Wastes in the Modern World: The Silent Killers of Productivity and Profitability

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Every year, US businesses are losing hundreds of billions of dollars, and all of our current management and financial systems are completely blind to it. No amount of cost cutting, Six Sigma, or engagement work is going to make any difference, as those are all leftovers from the industrial era. The vast loss of revenue and resources is caused by wastes, which we refer to as "silent killers," that are part of the landscape of a new era—the "coordination era"—and if the HR world intends to remain relevant, moving to eliminate these new wastes offers a huge opportunity. To best understand this new future, we need to begin by going back in time.

THE END OF THE INDUSTRIAL ERA

What we currently think of as modern management practices were initially developed by people who were born in the 1800s. They were designed and deployed to be effective in the early industrial era of Henry Ford and his peers. The problem they set out to solve was simple. How do we take uneducated, unsophisticated farm workers and day laborers and turn them into productive factory workers? They came up with a two-tiered answer that set the tone for a hundred years of management theory and practice.

First, they deskilled the work so that anyone could do any job. The result was that a skilled wood worker, for example, who made panels for horse-drawn carriages, would transition to a factory job and have to put five nuts on the wheel of a Model T all day, every day. Second, the early industrialists put in place a set of management practices and measurements that were designed to produce stability, predictability, and standardization, while eliminating surprises, deviations, and disruption. To this they added measurements that accounted only for input, throughput, and output. Collectively, these practices and measurements became the foundation for the modern industrial bureaucracy. This is the legacy of the industrial era.

WELCOME TO THE COORDINATION ERA

We have now entered an entirely new era, and nearly everyone has missed the transition. Welcome to the coordination era. In the coordination era, there is an entirely new type of work and worker, which in turn calls for a new theory and practice of management. In the industrial era, *work* meant making things. In the coordination era, *work* entails cooperating, collaborating, and coordinating with others to effectively produce customer satisfaction. As noted earlier, industrial-era workers were uneducated and unsophisticated. Coordination-era workers are educated, sophisticated, agile, mobile, creative, and innovative problem solvers. In the industrial era, people worked for the sake of survival.

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There was no social safety net in those days, and if you didn't work, you didn't eat.

Coordination-era workers are not driven by survival. Instead there are three elements that drive them. Daniel Pink has captured them best as autonomy, mastery, and purpose. *Autonomy* is the desire to be self-directed. Today's workers don't want or need someone standing over their shoulders telling them what to do. *Mastery* is the desire to continuously improve, and today's workers want to keep learning so that they can make an impact in the world. *Purpose* in this case means that workers want what they do to matter. They want to be up to something with their work and their lives. Industrial-era thinking not only fails to recognize these drivers, but also typically demeans them as the dreaded "touchy-feely" stuff.

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This is a dangerous and increasingly expensive blindness.

NEW WASTES FOR A NEW WORLD

The intent of this article is to point to the wastes of this new era. As the notion of waste is central to our purpose, let's pause to build a precise distinction. To be clear, *waste* is not a thing; it is an assessment, an interpretation. The word *waste* is an assessment that people make about things, events, experiences, and features that diminish their capacity to take care of what matters to them. In the business world, waste kills productivity and profitability.

The evolution of waste in the industrial era is easy to track, as it was easy to see. Wasted material or scrap was literally lying around. Taiichi Ohno, the father of the Quality, Lean, and Six Sigma movements and the Toyota Production System, proposed that people waiting for parts or work also qualified as waste and sent heads spinning when he suggested that inventory was waste. While obvious to most, the finance people had a tough time with this notion, as this sort of people waste could not be easily measured. Moreover, to them, inventory was an asset. Even today, when business people speak of waste, they tend to refer to those things they have been conditioned to see and measure: waste of money and waste of materials. Although it is now becoming common to speak of the waste of opportunities and the waste of people's time and capacities, managers are considerably less used to and less competent at seeing those wastes.

In the coordination era, work is no longer focused on making things; it is about coordinating with others both inside and outside a business to mobilize resources that enable the effective and efficient production of customer satisfaction. Thus, management can no longer be about supervision and control, and the notion of waste has nothing to do with scrap, waiting, or inventory.

With that as the background, here is an opening look at the most important wastes of the new era. We call them the silent killers, because, unlike the wastes of the industrial era, these new wastes are invisible, and that is what makes them all the more dangerous.

1. **Degenerative Moods.** A mood is a predisposition for action. Human beings are always living in some mood, as it is an inescapable aspect of life. Moods are the foundations from which people move in the world. Too many organizations today are in the grip of degenerative moods.

Some combination of distrust, resentment, resignation, cynicism, arrogance, and complacency is all too often the norm. These degenerative moods become the foundation for a wide range of unproductive behaviors, which in turn consume or waste vast quantities of resources as organizations are forced to work around or attempt to correct them.

Degenerative or unproductive moods are tremendous yet invisible killers of productivity and profitability because people simply cannot or will not perform to their potential when they are in the grip of them. Current HR theory has little to offer beyond motivation and engagement work, neither of which can ever make a difference, because they are treating symptoms not causes. There is no structural or process change that can overcome deeply entrenched degenerative moods.

