The Currency of Management: What Managing Money Teaches Us About Managing People

Transcript

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J Paul Getty advised us that “Money isn’t everything but it sure keeps you in touch with your children.” Tonight we may range widely, but I hope to show thinking about money as a metaphor can keep you in touch with your organisation.

In the 16th century, New Learning at Gresham College and elsewhere led to Natural Philosophy and in turn to the Enlightenment of the 17th and 18th centuries. The Enlightenment was a cultural movement of intellectuals challenging dogmatic ideas, advancing knowledge using the scientific method, and reforming society through ‘reason’. During the Enlightenment we see the formation of an agreed body of knowledge and a process for improving it, ‘science’. Science can be described as a continuous process of deciding what we know. Science affected managers early on, just think of the industrial revolution, and began to affect management thinking strongly in the 18th and 19th century. Here, I would include names like Smith, Marx or Bentham, perhaps not part of the traditional canon of organisational theorists that comes clearly into its own early in the 20th century.

As we look over the past century of management thinking we see some strong themes. From Frederick Taylor and Max Weber through to today, mechanisation and scientific method influenced management theory. And there is influence in practice as well as theory, ranging from Henry Ford through post-war industrial restructuring or the growth of multi-nationals. The mechanistic paradigm has had a strong following. We also see biology and ecology influencing analysis of organisations. Cybernetics, informatics, and decision theory have had their moments in the sun. Culture and organisational change schools have been very popular since the 1970s. Chaos and complexity theories have enriched our studies. Psychology and behavioural analysis from Freud onwards have made us look at the rats caught up in racing the machines.

Organisations continuously seek answers to some basic questions – where are we now? Where do we want to go? How can we get there? These answers are often wrapped up in a story. “We will remain the leading manufacturer of XYZ because we constantly focus on research and innovation”. Stories are important tools for motivation. We also apply a scientific or pseudo-scientific approach to the answers. We create falsifiable hypotheses. A basic assumption such as “we are a leading research and innovation manufacturer” needs to be tested through competitive analysis, patent registrations, product reviews, and ultimately success. We use hypotheses constantly as we make decisions and measure success. Firms and organisations stumble or die when they use their hypotheses without testing or challenging them, IBM on the importance of mainframe computers, Kodak on the importance of printed photographs, numerous governments on Olympic Games.

Hypotheses need to change and improve. To the three basic questions I often add, where are we? And how did we get here? I add them because the history, the narrative, the story, of why we survived or thrived creates our mental frameworks. And within all of this, managers strive to use planning, implementation, and review to organise people, processes, and resources to achieve results in a continuous, virtuous circle.

I would like to point towards two other trends that concern us tonight as we consider managing people. The first is a move towards viewing organisations as collections of people, rather than as a machine filled with people. Increasing prosperity has given people more power to choose their organisations and their level of commitment. This power may ebb and flow a bit with the economic cycle, but as individuals we have much more power over our lives than a century ago, and managers need to find ways to organise people without treating them just as cogs in a machine. The second is information and communications technology (ICT). ICT can be directed squarely at organisational issues. If I invent a wonderful new metal alloy technology I might transform automobile manufacturing, yet not affect management. But if I invent a new way of communicating or analysing I can transform management. To grasp this quickly I would ask you to think about the use of accounting and reports over the past 50 years, the spreadsheet, voicemail, email, social networks, Twitter. ICT has transformed management, and will continue to do so. The empowered workers within organisations can vote, globally at virtually no cost. Personally, I think we may be only on the first step of tremendous news ways in which computing can re-organise us, perhaps new voting systems using tools from Bitcoin architecture, automated project managers, amoeba organisations amalgamating online and fragmenting again.

Metaphors and Organisations

Back in 1997 my sister was studying organisational change and recommended a book that captivated me, Images of Organization by Gareth Morgan. The conceit behind the book was that there were numerous definitive metaphors for organisations and Professor Morgan took each one of them seriously. The primary metaphors which he explored were organisations as machines, organisms, brains, cultures, political systems, psychic
prisons, flux and transformation, instruments of domination.

