Management's Seven Deadly Diseases

As a teacher and consultant, the late Dr. W. Edwards Deming devoted his life to developing and teaching a new philosophy that would lead to the transformation of Western management. He always taught, however, that the first step to improving a system is to find out what's wrong with the current system. Deming railed against certain deadly diseases that are inherent in American management. "For the transformation to occur, ‟ he said, "these diseases must be recognized and cured." Notice how the deadly diseases, listed below, interact with each other. Sometimes, a symptom of one disease will be one of the other six diseases!

1. Lack of constancy of purpose.

Deming noted that many people (and organizations) haven't decided what business they are in. "Is it to make money? Or is it to provide product and service?" As a result of this confusion, managers are unable to properly plan for the future. The most obvious symptom of this disease is short-term thinking. Deming added that American management "worships the quarterly dividend."

It is better to think beyond quarterly or annual results and develop plans that will keep the company in business for years to come. Managers should be working on continuous improvement of their products and services with consistent constancy of purpose over the long term. This brings customers back again and again and again, and the company will be in business, capturing markets, providing jobs, and paying dividends ten, twenty, thirty years from now.

2. Emphasis on short-term profits.

Deming noted, "Pursuit of the quarterly dividend and short-term profit defeat constancy of purpose." In an Op-Ed published in the New York Times on May 1, 1983, Dr. Yoshi Tsurumi eloquently described how the emphasis on short-term performance among American managers interferes with constancy of purpose and long term growth.

> Part of America's industrial problems is the aim of its corporate managers. Most American executives think they are in business to make money, rather than products and service... [A better approach] is that a company should become the world's most

> efficient provider of whatever product or service it offers. Once it becomes the world leader and continues to offer good products, profits follow.

In other words, short-term profits (quarterly returns, annual returns) are not the goal. Rather, profits should be recognized as the happy by-product of successfully achieving the long-term goal to delight customers with high-quality and continuously-improving products and services.

3. Evaluation of performance, merit rating, or annual review.

Deming commented on American managers' obsession with annual appraisal of performance and their desire to reward performance and pay for what you get. "Sounds great. Can't be done." He added that the effect of traditional approaches to performance appraisal and merit rating is devastating.

> It nourishes short term performance, annihilates long term planning, builds fear, demolishes teamwork, nourishes rivalry and politics. It leaves people bitter, crushed, bruised, battered, desolate, despondent, dejected, feeling inferior, some even depressed, unfit for work for weeks after the receipt of their rating, unable to comprehend why they are inferior. It is unfair, as it ascribes to the people in a group differences that may be caused by the system that they work in.

Sherkenbach added that merit rating systems confound the people with other components of the system. "Certainly we see differences in performance, but are those differences due to the system or the individual?" A salesperson may control whether he or she visits Customer A or Customer B this morning. But the salesperson does not control product design, product quality, lead times, packaging, delivery performance, after-sale technical service, billing, and many other factors that may please or displease the customer. Sales commission and merit rating systems view end-of-the-quarter outcomes and assign them to the salesperson alone - as if he or she had complete control of all of the variables that may or may not result in a sale, or a repeat sale.

Traditional practices of performance evaluation also destroy teamwork. In my seminars, I use a simple demonstration of the fallacy of merit pay as a means to achieve continuous improvement. I suggest that three of the seminar attendees and I work together in the company. One activity we're working on is pen-clicking. I figure out a way to click my pen faster and better than the others. Under the prevailing evaluation or merit rating system, will I share my technique with the others? The answer from my seminar participants is always a resounding NO!

Why won't I share my technique with my colleagues? Because the merit pay system rewards me for keeping my pen-clicking technique to myself, allowing my peers to remain mediocre. In doing so, I get high ratings, high rank, high raises, recognition, the employee-of-the-month parking space.

