



Transcript for the WLEI Podcast:

## Exploring When More is Not Better With Roger Martin

May 24, 2021

Featuring Host Tom Ehrenfeld and Roger Martin

*Roger Martin's terrific new book When More is Not Better proposes tangible suggestions for broadening the economic gains from democratic capitalism. He critiques the concentration of wealth and power that decades of what he calls America's Obsession with Economic Efficiency have generated, proposing tangible measures for business leaders, politicians, educators and citizens to pursue. In this conversation Roger explores lean-adjacent measures that complement his message. What operational, approaches might be considered in concert with his policy-based and systematic suggestions?*

Tom Ehrenfeld:

Welcome to the LEI podcast. It is just a great honor to be speaking with Roger Martin, a renowned management thinker, former Dean of the Rotman School of Management and author of the new book, *When More Is Not Better, Overcoming America's Obsession with Economic Efficiency*. Welcome, Roger.

Roger Martin:

It's great to be with you Tom.

Tom:

So I think it best, please, let's kick it off with you giving me a short summary of the main point of your book.

Roger Martin:

The point of the book is to help people understand that America had a successful run becoming an ever more efficient country with the rising productivity that caused the average American to do much better over many years until such point as America became the world's richest consequentially sized country. And this was a formula that worked for 200 years from 1776 to 1976. But then something changed, because the success formula of the average family or the median family in America advancing fairly smartly and most years stopped. It actually ground to a halt in a way that I think Americans are only now feeling.

And this is an exploration of: why did that happen? And the answer that I can point to is that we pushed efficiency and obsession with efficiency so hard in such unproductive ways that we ended up changing the nature of the outcomes of economic activity. So rather than those outcomes flowing more broadly, so that that middle-class families could move ahead. The economic outcomes are now being channeled

to the tail of the upper tail of the distribution, which means that the economy is still growing and growing quite strongly.

But the payoff to that is going to the 1% to a disproportionate extent, so much so that that's stagnating the middle incomes. And what I think is necessary for a very healthy America and a healthy democratic capitalist society is that the 51st percentile voter who's going to determine, who's in charge, feels that they're moving ahead. And I think that's no longer happening. And the electorate is getting kind of fidgety and nervous. And this book is about how we can change that, so that they become more comfortable again, with the idea of the kind of broad-based prosperity that democratic capitalism can promise.

Tom:

So, one of the primary countermeasures you suggest is a reframing of how people view our economy from a machine to a complex adaptive system. And there's three elements to that: it's more than the sum of its parts, the relationship between inputs and outputs is not linear, and it continuously adapts. And simply taking that as a starting point, framing the way that people think and make decisions in that context, would accrue some positive benefits as you lay out. Can you clarify what you mean by that? What are tangible ways of thinking and approaches that business leaders, business managers can adopt to counteract this problem--this kind of brokenness of democratic capitalism that you've diagnosed?

Roger:

If you think the economy or a business, you're more inclined to say, well, we can break that into pieces. So regarding your business, we can break that into manufacturing and marketing and sales and we'll just tell each of them to optimize their piece of the machine and drive the greatest possible efficiency in their part of the machine. And then when it adds up, it'll just naturally add up to what we want. But no it doesn't work that way. What often happens is in one piece of that sideways machine, that you do something that is damaging to the next part of the machine. And it's because it's a system that you have to think about that more holistically.

So if you're Izzy Sharp and you're the founder and CEO of the Four Seasons Hotel chain, you would see things differently because he thinks about business more as a complex adaptive system. He says, "If I want to have my guests treated a certain way, the only way I'm going to be able to do that is to treat my employees the way I want them to treat their guests and then they'll be strongly inclined to do that." So rather than saying, the customer service is completely separate from employee treatment all of our HR policies, he says, no they're connected completely in this very systemic way.

And what we have to think about is how to keep the whole in mind. Yes, we have to work on the parts. Somebody actually has to figure out what to pay them and what their working hours are and the like but we can't ignore the connection to the whole while working on the parts and same in government.

