

Business Success from the Bottom Up

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Management consultant Ralph Sink believes that people, when given ownership and held accountable, will shine.

by **Laura W. Geller**

In the Autumn 2007 issue of *strategy+business*, Ralph Sink, a consultant on high-performance systems, wrote about his decades of experience implementing the approach on the factory floor and as a human resources executive (“My Unfashionable Legacy”). High-performance systems, also known as self-organizing teams and participative management, require employees to take ownership of their jobs, to collaborate with one another to establish control over their work, to be innovative, and to deliver results — to maintain accountability for the business and be treated with corresponding respect, regardless of their level within the organizational hierarchy. In his essay, Sink lamented the decline of this approach, but expressed a belief that, in the end, it will make a comeback. But is there an appetite and an aptitude for this type of management today? What could it mean for companies coping with globalized business models and waves of corporate scandals? Sink spoke with *strategy+business* recently about the challenges of employing participative management in today’s business environment.

S+B: Why is the high-performance systems approach needed today?

SINK: Many of the young people I’ve spoken to who are being hired straight out of school actually come into corporations expecting participative management. The

innate desire is there. Yet we’ve programmed managers to say, “Implement these rules. Follow these procedures.” People in organizations no longer think freely for themselves. They’re in survival mode, and some of them are doing pretty well that way; they are earning big bonuses. Everybody is pushing to get short-term financial results.

Moreover, there’s no loyalty in business today, on either side. When young people enter the workforce, they don’t want to wait 30 years to make good money. They want to come out of school and make it right off the bat, and a lot of them are able to. And they recognize that they can get to be 50 years old and then suddenly be let go by the company they devoted themselves to. People don’t stay at the same company for their whole career anymore; everyone is looking for the best deal.

But what if companies told their employees, “You can be involved, you can lead your own segment, you can have some space and leeway as long as you meet these parameters and grow”? People want their thinking to count. If there’s a better way to accomplish a task, they want to be able to identify it and use it. If they have ownership and they’re involved, they’ll do unbelievable things.

S+B: How do you convince executives to stop focusing on short-term gains?

SINK: I like to use an analogy about making wine.

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Managers who operate by metrics, paperwork, and numbers say, “OK, we’ve analyzed wine. It has sugar in it. It has pulp. It has yeast. It has grapes.” So, they dump those ingredients in a pot, stir it, drink it, and say, “but this doesn’t taste like wine,” and wonder why. It’s because the wine had to go through a process. They may have had the components right, but they overlooked the principles for transforming grapes and water into wine.

These managers will look at our approach and say, “Oh, I see what this is. You operate with 20 percent fewer people. You eliminate the supervisors, and everybody is self-managed.” So without any development process, principles, or leadership, they go in and cut head counts. And when they end up with a catastrophe, they say, “This approach didn’t work.” From their perspective, they analyzed the pot and put the elements in and stirred it up, so when it failed, they weren’t to blame. If you look across the United States, it’s happening left and right in corporations.

When I go into a company I may see potential for a dollar’s worth of improvement, but I’ll accept five cents, 10 cents, or 15 cents at first, because if you try to go for the whole dollar right away, management won’t believe it. You have to start small and show them that it works. At one company where I was working with an order fulfillment group, I told finance that I needed US\$180,000 to build a room where the various people involved in the process could operate as a team. They would have desks but no walls, and when they ran into a problem, they would meet at a table in the middle, solve it, and move on. They would run their unit like a business. The head of finance initially laughed at my request, but after we did it, the company’s distributors told the CEO that they had never

before experienced the service, quick response, level of quality, or ease of paperwork that they now found with this company. Soon after, the people who once scoffed at \$180,000 were giving me \$1 million to implement the approach more widely.

S+B: What type of leadership is needed?

SINK: Schools focus on developing functional capability. They don’t develop character and state of being, and they don’t develop the creativity of individuals. Organizational effectiveness and development should be a discipline, but instead we’ve made it a gimmick. I think we should teach people to be systemic, holistic thinkers, and to manage people’s energy.