The prevailing system of ranking and merit reviews punishes me if I share my pen-clicking technique. If I share it, I won't stand out. I won't get the high ratings and raises. I'm punished for sharing, even though sharing my technique clearly would be best for me, my colleagues, our collective job security, our customers (internal and external), our managers, and the company at large.

The destructive effects of performance evaluation and ranking are not limited to business. It is a disease of American management as practiced in government and education as well. Some years ago, I was conducting a seminar for educators at a Board of Cooperative Education Services (BOCES) facility in upstate New York. In that area, a standardized Performance Evaluation Program (PEP) test in math was administered every year to all third grade students. During a break in the seminar, a third grade teacher talked to me about what it's like around PEP test time.

> I live in fear when the PEP test is over and the superintendent stands up at a district-wide meeting and shows how I and my third graders ranked in comparison to the other third grades in the district. I live in fear. So what I do is, I teach to the test. In doing so, I take instructional time away from science. But the science PEP test isn't til fourth grade, so that's not my problem.

4. Mobility of management.

Deming observed that another adverse effect of performance appraisal and merit pay practices is mobility of management. "If someone doesn't get the top grade, which means a raise, he looks around for another job." Because of high turnover in middle and upper levels of management, people aren't around long enough to develop a solid understanding of the company, its products, its problems. That takes a long time.

Deming talked about a man who became the head of sales for a meat company in Tokyo. Prior to moving into management, he drove a truck and delivered meat for seven years. "He got up at three in the morning; delivered meat. He knows the disappointment of a customer, the hotel that got the wrong kind of meat. He knows what it is to have a truck break down. He knows those problems. People in management today know nothing about the problems of anybody else - don't even know their own!"

5. Running a company on visible figures alone.

In his seminal text, Out of the Crisis, Deming wrote, "One cannot be successful on visible figures alone. Now, of course, visible figures are important. There is payroll to meet, vendors to pay, taxes to pay; amortization, pension funds, and contingency funds to meet. But he that would run his company on visible figures alone will in time have neither company nor figures."

I once met a Six Sigma Black Belt who did not agree with Dr. Deming and believed that managing by visible figures is not a disease. He said, "Lord Kelvin stated that if you can't measure it you can't manage it. Cp/Cpk is the perfect measure to define where you are and where you need to go." Baloney. Cpk's are being used as a substitute for specifications; they're proving to be barriers to improvement; they foster mediocrity. In the old days, people would exclaim, "We're 100% conforming to specification. Good enough!" Now they declare, "We have a Cpk of 1.33. Good enough!"

Baron Kelvin was wrong. "If you can't measure it, you can't manage it" is a belief from the age of mythology that continues to be taught in most business schools and many Black Belt certificate programs. More baloney. Deming correctly noted that the most important measures facing American management are "unknown and unknowable." They can't be measured, but they nonetheless must be managed.

Deming posed the rhetorical question, "If something's unknown and unknowable, how can you know that it's important?" In this lectures, he would answer the question with some very simple examples. He'd ask, "What is the multiplying effect of the happy customer?"

How much business does a happy customer bring into a company? What is the value of the multiplying effect of the happy customer? Let's agree that it's priceless; but it's unknown and unknowable. It can't be measured, but it must be managed.

What is the multiplying effect of the unhappy customer? How much business does a dis-satisfied customer drive away? Deming observed, "He does his best to protect his friends." Let's agree that the cost of the multiplying effect of unhappy customers is staggering; but it's unknown and unknowable. You can't measure it; but you must manage it.

Many managers claim to be concerned about costs and profits. Fine. Let's talk about costs. What is the bottom-line, budget-sucking cost of the untrained employee, working in fear? It's unknown and unknowable. It can't be measured; it must be managed.

Deming observed that this deadly disease is rampant in our business schools. During an interview, he growled, "Schools of business have done their work. They're not teaching transformation. They're teaching use of visible figures; creative accounting; anything to maximize the price of the company's stock by keeping up that quarterly dividend."

