A Framework for Managing

You can use it to integrate strategy and tactics

This essay describes a practical, effective tool that I've used to successfully establish corporate objectives, set priorities, evaluate resources, assess needs, develop strategic and tactical plans, launch projects, and determine the strengths and weaknesses of competitors. It is my Framework for Managing.

Resources and Objectives

Managers determine the objectives of their business and then select, organize, and use resources to achieve them. Once achieved, objectives become resources. In a successful business, the economic value of the objectives met exceeds the economic cost of the resources used.

People	Methods	Materials
Employees	Plans	Plant
Customers	Policies	Equipment
Suppliers	Procedures	Products
Associates	Data	Money
Competitors	Specifications	
	Norms	

Fig. 1: ***The Resources and Objectives of a business. Today's Objectives are tomorrow's Resources.***

People, Methods, and **Materials** constitute the resources and objectives of a business

The components of business resources and business objectives can be grouped into three categories: *People, Methods*, and *Materials*. Figure 1 summarizes what is included in each category. A specific resource or objective is a combination of one or more components.

People

Ask managers who their People resources are and they will immediately say: "***employees.***" That answer isn't wrong, however it is dangerously incomplete. People resources also include: Customers, Suppliers, Associates (Bankers, Sales Reps., Distributors, Board Members, Stockholders, etc.), and Competitors! Key individuals in every category impact the success of a business. To insure the sustained success of my business, I need the best people I can get; including Competitors! Success is optimized when I plan for and carefully select, "hire," train, and manage key employees, customers, suppliers, associates, and competitors.

Customers are obviously important because they pay the bills. But excellent customers do much more than that. Successful, informed, enthusiastic customers are terrific salespeople who attract other customers and convince the sales force that its company and its products are worthwhile. Their beliefs and actions establish the market value of goods and services. Some customers are important because they find new applications or new benefits for products. They discover defects and help correct them. On the other hand, incompetent or unhappy customers make the company and its products look bad.

The health of a company correlates directly to the successfulness of its key customers and to what they believe about it and its products. Let's use IBM's corporate health to illustrate the connection.

Until the mid 1980s, some 80% of key executives, MIS managers, and other computer users designated IBM as their preferred supplier of computers; in spite of a 25% or more cost premium and its less than leading edge products. (I worked at Burroughs ElectroData in the early 1960s. We had better computers than IBM. It didn't matter.) They were committed to IBM because IBM had carefully managed their beliefs over the previous 30 years. They believed that they needed constant care from an omnipotent computer supplier of proprietary systems and custom software.

However, during the 1980's many faithful customers retired and younger decision makers replaced them. The new decision makers had learned (because of their PCs) that they could take care of themselves, do better jobs, and save money with open systems and commercial software. IBM's computers were still in place, its sales force was in place, but it suffered staggering setbacks as customer beliefs changed and its competitors picked off many of its traditional accounts.

This discussion leads us to a critically important conclusion: For sustainable, strategic success, it is as essential to carefully select customers in the selling process as it is to carefully select employees in the hiring process. Furthermore, it is as critical to manage customers as it is to manage employees! (Just think: customer interviews, customer orientation programs, on the job training......!)

Suppliers are another vital people resource. Their integrity, competence, and beliefs about our employees, our company, and about how we use their products and services determine the quality, timeliness, and price of what we get from them.

While I managed Pro-Log, we paid our suppliers as promptly and as religiously as we paid our employees. We worked with good suppliers through long term relationships: at the operating level and at the executive level. As a consequence, just to cite one example, when memory chips and other semiconductors were critically scarce, we got the parts we needed; sometimes with the names of other companies lined out of the shipping documents.

In the typical customer/supplier relationships, when supply exceeds demand, customers screw their suppliers; when demand outstrips supply, the suppliers retaliate. This cycle of mutual hostility was traditional between US semiconductor manufacturers and their customers, and left both vulnerable to their Japanese competitors in the 1980s.