I found the book wonderful because Professor Morgan makes people realise that organisations can be analysed using numerous metaphors. I wasn’t quite sure I agreed with him making psychic prisons one of the top eight, trapped in our own ideas and processes such as ‘minimising risk’. Then I consider an insurance broker that I know well and think he’s right to have psychic prisons as a primary metaphor. The anxiety and shadows in the insurance broker are so large that simple exploratory meetings with them often result in a colleague and I facing off against nine of them, three of whom are lawyers, two compliance experts, one a boss, two note takers, though they never produce so much as a memo, and then finally one person who, I am assured, might know what they’re doing.

When Christopher Seow asked me to consider providing a Gresham lecture in conjunction with the Chartered Management Institute, I thought this might provide an excellent opportunity for me to put forward my thoughts on a new way to consider management using a ninth metaphor. The ninth metaphor is organisations as ‘communities of currencies’. My instinctive thoughts on organisational theory tend to revolve around the scientific method, risk/reward analysis, measurement, and the importance of stories. Ian Harris and I, in our book The Price of Fish, deal with wicked problems at the global level, but organisations have wicked problems too. Given my proclivities, we stressed four streams of knowledge, choice, economics, systems, and evolution, and suggested four generic methods for solving wicked problems, knowledge, markets, standards and policies – with fish as just one example. At national and global levels we have evolved currency systems that help us perform amazing feats – tools that bring bread to our tables, shape our retirement, fuel our economy – often with no or minimal central control. We rely on currencies as tools to organise our economies.

Organisations have their own wicked problems - how do we bring out new products in rapidly evolving situations, what should we do with the National Health Service, what education best equips people for the future? I start from the premise that a good or great manager is working out how to make a holistic system function better. Tonight’s thesis is that managers can learn a lot by considering analogies with monetary policy, as well as import tools and techniques from monetary policy to become better managers.

Communities that need to trade obligations at scale often create currencies. Power, influence, status, and career prospects are currencies that interact with more traditional currencies we express financially, for example budgets and salaries. To stir up your thinking remember that managers ‘pay’ people in salaries, sure, but also perks, trips, time off, training, fun or boring projects, employee of the month, their photos on websites, etc. Gensler, a global architectural firm, has found that workers dislike open plan offices, but open plan offices provide managers with other tools – desks next to friends, meeting room time, highly desirable private offices, and coveted corner offices. I call one quick way to analyse organisations ‘passing the time’, somewhat based on my philosophy that time is our lives’ core constraining bottleneck or currency. One just critically analyses where organisations spend time – note the mixed metaphor of the monetary verb ‘spend’ with the chronological noun ‘time’. Time can be work-life balance, access to bosses, time in grade before promotion, or just having a good look at what consumes most meeting time. Is it customers, disputes, new products, or staff development?

I don’t intend to enumerate all of the various currencies managers issue and use. It’s your job to create them, but to help you think creatively, I’ll give you three interesting examples. In our firm it’s an honour to get your name on a published report. In a similar vein a maker of gym equipment I know motivates his staff by letting them sign the completed equipment he sends out if they meet his quality standards. In a large R&D organisation we once created an innovation fund that was measured on spending it all as early as possible in the year to increase the pace of change. Successful managers manage multiple currencies. And naturally, technology can help manage currencies. We can and should speculate about how electronic currencies such as Bitcoin or Ripple might work inside an organisation. Here today here is a fun site that helps people trade chores, for example in the workplace, through a currency points system.

People will naturally exchange organisational currencies and thus organisational currencies involve risks comparable to those faced by central banks, such as inflation, devaluation or capital flight. So, tonight’s ninth metaphor, the organisation as a ‘community of currencies’ may help you become better, systemic managers, by thinking of your job as creating and managing currencies.