I mean, we have labor economists, trade economists and antitrust economy. They all go to Washington and say, "Do this." And if you listen to them without thinking about how it relates to other pieces, you're going to get the kind of crazy quilt of policies we currently have. And when it doesn't add up to what we thought it should add up to, we shouldn't be so surprised because we have taken a system apart, assuming that you can split it apart and reassemble it.

Tom:

One question I have is again, details on specific countermeasures. if you say that one fundamental change has to do with a shift towards seeing systems and avoiding point optimization solutions, what

are ways that people who buy into this argument can act to start to make granular operational changes to make it happen?

Roger:

Well, I think it's not actually that hard, right? It's simply to ask a question each time you tweak a part of the dial. So if you're working on some granular, as you say, some granular thing, you should just stop before you take the action, you're planning and ask the question, what else might this influence?

And ask: will you be able to figure everything out? That's why they call it complex, right? Because you won't necessarily know, but you'll have a better shot of doing it. The other thing I would say is the adaptive part of it says, just be careful of assuming that it's going to work out the way you plan it to work out and will always work out that way, systems adapt. Right?

And unless you take into account the fact that they will adapt, you will be sad, right? And so you can say, well, it's 2001, we've had a recession, and we'd like to keep interest rates down so that people, mortgage rates will be lower. And so the housing kind of industry will do fine. And if you don't imagine that, well, maybe there are going to be people who are going to jump in and adapt to that situation and start giving kind of a subprime mortgage just to everybody, regardless of whether they've got a job or have ever had a job or ever will get a job.

And then you go off a cliff in 2008. That's simply not thinking that anybody will adapt their behavior to the change you've made. So I think a thing that executives can do and politicians can do is just assume that there's going to be adaptation of a sort that they don't like to whatever they do, no matter how brilliantly designed it is and recognize that they'll have to tweak and tweak and tweak.

Tom:

I'm going to kind of shift gears and make a case for Lean, which is something I know a little bit about. Which is the quality system evolved from Toyota Production System. And which does have a clear lineage in the works of Dr. Deming. And push on this notion of adaptation. So my argument would be that adaptation isn't enough--that it has to be adaptation for the good. So our adaptation that is better and *striving towards perfection*. And one of the aspects of Lean (or to be clear the Toyota Production System) that fascinates me is the way it is grounded in a very granular and detailed company practices. Toyota embeds mechanisms for learning in the daily work based on clear observation and reflection on the work being done.

Toyota has these very proscribed practices that become habits in the minds of every person doing the work in rooting out waste, eliminating waste. And that is, one could say that's a form of efficiency. But in this context, I think it's very humanistic. And based on the notion that asking anybody to do work that is not necessary and providing value to the customer is disrespectful and inhumane. And that the process of generating this kind of actionable knowledge about whether current work practices, conform to standard work, defined as the best known way of doing the work, and instilling a culture where they have a process for exploring why there's a gap between what we're doing and what we believe is the way we should be doing it.

This strikes me as a dramatic and powerful built-in mechanism for adaptation, AKA learning. So this triggers any number of questions, but what do you think are tangible ways for companies to leverage the power of organizational or what I'd call operational learning?

Roger:

Well, I mean it's, I guess what you've described treats the production of an automobile by Toyota as a complex adaptive system. It's a social system that is not something you can break into pieces. You've got to think holistically. So why do you have lifetime employment, right? Why would you need that? Well so that people can learn all their lives at Toyota and get ever better at it. Couldn't you just do it with, kind of a random employees. No, you can't, you have to have a certain way of treating your employees so that you can develop a culture, so that on the assembly line, you can do this and you got the end of cord that you can pull. All of those things are thought of from at least I'm not the expert, you are on the Toyota production system, but all of them speak to the idea of a system that's pretty complex so that you better work it and work it and work it.

I do not hear Toyota going for grand master strokes. So we're going to change everything the way we do about it. We're going to build a factory of the future suddenly, and it's going to be completely different. No, it's, from what I can tell tweak, tweak, tweak, tweak, tweak, tweak, tweak, tweak from morning till night, five days a week, 52 weeks a year.