2. **Lack of Listening.** Listening does not mean merely hearing or paying attention to; it is a specific type of active interpretation that shapes one's reality. Listening is a specific critical skill that is largely unknown and certainly unrecognized as central to the new business world. By blindly creating or tolerating working conditions in which people do not and often cannot effectively speak and listen to each other (whether as a result of institutionalized mistrust, resignation, or resentment [degenerative moods]; an addiction to e-mail; or a simple incompetence for speaking and listening), managers kill productivity and profitability.
3. **Bureaucratic Styles.** Bureaucracies pay attention to the correctness of their practices and adherence to their standards. Within a bureaucracy, tremendous wastes are not even visible: repetition, unnecessary actions, obsolete actions, actions that produce the opposite of their designers' intents, and actions that produce horrific side effects. Unfortunately, contemporary management theory offers no alternatives to this style of organizing work and designing organizational structures. Current hierarchically oriented structures and rigid process-design practices are relics of the industrial era. In the emerging coordination era, bureaucratic practices are becoming increasingly dangerous; they directly kill not only productivity and profitability, but also the generative moods of ambition, confidence, and trust that are essential to building consistent competitive advantage.
4. **Worship of Information.** As business leaders rush to make their enterprises more efficient, they have mistakenly oriented themselves, their actions, and their attention around information and information systems. Business now values data and measurement above the people in the enterprise. Managers have come to tolerate the illusion that the most essential matters of work can be invented, managed, and sustained through the creation, storage, retrieval, display, and publication of information. Contemporary information systems are blind to many key drivers of productivity and have consistently failed in their quest to integrate the diverse operations of a company.

   One of the central breakdowns is the orientation of many IT engineers and managers. By placing primacy on the storage, manipulation, analysis, and security of data, they have lost sight of its fundamental purpose: to enable the people in the enterprise to attend to the concerns of their customers. As people deal with the inadequacies, breakdowns, and sterility of most modern information systems, they find themselves unavoidably generating waste and unproductive moods.

5. **Suppressing Innovation.** As a result of bureaucratic styles of working and a lack of listening, many organizations have come to tolerate ways of working in which people, ideas, and practices that are different, unusual, or new are avoided, feared, or rejected. In light of this, it becomes all but impossible to develop flexibility and evolve practices for dealing with a changing world. Simply put, an organization that cannot innovate is dead; the only things missing are the inevitable funeral, and suffering along the way.

   Today the greatest enemy of innovation is modern management. Contemporary management practices are geared to ensuring stability and predictability, while avoiding surprises or problems. Innovation is unpredictable and disruptive, and thus in many organizations innovations and innovators are largely suppressed. This is a terrible waste and clearly a killer of productivity.
6. **Modern Indentured Servitude.** Today, people have more choices, opportunity, wealth, and prosperity than at any other point in human history. Yet at the same time, they are more depressed, dissatisfied, and despondent than at any other time as well. A key contributor to this malaise is the contemporary view that work fundamentally consists of an endless series of things to do and that while these things may have commercial value for the enterprise, they produce little or no sense of value for workers. As a result of the combined effects of the wastes listed earlier, businesses have inadvertently created a kind of modern indentured servitude. Workers sell themselves into service in exchange for money and have only fleeting "real" lives after or outside of work. In this modern malaise, people are trapped by their needs to make a living, prepare for retirement, support families, and deal with modern life. As a result, they ignore, diminish, or distort the possible ways that work can bring meaning to their lives.

   The executive floors are largely immune from this and, at the same time, unconsciously responsible for it, as they are the ones who design or tolerate the practices, processes, structures, moods, and measures that create it. There is no enterprise that can survive for long with an organizational culture that produces modern indentured servitude.

THE COST OF THE STATUS QUO

These modern wastes are insidious because they can't be seen directly. Thus, managers trained in industrial-era thinking (which is essentially all of them) will always come back with the same challenge when any new action is proposed: "Show us the business case." In the illustration below, we show the financial cost of perpetuating a system that tolerates modern wastes.

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In our example, we use some simple math to reveal the amount of coordination waste that is occurring in an organization and the very real financial impact it is having. The company in question is a global seller of performance sports shoes and apparel. It has roughly 35,000 employees. Of that total, we make

Total number of employees	35,000
Total number of coordination workers in your organization	20,000
Average fully burdened salary of a coordination worker	$90,000
Total annual coordination-worker labor costs	$1,800,000,000

Exhibit 1. *Company Information*

Commitment fulfillment rate (% delivered on time/as scoped/on budget)	60%
Annual expenditure on coordination workers	$1,800,000,000
Costs attributed to fulfilled commitments	$1,080,000,000
Costs attributed to unfulfilled commitments	$720,000,000
Opportunity costs attributed to unfulfilled commitments	$360,000,000
Total cost related to the status quo	$1,080,000,000

Exhibit 2. *Current Performance Metrics*

the assumption that 20,000 are what we are terming *coordination workers*. That would cover everyone in the organization except the support staff and retail workers. If we assume that the average fully burdened salary of these workers is $90,000, we find that the company is spending $1.8 billion per year on these employees. (See **Exhibit 1**.)

