pay for it.

We should also remember one crucial thing. Developing an ESSP is a routine task for a professional, but it can be very challenging for a “semi-professional”. It requires knowledge not only of building websites, but also of creating databases. One needs to know how to prepare the system’s documentation so that it can be maintained in the future in spite of constantly changing conditions of the software environment, including operating systems, website content management systems, so-called database engines, programming languages, and dozens of other tools. Our platform should also be prepared for possible changes in the group of its IT handlers. So do not be fooled by assurances that the neighbor’s son is a “real computer wizard” and will make you a platform for the tenth of the price demanded by professionals. While this “wizard” may actually develop the platform, he may well leave you with a system that no one else will want to touch if he later runs out of opportunity or willingness to maintain it. The experience of several generations of computer scientists indicates that it is often easier to build a system from scratch than to modify someone else’s software without good documentation.

Finally, we should keep in mind that installing an ESSP in a company means that we will come to depend on it for years to come, if not forever. Just as there is no return to the era of paper workflow, the company will no longer be able to function without the platform once it is installed. The platform should, therefore, be able to withstand user errors, physical external actions (e.g., computer theft), and changes in the team of IT specialists taking care of it.

24.6 How to implement an ESSP

When the IT specialists provide us with the first version of the platform, the work starts on its integration into the daily operations of the company. Here again, the initiative group can play an invaluable role, because its members should be the ones to first use the platform and encourage others to do so. The platform should also be integrated into the current business processes as soon as possible in order to develop relevant habits. For example, instead of sending out memos about meetings to committee and working group members, we can place notifications on the platform and teach members of those groups how to subscribe to an appropriate service on the platform to inform them of new notifications. We do the same for all kinds of reports, studies, and plans.

When implementing an ESSP, one should be prepared for a long haul. The process will take months rather than weeks, but it may take even longer. Like implementing TQM (see section 13), implementing the platform entails not only developing new habits, but also breaking old ones. And this is not just about (or even mainly about) technical habits associated with the use of new tools. This is about profound changes in the company’s corporate culture, the culture associated with sharing information. Some of such changes are presented in Tab. 24.6-1 Comparison of corporate cultures in companies 1.0 and 2.0.

COMPANY 1.0	COMPANY 2.0
-------------	-------------

Concealing information. A club of liars	Information is commonly verifiable
“My authority determines my position and guarantees my safety”	Sharing power with anyone authorized to make decisions
Unilateral control by superiors	Multilateral control exerted by the decision-making process
Maximizing your personal contribution	Maximizing your team’s contribution
Defensive and sparse statements	Full statements inviting an exchange of views
Lecturing paradigm: emphasis on speaking	Talking paradigm: emphasis on listening

Tab. 24.6-1 Comparison of corporate cultures in companies 1.0 and 2.0

24.7 How to assess the ESSP

When a company is planning to make a larger investment, it is sensible to consider the investment’s profitability. If we are to spend money on a new retail outlet, a new factory, or a new machine, we need to know whether the investment will be returned and whether it will bring any profits. This is obviously a quite reasonable approach, but it is important to know that it is not always applicable.

In order to consider a return on investment in a project, one needs to be able to show a direct link between the investment and the income obtained from it. If we open a new retail outlet, we can calculate the amount by which the company’s profit has increased after the opening and the time it will take for the surplus profit to cover the investment¹⁸⁵. Opening a new outlet will certainly affect the flow of cash into the company, so there is indeed a direct causal link between the opening of the outlet and the change in the company’s revenue. However, in the case of investments in intangible assets, such as communication platforms, the situation is less simple.

Robert Kaplan and David Norton, the authors of the global best-seller *Strategy Maps: Converting Intangible Assets into Tangible Outcomes* [43] as well as the concept of the balanced scorecard, distinguish three types of intangible assets:

1. **Human capital** — knowledge, skills, and talent of employees.
2. **Information capital** — databases, information systems, networks, and technological infrastructure.
3. **Organizational capital** — culture, leadership, employment flexibility, teamwork, and knowledge management.

They argue that these assets cannot be assessed separately or independently, because their value depends on how they are used in the implementation of the company’s strategy. It is impossible to give a meaningful answer to the question of what return on investment the installation of a computer system in a sales company will bring, because this return will not be brought by the system, but rather by the sales processes that the system will support. Simply installing the system and putting it into use by vendors will not bring anything, and may even worsen sales,

¹⁸⁵ We should take into account the increase in the profit of the whole company, and not only the profit earned in a given outlet, because opening a new outlet may “cannibalize” the market, taking customers away from other outlets.

if vendors are not trained in the use of this system, and not only at the IT level, but above all at the practical level. Benefits of the system will depend on whether it will help vendors create added value for the customer; in order for this to happen, the vendors must not only be able to use it, but they must want to do so. They must be convinced that the system will be beneficial for the customer, the company, and themselves. In other words, in order for an investment in information capital to pay off, concurrent investment must also be made in human and organizational capital.