To me that's the smart way to go about doing things. The other thing is if I think of Toyota as having listened to W. Edwards Deming who said, "You should drive out every kind of waste." But he also said there's an optimal level of slack in the system. And much of the world who's listened to Deming hasn't listened to him carefully enough because they view any kind of slack as waste.

Whereas, Toyota, I think properly listened to the great man or listened to the great man who said, get rid of stuff that is truly wasteful, the stuff that you cannot find anything valuable about, but keep some things that other people would call waste that you think are valuable. So other people would have considered during the global financial crisis. It was wasteful to have all those extra employees on the payroll, you should have fired them. Toyota would say, "No are great." Sensei W. Edwards Deming would say, "Hm, you might want to keep them around doing useful things because you will have just flushed down the toilet enormous value if you would dispense with them the other auto OEMs would have during that time."

Tom:

Well in all due respect, I'm going to disagree with one thing and that your book kind of gives Deming short shrift. You list him in the line of thinkers of Ricardo and Frederick Taylor. And you present them as proof of a mechanistic model of efficiency.

Roger:

No, I don't. I just don't. I mean, in my view, I present four thinkers: Smith, Ricardo, Taylor, and Deming, and I view one of them as being kind of fundamentally misinformed and the other three being misinterpreted in ways that none of them ever intended. So I don't. I mean, I just think it's factually correct that people have taken a lot of Smith, a lot of Ricardo and a lot of Deming and done things that would make each one of them turn over in their graves. I think I properly positioned Deming. It would be my view.

Tom:

It's all good. We got to mix it up, right?

Roger:

Yeah, yeah. No, I don't mind, but I mean, I think I just do love his story because I think we used to have these thinkers that thought holistically about the subject and they've given away to these extremely narrow thinkers. And I'll always remember I met George Stiglitz, great Nobel Laureate. And was actually

visiting him at his condo in Chicago at the time. And he showed me his Nobel medal which was very nice of him to do, but he said, "See this," he said, "I got this, but I couldn't get tenure at in an economics department today." And that was because he thought about bigger kind of questions in a bigger way. And that's almost not allowable anymore. And so I've considered Deming to be from that great era where not to list what people value.

Tom:

Yeah. He popularized his ideas in-

Roger Martin:

Japan.

Tom:

Yeah.

Roger Martin:

Had to come back, many years later to his home country.

Tom:

I mean, I deeply admire Deming and his writing and it's a precursor to Peter Senge and Chris Argyris and the organizational learning crowd, systems dynamics thinkers. Deming was very much about optimizing the system rather than optimizing any single point within it.

So let's dive deeper into this notion of efficiency, because you kind of hold it up as a straw man, a culprit. And I do think that some of the most famous, popular and powerful same management thinkers have fueled their success on sub-optimal models of efficiency. Mike Jensen, we know his writing that provided an intellectual foundation for LBOs and asset stripping and honestly, Michael Porter and his five factor framework for competitive advantage, which to me feels like a method of identifying and harvesting temporary monopolies.

And my question is: how do you countermeasure these prevailing competitive approaches that are deeply founded in these unhealthy models of efficiency? And first, please reiterate what you mean by efficiency at my question is loaded to be sure, but-

Roger:

Oh yeah. And my most specific complaint about efficiency is bad proxies for it.

I think efficiency has been pushed to great extent, but when it goes totally over the edge, it's when you say, well, efficient labor costs: we'll measure that on the basis of how low labor rates can we offer or efficient staffing? How much can we get rid of the last hour of personnel or on the store floor? So for me, the extreme is saying, we're going to use these very lame of efficiency or definitions of efficiency. Because again, if we went back to Edwards Deming, he wanted to have an efficient production system, but it was a very, very sophisticated view in my view of what's the efficient. And I would argue that he would say, "When you get to the edge of that, that are you pushing him too hard to step back because I have to make sure the system prevails."

So, I do think as I say it was just sort of a fascination. Let's just keep pushing this and see if we can push it further and further. Can we make capital markets even more efficient if we judge bid-ask spreads as

the measure of efficiency? Oh, let's just go and tolerate them into one big pool where everybody trades in that one big pool, and then the bid-ask spreads will be the narrowest possible.