6. Excessive medical costs.

For most of his teaching and consulting career, Deming only talked about "five deadly diseases" (see above). In the mid-eighties he added two more: excessive medical costs and excessive costs of liability, driven by lawyers working on contingency fees. Some people were dismissive. "Deming's a manufacturing guy. What does he know about health care and lawsuits?"

Deming supported his position by using a specific manufacturing example. In 1983, a General Motors executive told him that Blue Cross was their second largest supplier. Within six months of that conversation, the cost to GM of providing medical insurance for employees and retirees overtook the cost of steel. Think about it. Of all the capital equipment, tooling, steel, components, electronics, labor and materials that go into making an automobile, the biggest contributor to the cost of your car is medical insurance.

Beyond the cost of insurance, Deming wrote, "There are also direct costs of health and care, as from beneficial days (payment of wages and salaries to people under treatment for injury on the job); also for counseling of people depressed from low rating on annual performance, plus counsel and treatment of employees whose performance is impaired by alcohol or drugs."

Early in the 21st century, Congress passed the Affordable Care Act to try to get the staggering cost of health care under control. To date, it has failed to do so. The sixth deadly disease remains. (Some would say it's gotten worse.)

7. Excessive costs of liability, swelled by lawyers that work on contingency fees.

A friend and classmate of mine is an orthopedic surgeon in Charlotte. At a class reunion, he told me that there are no private practice obstetricians in eastern North Carolina. When I asked why, he answered, "John Edwards." The former vice presidential candidate built his fame and fortune suing obstetricians for malpractice. The cost of malpractice insurance had become so high that obstetricians in that region could not afford to practice unless they joined a group that covered their insurance premiums.

In 2004, the Congressional Budget Office included the following summary of liability costs in a report about tort reform:

- The "transaction costs" of the system, particularly attorneys' fees, are too high.

- Punitive damages and compensatory damages for pain and suffering are often awarded arbitrarily, with no beneficial effect on safety.

- The class-action mechanism (whereby many claims that cover similar factual ground are combined into a single larger case) is too easily abused by plaintiffs' attorneys.

- Medical malpractice lawsuits are driving up the costs of liability insurance for physicians to the point that some of them are restricting their practices or retiring.

- Fair compensation for victims of torts is limited by frivolous lawsuits and excessive awards of noneconomic damages, which increase the likelihood of bankruptcy for firms.

Michelle Mello, a Harvard professor of law and public health, noted the direct connection between the costs of liability and the excessive cost of health care. "At nearly $56 billion per year, the medical liability system carries heavy costs, and there are good reasons to want to improve it." What kept Professor Mello so long to recognize this connection? She and some of her colleagues didn't publish their article until 2010, a quarter of a century after Deming raised the alarm about the seventh deadly disease.

A Final Word

In the mid-eighties, the Encyclopaedia Britannica Educational Corporation filmed a conversation with Dr. Deming. In it, he talked about the deadly diseases of management and how they act as detriments to constancy of purpose and continuous improvement. At the end of the interview, he summarized in his rambling, unique style the dangers these diseases pose to America's competitive position in world markets and to our nation at large. That summary was both profound and chilling, and his closing remarks are provided below as a final word for this essay.

> And you ask me about this country, with a storehouse of unemployed people, some willing to work, and lot of them willing to work, with skills, knowledge, willingness to work; and people in management unable to work, through the merit system, annual review of performance, not able to deliver what they're capable of delivering. When you think of all the underuse, abuse, and misuse of the people of this country, this may be the world's most underdeveloped nation.
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> Number one! We did it again. We're number one - for underdevelopment. Our people not used, mismanaged, misused, abused and underused by a management that worships sacred cows; a style of management that was never right, but built good fortune for this country between 1950 and 1968; because the rest of the word, so much of it, was devastated. Well, those days are over and they've been over for a long time.
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> *It's about time for American management to wake up!*

Notes

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