Vendors versus computers

In a certain company (as I was told by its owner), a decision was made to install an internet shopping platform. Its purpose was to allow customers to make and receive orders faster, and the company to increase its sales. It turned out, however, that the sellers boycotted the system because it deprived them of their customers and had a negative impact on the commission-based part of their remuneration. Successful implementation of the system required the company to depart from the commission-based system of remunerating sellers, thus resulting in a rather far-reaching change in its corporate culture.

Someone could say that opening a new retail outlet also necessitates investing in people and the organizational structure. While this is true, it does so to an incomparably lesser degree. A new outlet usually does not change the organizational culture of the company, nor does it require any new skills or talents. It is different with an IT system. As Kaplan and Norton write, simply installing the system may be a prerequisite for success, but is never sufficient to achieve it.

Does this mean that the team developing the ESSP has no responsibility to the company? That it can be in no way held accountable for the task entrusted to it? That the progress of the implementation cannot be monitored? Of course not. To evaluate and monitor the progress of the ESSP's implementation, McAfee proposes a three-pronged business analysis:

- **Monitoring costs on a time axis** — the project of developing the ESSP should be divided into stages and the stages into tasks. This applies not only to developing an IT tool such as a platform, but also to incorporating this tool into the company's business processes. Each stage and task is assigned a specific budget and completion date, which are then monitored. It should be remembered, however, that the development of an ESSP resembles more closely a research and development project than a construction of a new pavilion. Therefore, the times at which of the individual stages will be executed cannot always be predicted with precision.
- **Monitoring benefits** — As the implementation of the ESSP progresses, benefits associated with its use appear. They may include better use of resources, acquiring new customers, the spread of an innovation from one department to the rest of the company. Each such case should be described, and its benefits for the company should be assessed, if possible, along with an estimation of their financial value.
- **Monitoring the platform's reach** — as we already know, the more people use the platform, the more benefits it can offer. Therefore, it is necessary to monitor the changing number of employees, processes, and company departments using the platform.

Bibliographical tips

In order to make it easier for readers to learn more about the topics discussed in the book, below I am presenting a guide to the quoted literature. I have assigned these hints to parts, rather than individual sections of the book because the individual literary items often correspond to several sections.

Part I — Introduction

The primary supplementary reading for this part is Frederic Laloux's *Reinventing Organizations* [52].

For the topic of management ethics, I would highly recommend Stephen Young's book *Moral Capitalism* [83]. This is a very important publication showing not only how to be run an ethical company, but also how much it pays off. However, while Young demonstrates his points using numerous, but mostly individual examples, R. Paul Herman's monograph [37] proves very similar truths, but using statistical research. I recommend it especially to stock exchange investors as they are its main target.

Young's and Herman's books are on the borderline of management and economics. And speaking of economics, I cannot fail to recommend Adam Smith's fundamental work: *An Inquiry into the Nature and Causes of the Wealth of Nations* [71], which laid the foundations for modern economy. It is also worth reading because later opponents of Smith's ideas attributed to him many ideas that were not his, including the famous saying about the "invisible hand of the market", which Smith used only once in his work and which he did not consider to be central to his philosophy. Tomáš Sedláček also writes about this fact, as well as about many other forgotten economic truths, in a book that I also highly recommend: *Economics of Good and Evil* [68].

For readers interested in inspirational examples of extraordinary companies, I again recommend the collective work *As One. Individual Action, Collective Power* [6] and the book *Maverick. The Success Story Behind the World's Most Unusual Workplace* [69].

Part II — Building relationships

Knowledge of interpersonal communication serves to build positive relationships between people, and this requires talents belonging to the area of emotional intelligence. First of all, I recommend the books by Daniel Goleman: [29] and [30]. Thomas Gordon's *Leader Effectiveness Training* [31] and *Good Relationships: What Makes Them, What Breaks Them* [32] are also must-reads for this topic. *Asertywność Menedżera [Manager's Assertiveness]* is worth recommending as well [51].

When building interpersonal relationships, it is good to know one's strengths and limitations. Insights on learning about the former and dealing with the latter can be found in the accessibly written *Now, Discover Your Strengths* [8].

section 4 on the fear of telling the truth was based almost entirely on the book by Kathleen Ryan and Daniel Oestreich *Driving Fear out of the Workplace. How to Overcome the Invisible Barriers to Quality, Productivity, and Innovation* [66].

Section 3.5 on conflict management is based entirely on the book *Difficult Conversations. How to Discuss What Matters Most* [74]. *Crucial Confrontations* [62] can serve as complementary reading for this topic.

Part III — Building motivations

I cannot begin recommending literature on leadership without again mentioning Frederic Laloux [52], although, to be honest, his book is not devoted to leadership *sensu stricto*, but rather to what will replace traditional leadership, i.e., self-organization.