And if we allow people to trade all these complex derivatives products that narrows the spreads even more and transactions are even more efficient. And then you get the global financial crisis, right? These massively efficient systems are fragile. And as I find out the cute examples of kind of the almonds in California, right? It's super-efficient to grow almonds there, but then these things you've got to do to support that mean you've got to ship honeybees and from cross, the entire country for a two-week pollination period, and then you wonder why they die on the way back home. And you have a crisis of that. Well, it's because you don't know what the impacts are of that super hyper efficiency.

Tom:

You point out that the downside to greater and greater efficiency is that you reach a threshold where the system becomes less resilient as a result of it. And what did you mean by that?

Roger:

Well, it would be like the capital markets. They demonstrated a complete lack of resilience in 2008, right? They melted down, even though they were the most efficient by many measures that they've ever been. But what you did in order to make them efficient is to have all of these actors in the markets, all assuming that everything would be just fine. And then one thing went out, it was the mono-line insurers who were insuring credit default swaps. And they were set up to be these single purpose. That's why they're called mono-line. And there's this one single purpose that they had. They didn't do anything other than that.

So they had no other businesses that could protect them. If their core business had a hiccup in it, the core business has a hiccup, they all go down. A whole bunch of people who depend on them go down. And then the whole financial markets crater. That's just a classic example of nobody asking the question of whether one more increment of efficiency was completely costless in terms of resilience, right?

No, it was like it's just good. Remember the doctrine is that more efficiency is better, right. And the doctrine that I want to get away from is "efficiency bad." It's not. But I do want want people to think more about the question: what is the price of that next increment of efficiency?

And to think about when it's time to have to turn back. And I think you see this when you reach planetary boundaries, right? It's when you do have customers lining up at your cash registers and getting frustrated and looking like you've probably employed too few staff in those hours. So maybe in general, you could get away with that. But now you've got some people who are mad, who might not come back the next time or that person who can't find anybody in the store to find, to help them find the thing they're looking for. And they don't come back the next time.

You get warning signs of this regarding how we are getting close to planetary boundaries. And that's the time when you've got to say, I'm interested in the system and I'm going to protect the system rather than, wow. I think we can push it a little farther. Don't you?

Tom:

And what Deming and Jim Womack and others point out is a fundamental belief at Toyota and in lean is that problems and errors are created by processes, not people. They urge us to look at how things are designed and understand how individuals are forced to manage conflicts that are unmanageable. And see how they invariably get the blame for things that are designed in.

Roger:

I am consistent with that in the book with one exception. There's no evil people in the book, right. Right. I say, it's kind of nobody's fault. Nobody can solve this by themselves. I do make one exception: activist hedge funds. They're just a living manifestation of evil on the planet.

Tom:

What advice or direction can companies follow to avoid mechanizing—that's the wrong word—but put into place habits and practices that address the problem you've identified of the hazards of democratic capitalism? I think I'm re-asking a question: what are tangible ways that people should think about changing habits, methods, tools to make progress in the kind of direction you've laid out?

Roger:

Well, I would say that the single, if I could only give one piece of advice to any, executive who is trying to kind of change the way this works for the better it's just to have the following stance in life in everything they do, which is the stance of: I have a view worth hearing, but I might be missing something. It's as simple as that. If in essence, when you say something to somebody else, you say it with that spirit, right? So you say what's on your mind. This is what I think, but then act as in a fashion of, but I might be missing something. So I would say to you, Tom, this is what I think, I think it's efficiency and it's bad proxies for efficiency.

But you may see something from your Lean background or whatever that could be could be additive or different. If you do that, what you do is you get access to stuff that you don't know, right. You would tell me something, I don't know which I can then incorporate into what I do know. And then hopefully it's better off. You'll sort of feel, hmm, this guy's kind of worth talking to because he's interested in what I have to say. He had an interesting point, interest in what I'm saying. Maybe I ought to respond in time rather than say, as any fool can barely see you should do this, Roger.

