

Why Do It?

Why do you want your business to improve? “Because” is an insufficient answer. “We are on a quest for continuous improvement,” is a cop-out, the product of a lack of critical thinking. The answer to the question “Why Do It?” lies in the responsibilities of management.

What are the responsibilities of management? Some may argue that management's sole responsibility is to increase shareholder or owner value. I believe that that is a flawed argument in that it only addresses one group of stakeholders.

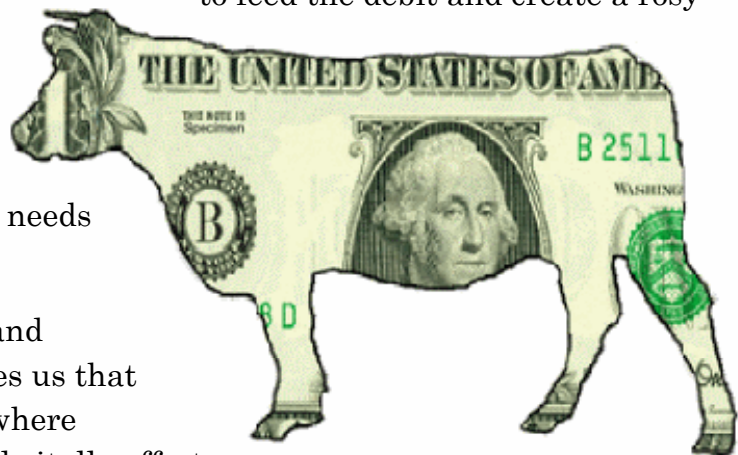
We must frame the question of “why” in consideration of the *objectives of business* and not the objectives of *the business*. To define the *objectives of business* let's turn to Peter Drucker's *The Practice of Management* for guidance.

In Drucker's view, emphasizing only profit misdirects managers, potentially causing them to endanger the survival of the business. Examples of this behavior abound in modern public companies that undermine their own futures in an effort to make short-term profit to support short term stock prices. These companies shortchange research and postpone other investments. They avoid capital expenditures that might increase the capital base against which profits are measured. Therefore, the pure profit motive will direct managers to the worst practices of management.

Why do public-company executives do this? The short answer is personal gain. When a significant part of an executive's compensation depends on continuously increasing the price of the stock through options and warrants, the temptation to act in this manner is strong. Public company executives are not the only ones who behave this way—the executives of privately held companies are motivated by buyout investors to pump profits and cash generation to feed the debit and create a rosy picture for the next equity event.

Even family-held businesses see this behavior when the business owners run the business as the cash cow to feed the ever-increasing needs of the owner's lifestyle.

So what else is there beyond profit and “shareholder” value? Drucker teaches us that management must have objectives where performance and results directly and vitally affect



the survival and prosperity of the enterprise. He outlined eight areas in which objectives of performance and results must be set:

Market Standing: Position the enterprise so the customers are close and the enterprise stands between the customer and the competition.

Innovation increases customer value, which leads to enterprise value.

Productivity: Use resources and assets to their fullest value.

Physical and Financial Resources: Position the enterprise in such a way that physical and capital resources are eager to do business on terms favorable to the enterprise.

Profitability: Maximize the cash generation of the enterprise and build the stability of a fortress balance sheet.

Manager Performance and Development: Increase the capacity of the management team to absorb new business and lead new growth.

Worker Performance and Attitude: Motivate workers to deliver better service and greater value to the customers.

Public Responsibility: Contribute to the sustained growth of the economy, be a steward to the community and work within the boundaries and spirit of the law.

The first five of these objectives should not be controversial. Marginally successful businesses and managers pay attention to the first five. Leaders who truly want to grow their enterprises will support the sixth and seventh objectives because they see those as contributing to the productivity and profitability of the company.

Public responsibility is a much broader issue. Many managers fail to see how the objective of public responsibility contributes to the success of the first seven objectives. The public responsibility objective is the glue that holds the other seven objectives together, it becomes the moral guidepost, the “light to steer by” that helps guide all levels of the organization to the successful fulfillment of the basket of objectives.

The successful and sustained enterprise is a community of human beings. Those people lead lives outside the space of the enterprise. The wages they earn feed the greater economy. The greater economy feeds the growth of the customers who do business with the enterprise. When the people of an enterprise see their company take a moral public leadership position, they better appreciate how they contribute to the success of the enterprise.

Business must have moral obligations. It is moral to serve the customer, to innovate, to use resources wisely, to be profitable, to develop leadership, and to motivate workers. Business has a moral obligation to create good.

Armed with the resolve of knowing, “Why Do It?”, we must now address “How”.