For example, when I was moved from manufacturing to human resources at CPFilms, I put a big board up on my wall with pins on it to represent the people I was responsible for. No matter where they were in the organization, I was there to develop them. This was a different approach. I said, “Let’s take a look at your performance. Let’s see if it can be enhanced.” After I did that with people in research and development, the company started to win awards for its new products, and all we did was change the managing process.

Everybody thinks that they’re a visionary, but few are. We’ve educated and programmed people to analyze things, to break them down into their parts, and so forth, but what about the ability to see the big picture? Successful leaders, like Apple’s Steve Jobs and Starbucks’s Howard Schultz, have a vision. To create one, management has to ask itself, Do we have vitality in the organization? Do we have spirit? What’s missing? What do we want to be as an organization, and who do we want to be as a group of people?

S+B: How would your ideas apply to today's globalized business model?

SINK: Large multinational corporations should have a corporate umbrella that embraces a basic principle and a set of ethics. They should then allow each region to adjust its functions based on the local culture. Just as members of a business unit or employees on the factory floor should be given responsibility and encouraged to problem solve and innovate, so should regional offices have their own space and boundaries so long as their activities don't conflict with the overall principles of the corporation.

An example of a failure to do this is Wal-Mart in Germany. If Wal-Mart had adjusted to German culture and allowed Germans to take ownership, the company would have been a huge success there. Instead, executives took the model from Arkansas and dropped it in. The German culture is very sophisticated, and also very independent. Germans didn't need a greeter at the door and, in fact, having one there made them suspicious. They disliked grocery baggers, not wanting strangers to handle their food and personal items. The company also tried to enforce its American-style company code of ethics, causing an uproar among German employees. In 2006, Wal-Mart sold its German stores to a local rival, losing \$1 billion in the process.

S+B: What do the corporate scandals of recent years say about the current state of management?

SINK: When the CEO of Merrill Lynch loses billions of dollars and then leaves the company with a \$161 million severance payout, it's fairly sad. He should have been fired for his incompetence and not given a dime. People at all levels, including those at the very top, should be paid based on performance and held accountable, and they should be fired for underperformance. I would tell employees at orientation: "We've got a strange company here. You have to progress, or you're out. You will be held accountable. You'll have ownership. You'll become a businessperson and grow. If you don't take care of the business, the people around you, and your safety, you'll be fired." We fired more people for not progressing than for almost any other reason.

Today I think we create systems with the potential for people to take advantage. Many organizations post mission statements on the wall. But they are just taking up space, because nobody within the organization owns them, and no one is held accountable. You see it every day.

Yet in a high-performance system, as a manager, you have to see your employees as professionals and

demand that they perform accordingly. When you start saying, "Everybody can now hold one another accountable, including the top guy," it makes people nervous. Accountability is tough. But if you're upfront about it, lay it out, and enforce it, this approach works. Ninety-seven percent of your people want to do the right thing. It's when you let the 3 percent drag it out while the others are working hard and performing that morale and performance deteriorate. The 3 percent becomes 6 percent. Then the 6 percent becomes 12 percent. And this cannot last. +

Resources

William J. Holstein, "Reining In the Overpaid (and Underperforming) Chief Executive," *s+b Leading Ideas Online*, 2/19/08: Corporate governance expert Nell Minow explains the relationship between outlandish severance packages and the risky financial instruments linked to subprime mortgages. www.strategy-business.com/leadingideas/li00063

Art Kleiner, *The Age of Heretics: Heroes, Outlaws, and the Forerunners of Corporate Change* (1998; forthcoming, Wiley, 2008): Provides a history of participative management. www.amazon.com/dp/0385415761/

Ralph Sink, "My Unfashionable Legacy," *s+b*, Autumn 2007: Sink's column, detailing his career as a proponent of high-performance systems. www.strategy-business.com/article/07302

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