It would be, well, here's a thought, Roger to what extent is that helpful. So it's the most powerful stance a person can take in the world. Now, most people don't think it is, they think the most powerful stance is, as any fool can plainly see blah, blah, blah, blah, blah. I'm right. And since I'm assertive about my rightness, it means I'm a tough guy or a tough girl. And then I will get farther faster because I'm right and tough. And I think brilliantly Chris Argyris demonstrated that that will ensure that you're in a single loop learning, not double loop learning. And you will get stuck in kind of defensive routines that you never get.

Tom:

Absolutely. And I don't know if I'd say counterintuitive, but it's a method of behaving. It's form of behaving that's not rewarded general by existing cultural organizations.

Roger:

No, I don't agree with that. I honestly don't, I just don't think it's tried.

Tom:

And why not?

Roger:

Because people are taught that you should assert your point of view so that it wins. I mean, think about...I mean, just think about education. What do you get a check mark for? Asserting the right answer.

Tom:

And raising your hand first?

Roger:

Yes, yes. To assert the right answer first and if you get the wrong answer, you get a big red X. And so you produce on your own, the right answer and asserting it to be the right answer is what you were taught from kindergarten onward. And as your education advances, you are taught more and more how important it is to argue your point. Because instead of, you don't have to argue that two times two is four in grade one, you just say it. But in junior year kind of philosophy course, you have to whatever, read a book or two and make an argument about what they say. And so you've got to argue how right you are. Right. So people just assume that's the way you're supposed to be. And they don't realize that there's a way more powerful way to be, but then they blame others. They say, "Well, if I do that, I will get beaten up, I'll get beaten to a pulp."

I can't tell you how many times I've run this experiment with people to say, "Listen, all you have to do is start out with that stance for five minutes of the start of this tough meeting that you expect to have," five minutes where you go in with a view worth hearing but it might be missing something.

And after five minutes, if they're beating the snot out of you well, get your fists up and start pounding away with your advocacy and... like virtual, not every time, but virtually every time they come back to me and say, that was the best conversation I've ever had.

I couldn't believe the quality of the conversation. We came up with some really nifty ideas. And I said, "But I thought you thought the guy was a jerk." "Well, no, no, no, turns out he wasn't that at all actually he was," so it's simply people are trained to be one way and they are scared, absolutely terrified to be any other way. And if you can convince them to try something else they learn that what they've been taught all their life is not helpful.

Tom:

I want to respect your time. Let's just circle back for a last question about this basic theme you're tackling in your book about when more is not better. Is there anything that we've not talked about you felt was important in terms of, basically fulfilling the promise of your book in helping people apply it to the problem that you've identified?

Roger:

Well, we didn't really touch on this idea that the best way to make something better is not to seek perfection. And I think that the lean folks would I think agree, right? Which is, if you're seeking perfection, you're going to try grand strokes. You're going to be frustrated if instead you say I'm just going to improve a little bit, just a little bit. This is like Warren Buffet and the power of compound interest. If you can improve a little bit, a little bit, a little bit, and you're always improving a little bit, you are going to get closer to perfection than by actually saying, I want the perfect answer.

And this is what I would say to public policy makers. Just knock it off, stop trying to say we have the all-singing, all-dancing, answer to this problem. And we're going to fight about it for years and years and years and conference committees and blah blah blah and whatever.

But try saying instead: we think we can put this tweak in place and it'll improve it. And then when that seems to work, tweak it some more and tweak it some more and tweak it some more. Congress sets itself up for abject failure and then gets all frustrated. Congress is all frustrated and feels put upon and everything now. And it's because they've set themselves up for failure.

Tom:

Yeah, yeah. No, I like I that. And I think there's echoes of a Lean ethos of Kaizen, continuous improvement of constantly raising the bar. Let me wrap it up there. I want to remind people that your book is titled *When More Is Not Better, Overcoming America's Obsession with Economic Efficiency* by Roger Martin published by Harvard Business Review Press. Get it. And thanks for taking the time, Roger.

Roger Martin:

Yeah, that's my pleasure, Tom. Anytime.