Associates such as third party sales professionals (Reps, Distributors, VARs, Systems Integrators), bankers, and lawyers are often poorly managed resources because they are "outsiders." In my book, *The Handbook of Channel Marketing*, I show that Reps, Distributors, VARs, and direct sales people are actually key customers, and should be selected and managed as such.

Select customers as carefully as you select employees

Competitors are vital resources! Seek out strong competitors create them if necessary and then manage them! A Competitor is anyone who offers our People resources an alternative to a choice our business offers them. There are competitors for our customers, for our employees, for our suppliers, for our associates, for our investors, and for our competitors!

Furthermore, our customers, employees, or suppliers always have the competitive option to go it alone instead of working with us. In a sense, this option makes them our competitors too! To paraphrase that immortal quote of Walt Kelly in Pogo: "*We have met the competitor, and he is us*."

Competitors experiment with alternatives to our business propositions. We can learn from them to find opportunities and to avoid mistakes. Our competitors can be encouraged to *win* our unprofitable customers, uncompetitive suppliers, and unproductive employees. These are but a few of the numerous opportunities to profitably manage our competitors.

Competitors enable us to work and play together as **consenting adults**. Consenting adults are the only people capable of sustaining healthy, self managing relationships. To relate as consenting adults we require three things: the ability to choose from among (attractive) *competitive alternatives*, accurate information about those alternatives, and **Fun**. (Oops... I went and said the "F" word of business)

Competitive alternatives establish the values we assign to our specific choices. For example, the price I'm willing to pay for an HP II laser printer is set by the competitive alternatives of other laser printers, other kinds of printers, and of doing without a printer.

Competitive alternatives improve our satisfaction with the choices we make. The satisfaction an employee gets from his job or paycheck comes, in part, from what he perceives as his work alternatives, including welfare. The banker's willingness to lend money is determined by his lending alternatives and his comfort from not taking any risks at all.

A person without competitive alternatives is enslaved. She is a child in a parent/child relationship, not a consenting adult. Russia, China, Eastern Europe and many third world countries have had political systems that eliminated competitive alternatives in business, politics, and religion. They predetermined choice and value through centralized (sole sourced), parent-child planning. Those systems didn't work. The people didn't work. Yet business managers often try to emulate dictatorships and eliminate their competitors, instead of managing them as valuable resources. These managers believe it will make their own lives simpler and more controllable to dominate employees, suppliers, customers, and competitors. Dealing with them as equals, consenting adults, is too scary.

Managing competitors as resources does not mean doing anything illegal. Let me give you an example. Pro-Log invented the STD Bus in 1978 and still makes money from it in 2001. It became an open standard for industrial control systems because, in 1978, we sought out competitors and gave them the STD Bus technology, free, no strings attached. In fact the first company we gave it to was Mostek, then a $200 million business, about 20 times Pro-Log's size.

Later we founded, and funded, a manufacturer's group that developed and maintained STD's technical standards and passed them on to an IEEE standards committee. By 1983 the manufacturers group included more than 100 of Pro-Log's direct competitors! However, had we made the STD Bus a proprietary product, it would have stopped producing jobs and profits within a few years. Today, Pro-Log's actions look like conventional wisdom. In 1978 they were radical, and sprang directly from this conceptual Framework.

Apple eliminated clones for its computers during the early 1980s. They selfishly clung to their "proprietary standards" and by the late 1980s had an unprofitable, rapidly declining market share.

People are important, **Plans** are important, **Profits** are important

Methods

The dictionary defines a **method** as: *A way of doing something especially according to a defined plan.* The visible methods of a company include: Plans, Policies, Procedures, and Data. The less visible ones include a company's norms and its culture, the norms and culture of the society around it, and the methods of its customers, suppliers, associates, and competitors.

Methods determine how people work and their work priorities. Methods link people to each other and link People to Materials. Human reason is a method. The Scientific Method is a method for solving complex problems. GAAP (Generally Accepted Accounting Principles) is a method for evaluating financial performance. ISO 9000 is a method for evaluating Quality performance. (However, conforming to GAAP doesn't increase profits and ISO 9000 certification doesn't improve quality.)