Mono-money Matters

Before I set out my stall, let’s explore what happens when organisational currencies go wrong. The accounting firm of Arthur Andersen was founded in 1913 in Chicago. This firm was a go-getting outfit from the start. After the Second World War, in the 1950s, it was possibly the first firm to see the potential of computing in accounting, and also one of the first firms to set up an international network. Here in London during the 1980s and 1990s it was a powerhouse, and began to overshadow much older firms in the birthplace of the profession. It was widely recognised as the firm to emulate. It had some of the smartest accountants, some of the most connected partners, and the most aggressive sales approach. It built the first significant accounting-based management consultancy. This highly-motivated firm paid the highest wages and had the highest profits-per-partner.

Much of Arthur Andersen’s success was built on having a strong correlation between financial performance and
pay. Much organisational theory attempts to align performance and pay. Significant firms advise on how much to pay whom for what. Bonuses, stock options, and executive compensation schemes are all popular and well-known tools. At Arthur Andersen the currency of management was the currency of money. However, in 1994, during a merger between our firm, Binder Hamlyn, and Arthur Andersen I made myself unpopular by predicting the demise of Arthur Andersen unless it changed its ways. My analysis was based on the fact that Arthur Andersen took on risk when it took on clients, but that this risk was not factored into compensation.

All accountancy firms have professional indemnity insurance, most of them run as internal mutual insurers. Few, if any, accountancy firms tell individual partners how much they cost. Our firm had narrowly escaped repercussions from a 1990’s Enron-like event, the demise of Metallgesellschaft. Metallgesellschaft AG was formerly one of Germany’s largest industrial conglomerates with over 20,000 employees and turnover exceeding US$10 billion. In 1993, Metallgesellschaft lost $1.3 billion speculating in the oil futures market, when losing $1.3 billion was life-threatening. So, well before Enron, the dangers in auditing derivatives and trading already had a poster child. Our firm’s response to avoiding similar situations was to charge back the professional indemnity costs to each individual partner. This resulted in partners with larger risks paying more and having, relatively, a slightly lower profit. We wanted partners to seek balanced business deals with clients. A hairdressing company in the Midlands might cost the partner a few bob, but a global commodities firm trading derivatives would cost many bob more. The idea was to force the partners to price the risk appropriately. A partner’s bonus would be calculated after subtracting operating costs and then after subtracting professional indemnity costs. If a partner wanted a new global commodities client they would have to charge higher fees to keep their profit share stable. Overall, we would probably have fewer large risky clients, but would be at least as profitable per partner, and safer.

Arthur Andersen did not charge individual partners for professional indemnity insurance directly, so individual partners were encouraged to go and get as many clients as they could, incorporating all sorts of risks, as long as they could increase their own annual profit. Arthur Andersen claimed that they had superior procedures to reduce risks. To me they certainly had bigger procedures and an intimidating amount of paperwork. Given their procedures I was, in effect, told the partners could not make mistakes, so aligning partners’ motivations with risk incurred was unnecessary. Of course, with so much paperwork, much paperwork was bypassed and the firm had less of an idea what was going on, and what idea it did have was distorted.

I will not claim that charging professional indemnity back to partners, as we had only just begun to do ourselves, would have avoided Enron and many other failures. Nor has charging back professional indemnity per partner become common among the remaining Big Four firms, despite their numerous failures since 2000. Further, you could argue that Arthur Andersen was equally failing to price long-term risk properly, and I would agree with that argument. But focusing on just profit as the currency led to a risky culture.

For another example I turn to a firm that amazed me when I encountered it in the late 1980s. CMG was an Anglo-Dutch IT consulting firm which lasted from 1969 to 2002. CMG was famously egalitarian. Everyone ate lunch together daily in ‘the kitchen’. People, unusually for the time, addressed each other by their first names. The firm was not egalitarian about salaries. Failure to adhere to Commander, their strict quality system, resulted in Corrective Action Request sanctions which could reduce salaries. Salaries were posted publicly and a higher salary correlated tightly with a higher rank. I remember working alongside CMG on one project when year-end salary reviews had been published. I turned up to a meeting the next day to find that the rather competent project manager of a couple of years had been demoted because a person who had arrived on the project just the week before had been promoted over him based on the changed salary postings back at headquarters. Having removed most other forms of measurement, money drove CMG. Coda: in 2000 CMG, seeking ever-more-rapid growth, overpaid for Admiral Computing and was forced to merge with Logica in 2002.