According to the American Management Association and as reported by Gartner and McKinsey, the typical western worker fulfills his or her commitments (on time, on budget, as scoped) 30–60 percent of the time, and these numbers have gone down of late due to excessive cost cutting.[1]

To be at the same time conservative and generous, we will assume that the workers are in the top tier of productivity and assign them a 60 percent completion rate. Thus, we take 60 percent of $1.8 billion and find that the company is paying $1.08 billion per year and getting exactly what it paid for in expected productivity. At the same time, the 40 percent (or $720 million) that is being spent and the expected productivity is not being delivered. This $720 million cannot all be classified as waste, because something is being produced, and 100 percent productivity is not possible. However, to complete the picture, we asked ten corporate CFOs to estimate the opportunity cost of the $720 million. What would it be worth to a company to have that additional productive capacity? Not surprisingly, we received ten different answers that ranged from one times that amount to ten times the amount. Being conservative, we use one-half of $720 million ($360 million) as the opportunity cost. When the two costs are added together, we see that the company is leaving a total of $1.08 billion on the table every year in unrealized value. (See **Exhibit 2**.) To be clear, it is fantasy to expect 100 percent productivity. Yet, no amount of cost cutting, Lean, Six Sigma, or any of the other practices of modern management will ever recover any of the lost or unrealized value, because these practices have no capacity to see what is lost, let alone capture it.

Total cost related to the status quo	$1,080,000,000
Minimal performance goal	$250,000,000
Target audience of coordination workers	10,000
Total project duration	2 years
Total solution price spread over 2 years	$18,000,000
Total return on investment	1,288%

Exhibit 3. *Potential Performance Metrics*

The emerging coordination era requires a new set of leadership and management practices. We call it commitment-based management, and once deployed these practices can recover a considerable amount of the coordination waste. Although 100 percent productivity is not possible, we have consistently seen improvements of 20–40 percent over current levels. Consider the example that follows from the same company.

If we set our sights on generating $250 million in savings (or a little over 23 percent of the cost of the status quo) and a project has a budget of $18 million, that is a return on investment (ROI) of over 1,200 percent. (See **Exhibit 3**.) There are not many investments that a company can make that hold that same promise.

It's a new world out there, and HR can lead the way by leaving behind the practices, processes, and thinking of the industrial era and helping organizations see and eliminate the wastes of the new coordination era. These coordination wastes include things like:

- ❏ Unproductive moods. When individuals and organizations operate in resentment, resignation, cynicism, arrogance, and distrust, there is no possibility of achieving high performance, and no amount of engagement work is ever going to change this, as those programs treat symptoms, not causes.
- ❏ Lack of competence at listening. When people in an organization have not developed the competence for authentic listening, it is next to impossible to effectively coordinate actions. We are not referring here to the tired practices of active listening but a much more sophisticated skill for listening to and for context, content, background, and intent. When organizations foster cultures that don't teach, recognize, or reward this skill, they are creating vast amounts of waste.
- ❏ Bureaucratic work practices and structures. Most of today's companies are still structured like the early industrial-era companies. Rigid hierarchies, no matter how flat, are still too slow to respond to the challenges of a net speed world. Processes, once intended to enable people to work more effectively, all too often become rigid impediments to innovation and change.
- ❏ Worship of information and systems. Too many executives have become overly enamored with the charts and graphs of the finance and IT people, and in so doing have lost sight of what really drives a company. It isn't the numbers—it's the people. And while they will all smile and say yes to that, they would much rather spend tens of millions of dollars on a new ERP program than on developing the new competencies that will both leave the

ERP system behind and enable the next leap in productivity.

- Pervasive lack of innovation. The biggest enemy of innovation is management, at least in its historical form. "Modern" management is oriented to maintaining order, control, standardization, predictability, and stability. Innovation is often messy and shows up at unexpected times, and from unanticipated sources; thus, innovation and innovators are more often than not quashed in most organizations.
- Modern indentured servitude. Put all of the above together and you find the modern workplace, where people put in their time so they can fund their "real" life, which happens away from the office and on the weekends. If pressed, too many cube dwellers would tell you that they are only working to support their families and avoid the terror of becoming old and broke. There is little passion for their work, their company, or their future. This is not the way we want to run our companies.

These coordination wastes are insidious, as unlike the wastes of the industrial era you can't see them. Yet one would have to be dangerously out of touch to suggest that they don't exist or don't matter.

HR leaders are often entrusted with maintaining the culture of an organization. I am going to suggest that maintaining the culture is insufficient for the demands of the moment. As we make our way out of the financial crisis and into a new world, it is time to insist that we leave the industrial era behind and invest the time, money, and energy necessary to step into the coordination era.

NOTE

1. See opusdynamic.com/page.aspx?p=14. Also see Block, M., Blumberg, S., & Laartz, J. (2012, October). Delivering large-scale IT projects on time, on budget, and on value. McKinsey and Co. Retrieved from http://www.mckinsey.com/insights/business_technology/delivering_large-scale_it_projects_on_time_on_budget_and_on_value.

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