Materials

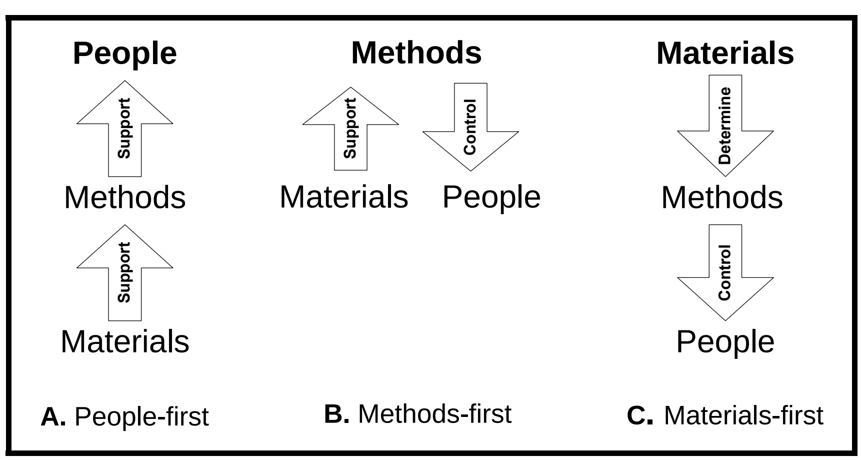
The visible materials of a business include its Products, Facilities, Equipment, and Money. The materials of customers, suppliers, associates and competitors are also part of a company's resource base. For example, a customer who has a successful product line and lots of money is a greater asset than one who can't pay his bills. A supplier with excellent products and the latest manufacturing equipment is a greater asset than one with mediocre products and obsolete equipment.

Resource Relationships

People are the most important, the most strategic resources and objectives of a company. ***People-first*** is the most successful strategy. In that strategy, methods support people and materials support methods. (See Figure 2) People, methods, and materials are used to attract and select the best people (employees, customers, suppliers, associates, competitors) and then enhance their effectiveness.

In ***methods-first*** management, methods are used to control people. Obey the rules; follow procedures; stick to formal plans; these are more important than the people. (Sometimes methods-first is a necessary tactic, however it sucks as a strategy.) Methods-first managers run

Fig. 2: ***How the three management approachess employ Resources. A majority of managers operate on a Methods-first approach: Materials support Methods which control People. The assembly line is a methods-first system.***



Insects and mammals have the same constituents differently organized

their companies by the numbers. They attract mediocre, interchangeable people (employees, customers, suppliers, competitors, etc.) and control them with policies and procedures. They don't relate to other people as consenting adults. They expect them to be obedient children.

Venture Capitalists, CFOs, Bankers, and Lawyers are usually methods-first managers. Many VC's, to pick on one group, say they invest in people, but they actually follow the recent successes of other VC's, or recent IPOs, study similar business plans, and crunch the plans' numbers before they even look at the management teams. However, the most successful VC's, really do invest in people. They too study the plans and evaluate the visions, but in the context of the teams.

Phil Fisher, one of the first and most successful venture capitalists, invested in people. An article about him in Forbes said: "*If he were Japanese, he would have been designated a National Treasure*." His people-first philosophy led to simple investment agreements. He once told me: "*A one page agreement is enough to specify what we expect from each other. Longer agreements mean that one party doesn't trust the other. I don't invest in people I don't trust.*" He was an original investor in FMC and Texas Instruments. He invested in my first successful company, MSI Data Corporation. The bean counters who are driven exclusively by the quarterly financials are ***materials-first*** managers. Money dictates the methods — accounting controls — which control employees, customers, and suppliers. Their system for keeping score is formalized in Generally Accepted Accounting Principles. Financial Statements are the scorecards that focus managers on producing consistent, predictable, quarterly ***Profits***; at all costs.

Since People and Methods aren't graded in this materials-first environment, they tend to be under-managed. These strategic resources impact future financial results, often several years in the future. Faulty strategic management may doom a company a few years down the road while the Financial Statements paint a picture of excellent health.