The first two books I read about the toxic effects of the carrot-and-stick paradigm were written by the American social psychologist Alfie Kohn, whom I met in 1996 at a conference in Birmingham: these are *Punished by Rewards* [47] and *No Contest. The Case Against Competition* [46]. These books, especially the first one, changed my perception of the world to a great extent, but the book that allowed me to better understand the causes behind the phenomena described by Kohn was *Wartości, godność i władza. Dlaczego porządni ludzie czasem kradną, a złodzieje ujmują się honorem* [*Values, dignity and power. Why decent people sometimes steal and thieves act honorably*] by Marek Kosewski [50], also a social psychologist. Another interesting publication in this topic is *The Lucifer Effect. Understanding How Good People Turn Evil* by Philip Zimbardo [84]; to those ready to read a book written for psychologists by psychologists I also recommend *Kontrola Naszych Myśli i Uczuć* [*Control of Our Thoughts and Feelings*] [4].

From an operational rather than psychological standpoint, Edwards Deming wrote about the defects of bonus systems in virtually all his books, so I again recommend items [16] and [17]. In these books, however, the issue of motivation is only one, though very important, aspect of comprehensive quality management.

A detailed analysis of manager behaviors which I call the “carrot game” can be found in *Beyond Budgeting* [38] and *Beyond Performance Management* [39]. The authors present quite revolutionary ideas including a departure from assessing manager performance based on contractually treated annual budgets and similarly treated various indicators of financial performance. Unfortunately, while pointing out the ineffectiveness of evaluating and motivating managers according to budgetary and performance-related indicators, the authors are unable to shake themselves free of the belief that a bonus-based system is the only system possible, so they attempt to replace “bad bonuses” with “good bonuses”. Nevertheless, I believe that these books are worth reading.

From the point of view of management philosophy, Peter Drucker discussed positive motivation in all his books, and thus also in [18] and [19]. To readers interested in an even broader view of the world of positive emotions I highly recommend books by the Dalai Lama, especially [12], [13] and [14].

With regard to more recent publications, I would direct the reader’s attention to *The Connected Leader* by Emmanuel Gobillot [28] as well as to the collective work *As One. Individual Action, Collective Power* [6], which describes some very interesting, though sometimes quite different, leadership models. The book *Get Rid of the Performance Review!: How Companies Can Stop Intimidating, Start Managing -- and Focus on What Really Matters* [11] can surely make your head spin if you are a manager adhering to the carrot-and-stick approach. I would also recommend reading P. E. Russell’s book *Ultimate Leadership* [61], which provides descriptions of many interesting contexts in which leaders must work. Finally, the relatively recent

The Toyota Way to Lean Leadership by Jeffrey K. Liker and Gary L. Convis [55] contains an accessible and exemplary lecture on Toyota leadership.

Part IV — A path to quality

As complementary reading for this part of the book, I would recommend first of all Edwards Deming's books [16] and [17], as well as the publication containing notes from his famous four-day seminars written by William J. Latzko and David M. Saunders [53]. I highly recommend all books by Peter Drucker, especially [18] and [19]. In this context, I would be remiss not to mention the first book I read about comprehensive quality management, written by Brian L. Joiner [42]. It contains a very convincing and comprehensive presentation of TQM, including information on statistical process control, which is quite rarely represented in managerial literature (see sections 17 through 20 to find out more about this topic). This reading list about TQM in general should also include the book by Jeffrey K. Liker and Gary L. Convis *The Toyota Way to Lean Leadership* [55].

Quite numerous (though also quite general) references to quality circles can be found in the books by E. Deming [16] and W. Latzko [53]. B. Joiner [42] also writes about some tools used by quality circles. A large set of tools useful for teamwork, and thus also for the work of quality circles, is presented in *The Team Handbook* [67].

Part V — Understanding the voice of the random process

I would divide readers interested in deepening their knowledge of Shewhart's control cards into two groups. To those who have completed academic courses in mathematical statistics, I would recommend one of the monographs by James Thompson and Jacek Koronacki [79] and [80]. Managers without such mathematical background I refer to the excellent book by D. Wheeler *Understanding Variation. The Key to Managing Chaos* [82].

Part VI — Process tools

The literature concerning this part of the book that I am aware about is very scarce. The first mention of the process-based company model comes from the book *Out of the Crisis* by E. Deming [16]. Though this book presents only an outline of the idea of process-based management, it is nonetheless worth reading.

If we are to regard this model of management as knowledge management, then I would recommend one of the most frequently quoted books on management: *The Fifth discipline: The Art and Practice of the Learning Organization* [70] written by Peter Senge with four other co-authors. However, searching for information about the idea of a process-based company structure would be in vain.

So where did I obtain the material contained this part of the book? As someone once humorously said — from nothing, that is, from the head.

Part VII — Managing the flow of information

The ideas related to the wisdom of crowds are described in the book *The Wisdom of Crowds: Why the Many Are Smarter Than the Few* by J. Surowiecki [76], and the ideas associated with companies 2.0 can be found in Andrew McAfee's *Enterprise 2.0* [57].

More information about the six sigma method can be found in books by George Eckes: [21] and [22].

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