

PAUL
KEARNS



The
VALUE
MOTIVE

The ONLY
Alternative
to the
Profit Motive

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John Wiley & Sons, Ltd

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ABOUT THE AUTHOR

Paul Kearns started his career specializing in industrial relations management in 1978. He then moved into human resource management roles in engineering, construction and manufacturing businesses. His last corporate role in 1991 was sitting on the management team of an automotive business where he became acutely aware, for the first time, that managing value and managing profit were two entirely different objectives. He found, in particular, that managing the human aspects of organizations to create value had become probably the biggest management issue of modern times and one that had no easy solution and no single, coherent methodology. Since then he has been working in this field as a consultant, writer, teacher and business conference speaker. His writing has drawn a great deal of attention from both the business and academic worlds, although he has always regarded himself, first and foremost, as a pragmatic practitioner. As a consequence he regards his work as bridging the divide

between academic theory and management practice. He teaches on MBA programmes and trains managers to understand the wealth creating opportunities presented by a more enlightened approach to people management. He has written eight books and is a regular, thought-provoking contributor to both academic and professional journals.

Paul was born in 1955 in Leicester (UK) and has a degree in economics and economic history. He is married to Nuala and they have three grown-up children.

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Other relevant books and essays by Paul Kearns include:

One Stop Guide – Human Capital Management (Reed Business Publishing, 2004).

HR Strategy: Business Focused, Individually Centred (Butterworth Heinemann, 2003).

Leadership Under the Microscope. (Defining and Measuring the Value of Leadership) (Leadership Trust, Ross-on-Wye, UK 2005).

Evaluating the ROI from Learning (CIPD, 2005).

PREFACE

As both a manager and consultant, with 30 years' working experience, I have never, ever come across an organization in which it was not easy to find many opportunities to create significantly more value (although Toyota came close). You might think, therefore, that I am always welcomed with open arms by the management teams I work with. On the contrary. If a management team is already 'hitting its targets' or 'keeping the city happy' or giving shareholders adequate returns then why should they put any more effort into unearthing and delivering such opportunities? The job of management is difficult enough already. So, this is the area I want to explore, the motivation, or lack of it, for producing extra value. But I also want to explore what trying to maximize value really means. What would any organization have to do to achieve this goal? Would it be that difficult or complicated to try to maximize value? Or would the pursuit of value actually simplify things? In fact it is the absence

of simplicity and common sense in organizations that really intrigues me.

I have come across so many examples of organizations where common sense does not seem to prevail that every time I write an article or a book I have one overriding aim, to promote common sense as a guiding principle. I see change management initiatives where there is no clear focus, and no one knows how they are meant to add value; performance targets that no one is really committed to; management development and leadership programmes that have no business objectives. These, and many, many more examples of unfocused organizational activity, are all likely to fail because no one knew how to articulate what value they might add. Without articulating a common goal of maximum value the chances of achieving maximum value are negligible.

I have also tried to write a book that will be easy to read, even though, at times, some of the underlying philosophies and theories might appear very complex. My main purpose though is to construct a coherent case for a different type of organizational, motive force. What I have termed ‘the value motive’ is not only designed to complement and augment the profit motive but it also, potentially, is to become a universal, driving force behind all other types of organization.

I would hasten to add though that I, personally, have no problem with the profit motive. It has stood the test of time remarkably well and has proved itself, time and time again, to provide society with great wealth. In the absence of a better alternative I will remain a fully paid-up subscriber. I aim to make as much profit as I can out of my own business. The way I do that, with all of my commercial, profit-driven clients, is to try to help them make as much profit as they can out of theirs. Our combined desire to make profits benefits us both and should benefit their customers as well. Success breeds success and the profit motive, when employed to best effect, can produce a marvellous virtuous cycle. Unfortunately, the profit motive is not

always automatically used to best effect and, in the worst cases, could be described as having a perverse or detrimental impact (environmental damage being one of the most obvious examples).

Regardless of the pros and cons of the profit motive there is the huge question of what drives my non-commercial clients who do not aim to make a profit? Therein lies an immediate problem. What motive force drives non-profit organizations? Altruism? Social justice? Where is the simple formula that tells us, and them, how well they are doing? The only language I know that can answer that question is the language of value – do they offer society the best possible value or not? That is an easy question to ask but a very difficult one to answer. Profit is calculated by way of reference to two variables in a simple equation, revenue and cost. However, this equation is increasingly being viewed as much too simplistic. Value can be expressed with equal simplicity but value is never simplistic, it is intrinsically holistic and complex. So we can express value, in its simplest terms, as the amount of output we get per input. How many patients get cured per £1000 invested? How many fresh water supplies are provided per £1000 donated? The two concepts are identical, in one sense, but using value as a motive force at both an individual and organizational level is much more powerful. This book will try to demonstrate just how powerful.

I already try to maximize value but that is certainly not the same as maximizing profit. I once asked a pharmaceutical company client of mine, who were certainly trying to maximize profit, what they were doing to bring down the costs of the clinical trials necessary to get new drugs to market? ‘Nothing’ came the reply. ‘The most important thing is to get enough people on the clinical trials. The company has always been willing to throw money at it because it is so important.’ But why, I persisted, can’t the company do the same, effective, clinical trials but at a lower cost? That prompted just a shrug of the shoulders. A sort of ‘why

should we bother when we can make enough profit doing it this way?’ That short conversation sums up why I think the search for value is so different to the search for profit. That complacency of ‘if it ain’t broke why would we stop to fix it?’ That blinkered view of what the organization could achieve and the extra benefits it would bring.