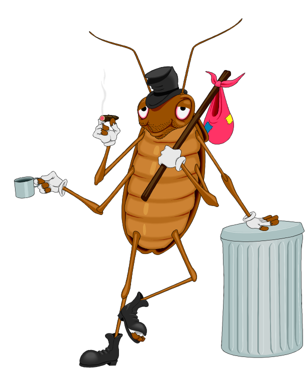
Another example of a materials-first environment is in our relationship to computers. Their technical limitations and costs dictate how we must operate them. We are expected to become *computer literate* and adapt ourselves to the computer's limitations. In a people-first system, computers will be ***people literate*** and adapt themselves to our ways of doing things. Concepts like Intelligent Agents are headed in that direction.

Insects and Mammals

The workings of Evolution illustrate the significance of how we prioritize and relate People, Methods, and Materials. In evolutionary terms, two species have reached our level of complexity and consciousness: insects and mammals. The insects evolved to their present level about 300 million years before mammals, then stopped. The mammal phylum took longer to evolve, but has achieved a substantially higher level of complexity and consciousness and produced . . . **us!**

Insects and mammals have the same physical elements, skeleton and flesh, but organized in fundamentally different relationships. An insect is exoskeletal; its skeleton surrounds and traps its flesh. This relationship hastened insects' evolution (tactical advantage), but limited the degree to which they evolved (strategic outcome). The mammal's flesh surrounds and goes out from, its skeleton. Its structure is there, but hidden within. The mammal phylum has evolved to a much higher level of complexity and playfulness because of its improved skeleton to flesh relationship.

In many ways, each company is a living organism. Methods and materials are its structural elements; people are its flesh. When methods or materials control people, a company becomes insect like. Most large companies are managed like insects, with people encapsulated by the company's



money, plant, equipment, plans, policies, etc. This encapsulation works for a while, but it is intensely frustrating for most of us.

Key Characteristics

We have developed a detailed picture of resources and objectives. The next step is to assess their most significant characteristics. Warning to academics: this assessment is operational, not academic. Its purpose is business success, not absolute truth.

The key characteristics affecting People, Methods, or Materials are: **Quality, Timeliness,** and **Cost.** Quality is by far the most important characteristic from a strategic perspective.

Philip Crosby defined ***Quality*** as "*conformance to specifications.*" It's a good starting point for Materials, but too limited to apply to People and Methods. My broader definition is:

***Quality** is the exuberant harmony between an object and its contexts*

Quality exists only when a product works for its user in her application, or when a procedure helps someone succeed, or when a person fulfills his job, his own expectations, and the expectations of those he works with. Quality does not exist in the object nor in the object's environment. Quality flows from the harmonious relationship between the two. To put it another way: there is no such thing as a "*quality product.*" There is no product that the wrong customers or inappropriate applications can't trash. Customer selection and Product design both contribute to what is called a "*quality product*."

Quality and **Success** describe the same thing from different perspectives

Michael Jordan is a good example of "*Quality People*" as an object-context relationship. Michael Jordan, in the context of basketball is a "*quality person;*" the best basketball player in history. That context includes the coach, other players, rules of the game, characteristics of the basketball courts, fans, and competitors. However, Michael Jordan, in the context of baseball, didn't make it to the major leagues!

Success and *Quality* are two words that describe the same phenomena from different perspectives. Success is the active, object oriented, tactical, masculine (animus) perspective. Quality is the passive, context oriented, strategic, feminine (anima) perspective.

The best book I've read on the subject of Quality is *Zen and the Art of Motorcycle Maintenance* by Robert Pirsig. He suggests that the rhetoricians of Greece considered Quality to be the highest ideal. To them Quality was a personal noun, not an adjective. Objects and their contexts flowed from Quality, not vice versa. Aristotle and Socrates later put reason (a method) above quality as the ultimate context for human life and thereby initiated the "insectization" of human philosophy.

Timeliness is a measure of how quickly something fulfills the expectations and needs of its context. State-of-the-art, first-to-market, or meet-the- schedule are timeliness values.

