

## Plain English, (Almost) No Colors

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I hope some of the colors, jargon, equations, and graphs in this course at least provided an efficient code for discussions in class and may prove useful to you in the future. That said, if these tools and concepts are to be useful outside class, they will have to be interpreted by others, so here I attempt to render some of the main points in plain English.

- 1) Both experience and theory teach us that formulas, rules, org charts, contracts, and other formal instruments have important limits: on their own, they hardly ever can induce the kind of consummate performance that creates competitive advantage.
- 2) In particular, by definition, instruments such as formulas allow no role for discretion—defined as decision-making based on considerations not included in the formula.
- 3) Of course, discretion is a double-edged sword: escaping the shackles of the formulaic opens the door to self-interest.
- 4) Many of us (myself included) often react to the specter of unconstrained self-interest by seeking to reduce or even eliminate the scope for discretion, implicitly hoping that a smarter formula (i.e., eliminating discretion in a clever way) can save the day.
- 5) An alternative approach is more like peer pressure than like law: reduce the influence of self-interest today by clarifying the reactions of others in the future. In the simplest setting, with just two people, I clarify that if you defect on me today then I will deliver only perfunctory (not consummate) collaboration in the future. Indulging in one piece of jargon, we call such a shared understanding a “relational contract.”
- 6) We saw many cases where high-performing organizations relied on relational contracts in one or more aspects of the business: from compensation (Lincoln Electric) to employment security (NUMMI), empowerment (J&J), informal structure (Sun Hydraulics), formal structure (Suchard), and supply relationships (Crown Equipment, Chrysler).
- 7) Of course, if we are entertaining a role for discretion precisely because the formulaic approach was unable to capture some important considerations, it will not be easy (indeed, it may be impossible) to specify precisely what behaviors in what circumstances constitute defection, consummate collaboration, and the like.
- 8) In our discussions of parties trying to build, manage, and update relational contracts, we may have seen more actions and practices aimed at clarifying what was *not* meant than aimed at clarifying what was meant. For example, an oxymoron—such as “coordinated decentralization” from Alfred P. Sloan—communicates that the intention is neither pure coordination nor pure decentralization, but it does not provide details about how a balance will be struck.
- 9) Other ways to combat misinterpretation (even if not achieve perfect interpretation) include:

- a) NUMMI's emphasis that a promise of employment security did *not* mean that there would never be layoffs;
  - b) an imagined speech by Merck's recruiter to an early post doc, saying that working for Merck would be *almost* like being an assistant professor; and
  - c) HP's eventual distinction between core values versus current practices (stone tablets versus whiteboards), combined with emphasizing that it would be incorrect to interpret a long-standing current practice as a core value.
- 10) Given the difficulties in clarifying what *is* meant, we should not be surprised that doing so not only requires important commitments of managerial time but also works imperfectly. Consider:
- a) Alfred P. Sloan saying that clarifying coordinated decentralization was a "continuing" responsibility;
  - b) the CEO at J&J saying "we were about three years late" (probably an understatement?) in departing from decentralization by creating a distribution unit between J&J's operating companies and their hospital customers;
  - c) Platt at HP adding questions about whether the HP Way was dead and what should be done about employment security to a wide range of task forces and other agendas that did not otherwise connect with these questions;
  - d) Koski at Sun Hydraulics saying "I could wreck it by making decisions" (and thereby tolerating perhaps some slow decision-making and certainly some uncoordinated decisions, such as developing capabilities in robotics and in software, but not having a sales catalog);
  - e) Jacobs at Suchard utilizing a sequence of consultants, task forces, and executive-education teams to create not just alternative organization charts but also discussions about what the larger goals are and how any given chart therefore should be not just drawn but lived; and
  - f) Jack Welch spending many, many days at GE's management-development center (Crotonville), even though no good or service was ever produced or sold there.
- 11) Eventually, there will be an opportunity to walk the talk. Both the action taken *and* the logic communicated can help build credibility and clarity, respectively. Consider:
- a) NUMMI responding to a dip in demand *not* by using unemployment insurance to send workers home at partial pay but instead by slowing the line, keeping all workers at full pay, and providing training to those rotated off the line;
  - b) Oticon canceling projects that may have been good bets originally but now seem likely to compete against each other;
  - c) Jack Welch firing someone who made the numbers but failed the values.
- 12) To summarize (and revert to coded colors), consider Mintzberg's (2004) observation that there is an enormous difference between "analysis" (deciding what needs to get done) versus "administration" (getting the organization to do it). The former may be a **blue** plan, but the latter typically requires **red** and **gray** management.
- 13) All of this applies importantly not only to dealings within firms but also to those between firms (supply relationships, JVs, alliances, and more) and indeed within or among various kinds of organizations (governments, universities, and more).