# The damaging quest for relentless efficiency

Dan Knight

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*When More Is Not Better: Overcoming America's Obsession with Economic Efficiency, Roger L Martin, (Harvard Business Review Press, 2020)*

Roger L Martin, a former Dean of the Rothman School of Management and a strategic advisor to global companies, has been named one the world's top management thinkers by several surveys. In his twelfth book, *When More Is Not Better: Overcoming America's Obsession with Economic Efficiency,* Martin warns of a potentially calamitous future for "Democratic Capitalism." He points out that in the U.S. the middle class share of income has barely grown in the last 40 years while the wealthiest have enjoyed disproportionate gains.

Martin makes a well-documented case that the elevation of shareholder interests above those of other stakeholders has led to this lopsided accumulation of wealth (a Pareto Distribution) by the few. Martin notes that in the U.S. the top one percent has more wealth than the bottom half of the population. This statistic alone suggests that our current economic policies and corporate practices are unsustainable if we are to remain a democratic society.

In Martin's view, a major cause of this inequity is the practice of prioritizing corporate efficiency as a means of maximizing shareholder returns. This leads Martin to decry what he calls "surrogation," which is the use of proxy measures for success such as "headcount reductions" and "number of new accounts opened." Often these surrogate measures lead to gaming the system for individual gain and other unintended consequences.

In part one of the book, the problem is laid out in detail. Martin uses a Machine Model of business to illustrate how decisions are made to increase efficiency and profits with the single goal of maximizing shareholder return. This has led to outsized executive compensation, a proliferation of stock buybacks and other shareholder incentives, consolidating industries, a focus on short-term gains and winner-take-all outcomes.

Part one also introduces Martin's alternative to the machine model. He believes that the economy should be treated as a Complex Adaptive System (CAS). It's Complex in that it has multiple parts that interact with each other, Adaptive in that the parts change to survive and maintain balance, and a System in that the parts co-exist and represent the whole.

In part two of the book, Martin starts to unwrap his solution to correct the lopsided distribution of wealth by illustrating the need for achieving balance in a complex adaptive system. As an example, he uses the troubled case of the leveraged buyout of "Toys R Us." The buyout replaced expensive equity with seemingly cheaper loans, but in fact saddled Toys R Us with an imprudent load of debt. All parts of the system were treated as cogs in a machine. Management, employees, customers and suppliers were expected to continue to perform and stay on mission with no slack in the system. This ultimately meant there was no resilience

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in the face of disruptive events. When a financial downturn occurred, the company was unable to perform at a level to make debt payments and had to declare bankruptcy.

Wells Fargo's recent stumbles offer another case in point of the risks of having one metric measure success. Martin notes that the bank felt pressure from shareholders to grow and produce more profits. To measure success toward these goals, it settled on the proxy measure of increasing customer credit card accounts. Under pressure from their managers to perform, achieving this "cards in force" metric caused some employees to establish thousands of accounts for customers without their consent. When this scheme was discovered it collapsed in a blizzard of headlines, investigations and mass firings.

Part two of Marin's book also recommends four agendas for action with four different groups assigned to each agenda. The four groups are: business executives, political leaders, educators and citizens. Action ideas are provided to each group to lead to a more equitable and sustainable economic future.

To give an example, the Agenda for Business Executives recommends starting with a step approach to transition an organization to contribute to a more equitable and sustainable economy. Martin calls his actionable ideas "tools," and he gives business executives four to work with:

1. Turn your back on reductionism.
2. Recognize that slack is not the enemy.
3. Use multiple measures of success.
4. Realize that monopolization is not a sustainable goal.

Martin brings the application of these tools down to earth with the engaging example of a remarkably successful family-run businesses, Joe's Crab Shack of Miami Beach, currently the top grossing restaurant in America. Joe's uses the four tools to benefit all the restaurant's stakeholders:

1. Turn your back on reductionism: Joe's management style is intuitive, and it's incapable of dividing its business into silos. It treats employees, suppliers, customers and the community as integrated parts of a whole system, and the value created by the restaurant is shared equitably with the parts. For example, crab fishermen are Joe's main supplier, and as such they are the best paid in the geographic area. Another example, as a premium priced restaurant, Joe's also ensures that they have entries that the less well-off customers can afford.
2. Recognize that slack is not the enemy: Joe's allows for slack by ensuring employees needs are met rather than making decisions solely about profit. For example, Joe's gives workers free rides home if they work after dark.
3. Guard against surrogation with multiple measures: At Joe's everyone receives a year-end bonus, health insurance, pensions and profit sharing. In an industry with a 75 percent annual turnover rate, Joe's hourly employees stay an average of 10 years. Paying attention to employee satisfaction also shows measurable results in customer satisfaction and loyalty.
4. Realize monopolization is not a sustainable goal: There is no sense that Joe's needs to dominate the other restaurants in the area, and they close for three months every year in coordination with the crab season, a hiatus that contributes to the sustainability of the ocean harvest. Monopolies tend to rest on their laurels while under investing in innovation, employee satisfaction and customer service. Joe's would have none of this – it's not who they are. They are constantly open to experimentation with new and improved ways of doing business.

Martin closes his book by reiterating the thought that the future of Democratic Capitalism is uncertain. He believes our obsession with economic efficiency can be corrected, but it will take commitment. This commitment requires:

- Recognizing that our current path is unsustainable in a Democratic Society.
- Enlisting the support of many, not just a few.
- Realizing that no one solution will fix the system.
- Starting with small steps, not waiting for a grand strategy.
- Eliminating the ineffective pre-eminence of management to maximize shareholder value.
- Avoiding endless discussions and taking action.

As strategists, by looking over our shoulder, we can see that Democratic Capitalism faces potent competition from China, which is evolving a form of capitalism without democracy. Hopefully, if we embrace the economic benefits of a fairer system that balances efficiency with resilience, we can improve our economic wellbeing for all parties and build an equitable and sustainable future for everyone.


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