P. R. Krishnaiah and C. R. Rao, eds., *Handbook of Statistics, Vol. 7*

#169

Transformation of Western Style of Management*

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1. The crisis of Western industry

The decline of Western industry, which began in 1968 and 1969, a victim of competition, has reached little by little a stage that can only be characterized as a crisis. The decline is caused by Western style of management, and it will continue until the cause is corrected. In fact, the decline may be ready for a nose dive. Some companies will die a natural death, victims of Charles Darwin's inexhorable law of survival of the fittest. In others, there will be awakening and conversion of management.

What happened? American industry knew nothing but expansion from 1950 till around 1968. American goods had the market. Then, one by one, many American companies awakened to the reality of competition from Japan.

Little by little, one by one, the manufacture of parts and materials moves out of the Western world into Japan, Korea, Taiwan, and now Brazil, for reasons of quality and price. More business is carried on now between the U. S. and the Pacific Basin than across the Atlantic Ocean.

A sudden crisis like Pearl Harbor brings everybody out in full force, ready for action, even if they have no idea what to do. But a crisis that creeps in catches its victims asleep.

2. A declining market exposes weaknesses

Management in an expanding market is fairly easy. It is difficult to lose when business simply drops into the basket. But when competition presses into the market, knowledge and skill are required for survival. Excuses ran out. By 1969, the comptroller and the legal department began to take charge for survival, fighting a defensive war, backs to the wall. The comptroller does his best, using only visible figures, trying to hold the company in the black, unaware of the importance

* Parts of this Chapter are extracts from the author's book *Out of the Crisis* (Center for Advanced Engineering Study, Massachusetts Institute of Technology, 1985).

for management of figures that are unknown and unknowable. The legal department fights off creditors and predators that are on the lookout for an attractive takeover. Unfortunately, management by the comptroller and the legal department only brings further decline.

3. Forces that feed the decline

The decline is accelerated by the aim of management to boost the quarterly dividend, and to maximize the price of the company's stock. Quick returns, whether by acquisition, or by divestiture, or by paper profits or by creative accounting, are self-defeating. The effect in the long run erodes investment and ends up as just the opposite to what is intended.

A far better plan is to protect investment by plans and methods by which to improve product and service, accepting the inevitable decrease in costs that accompany improvement of quality and service, thus reversing the decline, capturing the market with better quality and lower price. As a result, the company stays in business and provides jobs and more jobs.

For years, price tag and not total cost of use governed the purchase of materials and equipment.

Numerical goals and M.B.O. have made their contribution to the decline. A numerical goal outside the capability of a system can be achieved only by impairment or destruction of some other part of the company. Work standards more than double costs of production. Worse than that, they rob people of their pride of workmanship. Quotas of production are guarantee of poor quality. Exhortations are directed at the wrong people. They should be directed at the management, not at the workers.

Other forces are still more destructive.

(1) Lack of constancy of purpose to plan product and service that will have a market and keep the company in business, and provide jobs.

(2) Emphasis on short-term profits: short-term thinking (just the opposite from constancy of purpose to stay in business), fed by fear of unfriendly takeover, and by push from bankers and owners for dividends.

(3) Personal review system, or evaluation of performance, merit rating, annual review, or annual appraisal, by whatever name, for people in management, the effects of which are devastating.

(4) Mobility of management; job hopping from one company to another.

(5) Use of visible figures only for management, with little or no consideration of figures that are unknown or unknowable.

Peculiar to industry in the Unites States:

(6) Excessive medical costs.

(7) Excessive costs of liability.*

* Eugene L. Grant, interview in the journal *Quality*, Chicago, March 1984.

Anyone could add more inhibitors. One, for example, is the choking of business by laws and regulations; also by legislation brought on by groups of people with special interests, the effect of which is too often to nullify the work of standardizing committees of industry, government, and consumers.

Still another force is the system of detailed budgets which leave a division manager no leeway. In contrast, the manager in Japan is not bothered by detail. He has complete freedom except for one item; he can not transfer to other uses his expenditure for education and training.

4. Remarks on evaluation of performance, or the so-called merit rating

Many companies in America have systems by which everyone in management or in research receives from his superiors a rating every year. Some government agencies have a similar system. The merit system leads to management by fear. The effect is devastating.

– It nourishes short-term performance, annihilates long-term planning, builds fear, demolishes teamwork; nourishes rivalry and politics,

– It leaves people bitter, others despondent and dejected, some even depressed, unfit for work for weeks after receipt of 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 largely if not totally by the system that they work in.

The idea of a merit rating is alluring. The sound of the words captivates the imagination: pay for what you get; get what you pay for; motivate people to do their best, for their own good.

The effect of the merit rating is exactly the opposite of what the words promise. Everyone propels himself forward, or tries to, for his own good, on his own life preserver. The organization is the loser.

Moreover, a merit rating is meaningless as a predictor of performance, whether in the same job or in one that he might be promoted into. One may predict performance only for someone that falls outside the limits of differences attributable to the system that the people work in.

5. Modern principles of leadership

Modern principles of leadership will in time replace the annual performance review. The first step in a company will be to provide education in leadership. This education will include the theory of variation, also known as statistical theory. The annual performance review may then be abolished. Leadership will take its place. Suggestions follow.

(1) Institute education in leadership; obligations, principles, and methods.
(2) More careful selection of the people in the first place.
(3) Better training and education after selection.