These cases, and those of many other organisations that failed, show that linking profits too strongly to individual bonuses is dangerous. If economic money alone, monomoney, is your only organisational currency, your toolkit is not rich enough to handle the portfolio of risks you face. My argument is not a technical and financial one. My argument is a motivational and cultural one. Paying people purely on financial performance is unlikely to reflect true performance of the organisation over the long-term, and create an unhealthy culture. If we had more time we should look at the pernicious effects of inequality within firms. “Surely this is what lies behind the public outrage surrounding bankers’ bonuses. It is not just envy, or fury at the increasing gap between rich and poor, but an implicit understanding that the more money an individual earns, the less engaged he, or she, becomes in the general welfare of the nation.” [Margaret Heffernan, Wilful Blindness, Simon & Schuster (2011), page 250] or their organisation?

We need to create a richer system of currencies when we manage. Not everything can be priced into a single form of money, a point we shall return to later, but money binds a firm and helps us comprehend a hermeneutic circle of value - one’s understanding of the whole is established by reference to the individual parts, while one’s understanding of each individual part requires reference to the whole. Morgan notes philosophically, “One of the major paradoxes facing modern managers is that they need to combine a high tolerance of ambiguity and openness to competing views with the need to create a ‘closure’ that allows them to go forward in a positive way. While the professional postmodernist can relish the relativism of competing perspectives, the manager has to go one step further and act in the midst of all this uncertainty.” [Morgan 1997, page 430] Money can help
Communities, Monies, and Currencies

As with any tool, we need to understand money in order to use it properly. So let’s define three terms, currency, money and community. I’ll begin with community. Organisations are made of people. Communities are made of people. As managers we are managing sets of communities with sub-sets of communities within them towards goals. If we want to talk about people and communities, who better to ask than anthropologists?

Interestingly, a definition I’ve derived from reading anthropologists thoughts is that “communities form when people are indebted to one another”. If a group of people meet on the street and leave without obligations to each other, they do not form a community. Small communities tend to hold everything in common. They are completely and mutually indebted. Slightly larger communities need other mechanisms to record indebtedness. “Hey, Brother John, in our community you attend church on Sunday and you missed it. We’ve got a small tick against you.”

But if your community is large and your forms of indebtedness more complex, you can start to trade indebtedness. I owe you a chicken. You give my indebtedness to someone else to repay one of your debts. He or she claims the chicken from me. In larger communities this indebtedness can be complex and heterogenous. We can trade indebtedness of chickens for indebtedness of shoes, help with housebuilding, favours owed, or slights to status. Money is a technology that allows you to track indebtedness. A different, but complementary, view is taken by James Buchan. In his wide-ranging 1997 philosophical work on money, he calls money “frozen desire”. The ultimate backing of money is its ability to extinguish debts in future. The depth and distribution of debt obligations are what give money value.

Keith Hart adds another view: “Money expands the capacity of individuals to stabilise their own personal identity by holding something durable that embodies the desires and wealth of all the other members of society. The modern system of money provides individuals with a vast repertoire of instruments to keep track of their exchanges with the world and to calculate the current balance of their worth in the community. In this sense, money’s chief function is remembering [Hart, 2000]. People learn to understand each other as members of communities; and money is an important vehicle for this.” [Hart, 2011] Max Asnas touched on this idea that money is important for the future when he quipped, “Money is something you have to make in case you don’t die.”