Cost (or price) measures the resources consumed, transformed, committed or risked to produce an objective. It also measures the value of the resulting objective in the same terms. Cost in monetary terms is only one measure of this criteria.

Quality, Timeliness, Cost Relationships

Quality is the most important characteristic for sustained business success, Timeliness is second, and Cost is third. All three are critical. However, their relationship is not that of ranking, but of context. That is, Timeliness is best evaluated in the context of Quality, and Cost is best evaluated in the contexts of Quality and Timeliness. (See Fig. 3)

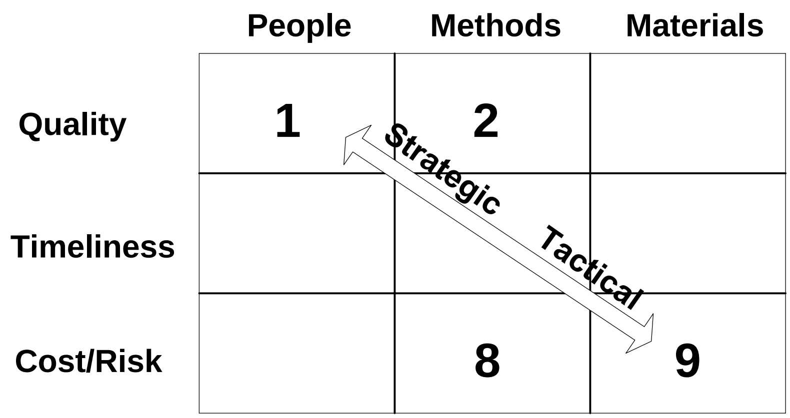
I agree completely with Crosby on this point: *Set out to improve Quality and you will reduce costs and improve profits more than you will if you set out to cut costs.* However, the most important source of Quality are the people within the business who generate its results: employees, customers, vendors, associates, and competitors. These people are the ones who develop and sustain the products whose fit with customers and their applications generates healthy profits.

There are six principles for identifying, selecting, and managing people who will generate Success and Quality in long term business relationships: Mutual Benefit, Mutual Competence, Mutual Respect, Mutual Integrity, Mutual Enthusiasm, and Competitive Alternatives. My book, *The Handbook of Channel Marketing,* explains these principles and how to apply them.

QTC Business Strategies

In the early 1950s the Japanese did business on a cost-first, timeliness second, and quality-third basis. They made *cheap and dirty* products, and weren't a serious international competitor. For 40 years they have put quality first in picking suppliers, employees, and markets; and in making automobiles, semiconductor chips, and consumer electronics. They were enormously successful.

Fig. 3: ***The Framework for Managing. All nine squares are critical to sustained success. Excellent People are most strategic factor for business success. Profits, are the most tactical.***



For strategic success **People** are the ultimate context for **Profits,** not vice-versa

In the 1970s and 1980s National Semiconductor followed a cost first, timeliness second, quality third strategy. They did OK in a booming market, but they were not stellar performers. Intel (Sparta) put timeliness first, quality second, and cost third. Hewlett Packard (Athens) put quality first, and they applied it first and foremost to their people resources.

The Framework for Managing

When we rank People, Methods, and Materials and their key characteristics Quality, Timeliness, and Cost on the basis of strategic value we get the management framework shown in Figure 3. This framework has nine critical areas to plan and manage. The area marked 1 is Quality People, the most strategic resource and the context for all others. Area 9 is the Cost of Materials, the most tactical parameter.

A financial statement primarily measures square 9 and fails to account for Squares 1-8. Is it any wonder that so much business planning is tactical? We concentrate on tactics because we measure tactics.

How well do you balance strategy and tactics when you manage? To answer that for yourself, compare the time and energy you spend with quarterly financial statements to the time and energy you spend seeking, attracting, and managing outstanding people.

Conclusion

All nine areas of the Framework for Managing are vital to business success. However, for sustained success the more tactical elements, particularly quarterly profits, must be managed in the context of the most strategic: Quality People. Excellent managers operate with business plans that systematically produce quarterly profits by helping them attract and work effectively with outstanding employees, customers, suppliers, investors, associ-ates and competitors

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