That same employee, of the pharmaceutical company, or a member of their family, will one day be just another customer visiting a pharmacy who complains about the high cost of drugs and medicaments. Worse still, they might be asking their insurers or the state to provide the latest, life-saving drugs, which are deemed to be too expensive. As a consumer their view would be the same as mine but as someone who has to deliver that greater level of value, as an employee, I can fully understand why they would not want to go that extra mile. But then that is the whole point. Profit is a very one-sided view. Value addresses the profit and personal perspectives, and several others as well (e.g. the safety of the patients involved in the clinical trials) all at once.

If that doesn’t test your own value motivation then maybe a different example will. Maximizing profit in a cigarette company means, inevitably, causing the premature death of many customers and placing a huge burden on healthcare services, not to mention the impact on the lives of the smoker’s nearest and dearest. I do have a problem, therefore, with only looking at one side or just one part of a simplistic, incomplete equation and profit is certainly not the complete equation. Value is. This does not mean that I am suggesting those who love smoking should not continue to do so (even though I have never smoked myself). I follow the simple principle that I will fully support the choice of the individual, to do whatever they choose with their money and their lives, as long as it has no adverse effect on me. Nevertheless, the value motive could mean that tobacco companies do everything in their power to prevent people ever smoking (they already purport to run schemes to reduce under-age smoking) and help

those who genuinely want to kick the habit. The value motive is certainly not about being mean-spirited or trying to stop mature adults doing something they enjoy. It is just about being clear what the ultimate objective is and then doing everything possible to achieve that objective.

Of course, I am well aware of, but profess to no expertise in, the vast amounts of literature going back as far as the 18th century and beyond, on the subjects of wealth, utility, value and the happiness of society. I would like to think this book will add further insights and clarity to that perpetual debate but it is certainly not just intended as another theoretical treatise. It is, first and foremost, a practical, business management book relevant to the needs of a manager working in the globalized economy of the 21st century. More precisely, it is a book on maximizing organizational effectiveness to create maximum value both for the organization and society, simultaneously. That sounds like a very grand ambition that might require a very sophisticated approach but in fact this book is designed to be just the opposite – a blinding flash of the obvious. Common sense taken to its logical conclusion.

However, the creation of maximum value does demand clear leadership and has to be at the heart of any organizational strategy; whether you work in the commercial sector or not. Moreover, value as the prime motive has far reaching implications for society at large. The value motive does everything the profit motive does but much, much more as well. It aims to reconcile the interests of shareholders, CEOs, citizens and government. It will be of interest to all sides of the political and socio-economic spectrum; the ‘hard nosed’ financial city analyst will see it as a means for improving investments while the ‘ethical’ reader will see it as a way of replacing the pure profit motive.

So what is the difference between these two motives and why might you find this management book of particular interest? Well, it takes a very simple and precise, yet powerful, definition

of value and illustrates just how that can transform the way organizations and society work in harmony. Furthermore, the definition of value used here applies equally in any sector, profit or non-profit, commercial or public sector, charities and NGOs (non-governmental organizations).

Is there anything really new in this book though? In one sense, no. Most of the theories and concepts explored here are, by and large, already well accepted in economic and management thinking as having validity. However, this is not necessarily true of more recent concepts such as ‘corporate social responsibility’ and ‘social enterprise’. If this book brings anything ‘new’ to these debates it is in reconciling the essential sense inherent in such concepts (e.g. why wouldn’t we want our organizations to be socially responsible?) with the basic economic necessities of acquiring and allocating resources as well as we possibly can, while also matching organizational priorities with those of society at large.

Einstein once said that all he ever did was ask simple questions. If that was good enough for Einstein to turn the study of physics on its head then it should certainly be good enough for us lesser mortals who want to bring some fresh thinking to the subjects of economics and management. One key ingredient that is really supposed to make this book different is its ultimate focus on managing and capitalizing on the value of your people. After all, how can you get the best possible value out of your organization unless you aim to get the best possible value out of your people? Yet it is avowedly not a human resource management or ‘people management’ book and has no intention of being categorized as such. My own experience of working with human resource management professionals for over 25 years has convinced me, beyond any doubt, that they do not see their role as value maximization. In the worst cases, they even reduce value by producing overcomplicated bureaucracy and following an agenda that is driven by the motive of political correctness (e.g.

diversity, ageism). This does not mean that diversity cannot add value; far from it. Diversity that is focused on value creation should create enormous value. It is just that most diversity policies drawn up by HR people do not have value as their goal. Consequently, this should be viewed as a general management book that requires a new, critical perspective, of which the people element is just one, albeit major, component.

So, I have taken on the challenge of trying to say something meaningful and useful about one of the most difficult subjects in the world to pin down – value. What I think I have produced is a very simple book but with unlimited ambitions. I hope you enjoy it but, more importantly, I hope it helps you and your own organization add enormous value to mankind and to be confident and satisfied that you have done so.

Paul Kearns
September 2006