So what then is currency? Currency represents money. Currency is anything that can be used as a token to record and transmit money around the community. Money is virtual; currency is real. If something is commonly accepted as a token for money, then it is a currency, whether it is gold or babysitting circle tokens. Jevons enumerates seven characteristics of successful currency, viz. “utility, portability, indestructibility, homogeneity, divisibility, stability of value, and cognisability”. [Jevons, 1910, page 31] When creating a currency, one big choice is over having a fixed or variable supply. Try to imagine the perfect currency for money, say a new chemical element. Let’s call it Pecunium. What then should be Pecunium’s characteristics? Where should we put it on the periodic table? What is its atomic weight? Might it be near gold or thereabouts?

The supply of gold is largely fixed. I say largely, as the Spanish plundering the Americas put a lot more gold into circulation, and perhaps an asteroid might crash onto the planet, crack open and reveal a solid gold core, but anyway let’s say supply is largely fixed. For an example of Pecunium with a supposedly future fixed supply, think about Bitcoin. When I explain Bitcoin, I ask people to imagine it not as money but as a new virtual element. We can trade indebtedness of chickens for indebtedness of shoes, help with housebuilding, favours owed, or slights to status. Money is a technology that allows you to track indebtedness. A different, but complementary, view is taken by James Buchan. In his wide-ranging 1997 philosophical work on money, he calls money “frozen desire”. The ultimate backing of money is its ability to extinguish debts in future. The depth and distribution of debt obligations are what give money value.

Contrariwise we can have currencies which rise and fall in supply. Pecunium that creates and destroys itself as needed would be a tantalising physical element, yet we have such Pecunium in fiat currencies. Fiat currencies are tokens that allow us to extinguish tax debts. Fiat currencies are not fixed in supply. Fiat currency supply is flexible. Governments create and destroy fiat currencies at will through borrowing and taxation. [As an aside, part of the Euro’s problem is that it only indirectly extinguishes tax debts.] Though most of the time governments create, particularly so at this time of quantitative easing, leading to eventual devaluation. The idea is that by managing the level of tax debts in the economy, both up and down, we can create mutual credit of stable value that facilitates trade and exchange.

David Graeber highlights the confusion of fiat currency with money and the tension between fixed and infinite supplies of money, saying: “How is it that we have come to treat money, which after all is nothing but a social relation, and therefore infinitely expandable, as if it were a limited resource like petroleum (“we must cut social services because we simply don’t have the money”), and oil, which actually is a limited resource, as if it were money – as something to be freely spent to generate ever-increasing economic activity, as if there would never be an end to it? The two forms of insanity are, clearly, linked. Really a coin is just a promise, and the only real limit to the amount of money we produce is how many promises we wish to make to one another, and what sort.” [Graeber, 2011, page 114]

Remembering the traditional definition of money, “a store of value, a unit of account, and a medium of
exchange”. Fiat currency is certainly a medium of exchange, but we seem to find it very hard to include both ‘store of value’ and stable ‘unit of account’ within the same robust system. These explanations lead us to national debts and community with future generations. National debt has long stirred intense emotions. In 1787, Publius, later President James Madison, wrote in The Federalist Papers that - [Democracy may lead to] “A rage for paper money, for an abolition of debts, for an equal division of property, or for any other improper or wicked project...” [The Federalist Number 10: “The Utility of the Union as a Safeguard Against Domestic Faction and Insurrection” (1787)] Yet, Madison’s intellectual sparring partner, Alexander Hamilton, believed debt would underpin patriotism. “A national debt, if it is not excessive, will be to us a national blessing; it will be powerful cement to our union.” [Alexander Hamilton to Robert Morris, 30 April 1781 - Harold C. Syrett, ed., The Papers of Alexander Hamilton, 27 vols. (New York: Columbia University Press, 1961), 2:635.] A well-managed national debt helps to form a national community.

Debt creates faith in communities. Søren Kierkegaard’ book, “De omnibus dubitandum est”, “doubt everything”, reminds us that without risk there is no faith; there can be no faith without doubt. I might add there can be no faith in the community without debt, thus credit and a form of doubt about future repayment. So, to conclude our definitions. Communities are groups of people who are indebted to one another. Money is units of indebtedness about desires frozen at a point in time which we can trade within a community using currencies. Money itself can help build a sense of community. We need to create currencies for our organisations that organise communities towards our goals.

Creating Currencies - Air Miles versus Chair Miles

How might we do that? Well, one intriguing idea we worked on back in 2010 was Chair Miles. Offer a typical middle manager an out-of-town or overseas trip and, within certain limits, he or she will jump at it. We say, “within certain limits”. Yes, a few try and reduce their carbon footprint. A few have serious “at home time” deficits. A few are so shattered with travelling that they won’t stop and think, “could there be another way?”. But the vast majority leap at a diverting travel opportunity and luxuriating in a hotel spa. The pleasure and prestige of travel impedes low carbon targets.

Cisco, a company famous for its internet routers, also has significant, high quality, end-to-end teleconferencing offerings, such as its TelePresence service. Cisco, “eats its own dog food”, encouraging teleconferencing among its 65,000 employees around the world. From 2007 to 2009, the use of Telepresence grew sixfold, from 44,000 meetings every three months in 2007 to 250,000 every three months in 2009. Cisco has over 900 TelePresence production rooms covering over 250 cities in over 60 countries. And these rooms are heavily used; based on an eight hour business day and a 5-day work week, utilisation is 64%.

Cisco tracks benefits carefully, estimating that nearly 160,000 unnecessary meetings were avoided from 2007 through 2009. Given the numbers involved Cisco estimated its 2010 avoided travel savings at $628 million and productivity improvements at $235 million. These are compelling numbers, but environmental benefits are also significant. Cisco estimates emissions saved over the first 200 weeks at 338,988 tonnes of CO2, about $5M if these were bought as carbon credits, equivalent to having kept 80,000 automobiles off the road.

Motivating staff to prefer not travelling is a significant problem. Sure, everyone talks carbon savings, but major airlines offer air miles and other frequent user reward schemes. These are bonus programmes that reward travel. And how much is an air mile worth? Estimates range from 1p to 10p per air mile. In decision-making terms, a 2,000 mile trip, 4,000 miles return, means a ‘bribe’ of £40 to £400 to travel rather than sit at your desk. This doesn’t count additional air miles ‘earned’ for hotel accommodation or car hire.

Nick Noakes, a Cisco salesman for TelePresence, suggested “Chair Miles” and having worked years ago on Air Miles we worked up a scheme with him. Because travel prestige and rewards for individuals overwhelm corporate savings, why shouldn’t large corporations provide “Chair Miles” – reward people for not travelling. Chair Miles in major corporations would be a formal programme to put Air Miles and Chair Miles on an equal economic footing. Corporations would reward individuals for staying put at somewhere comparable to Air Mile rates, e.g. 5p per mile avoided.

There are a number of ways Chair Miles could be implemented. Two methods worth mentioning include:

Mile credits; where people are given Chair Miles for every meeting they hold by teleconferencing, based on distance. A problem is that people might be motivated to hold ‘useless’ meetings to gain points. But wait? Don’t they also gain points for ‘useless’ travel? Still, this approach would need refinement, for example avoiding teleconferencing when a simple phone call would suffice.

Relative credits; where people are given Chair Miles for changing their behaviour such that their travel requirements are lower than some baseline, say the average in their organisation amongst their colleagues.

How much might a Chair Mile be worth? Well, one view is that the minimum value is at least the CO2 avoided. Air travel emissions per passenger mile vary significantly by the length of the flight because a high percentage of fuel use and emissions occur on take-off. Given then prices of €14/tonne of CO2, and say a typical air trip emitting 0.18kg per mile to 0.29kg per mile, the 4,000 mile round trip we looked at earlier, if it’s avoided, should result in a credit of about €10 to €16. Still, Chair Miles of €10 to €16 for a 4,000 mile trip would start to balance out the £40 to £400 pro-travel subsidy we mentioned earlier. That said, CO2 prices are now less than a third of

set of options the theatre patron has now, and their likely consequences." [Daniel Kahneman, Thinking, Fast and Slow, Penguin (2012), page 342.]

What to do about Chair Miles? Well, we think that forward-thinking corporations might want to rethink both their internal reward mechanisms as well as their interaction with external reward mechanisms, such as Air Miles. Ultimately, corporations that seek fundamental behavioural change have to address what’s in it for their employees. New currencies can be an integral part of behavioural change.

Of course, multi-company and multi-organisation systems abound. From the ubiquitous Oyster card trying to spread from its Transport for London base, to M-Pesa and phone time in Africa, to proposals such as shipping miles to bind together a major shipping company’s community or paying retirees (the grey pound) in future heating for investing in energy projects today, we see a lot of initiatives for new currencies among multiple parties that new technology enables.

Carrots & Sticks
This is not all dreamy, rosy, pink, cloudy fluff about communities. There are coercive communities. Much of our confusion about defining money results from national indebtedness and nation states issuing fiat currencies. The pound, the dollar, or the yen are all currencies which we can use to extinguish future tax debts to the governments which issued them. We belong to the national community through the currency of our tax debts in a coercive or semi-coercive community. To be a nation you must defend the integrity of your national boundary, and this gives you opportunities to impose taxation, in effect creating a semi-coercive community. If you don’t believe me then ring up Her Majesty’s Revenue & Customs and say you just don’t feel British this year. You’d like to forego paying your taxes for a bit. You will give them ring when you feel like restarting your tax payments. In that case, you will rapidly join a new community with a penchant for porridge at breakfast and a tasteful, minimalistic style of bare walls and iron curtains. The pounds in our pocket are valuable because people with whom we wish to trade also have tax debts looming, or know people who have tax debts looming, thus they have value. Or are worthless; if you go over the Channel and try and use your pounds to pay, you’ll get a Gallic shrug: “Mais non, eez worthless, I do not need to pay zeez English gouvernernent.”

Daniel Kahneman the Nobel winning psychologist, provides a ringing endorsement of money as a motivational tool: “Except for the very poor, for whom income coincides with survival, the main motivators of money-seeking are not necessarily economic. For the billionaire looking for the extra billion, and indeed for the participant in an experimental economics project looking for the extra dollar, money is a proxy for points on a scale of self-regard and achievement. These rewards and punishments, promises and threats, are all in our heads. We carefully keep score of them. They shape our preferences and motivate our actions, like the incentives provided in the social environment. … The ultimate currency that rewards or punishes is often emotional, a form of mental self-dealing that inevitably creates conflicts of interest when the individual acts as an agent on behalf of an organisation.” [Daniel Kahneman, Thinking, Fast and Slow, Penguin (2012), page 342.]

Well, that is perhaps the stick, but where is the carrot? It may seem a bit facile to ask, “can money motivate people?”, but I raise it to remind you that motivation is core to our argument. “L’argent mène le monde par le bout du nez, même s’il n’a pas d’odeur. » Jean Dion Auteur (1949*). “Money leads the world by the nose, even though it has no smell.”

So the argument so far is that organisations are communities. Money can strengthen communities. Money motivates. We manage money through the tool of a currency. There are far too many types of indebtedness to have a monetary system for each. In fact one function of money is to help us transform one type of indebtedness into another. To simplify tracking transactions and indebtedness. We spoke of chickens and shoes earlier. So too, “I owe you a dinner, so I pay for your theatre ticket” might be another example. Money helps us make decisions.

Kahneman gives a great example of how money helps us analyse our embedded desires using two stories. He quickly demonstrates how using money helps make our decisions more rational using two stories: Story 1 - “A woman has bought two $80 tickets to the theatre. When she arrives at the theatre, she opens her wallet and discovers that the tickets are missing. Will she buy two more tickets to see the play?”

Story 2 - “A woman goes to the theatre, intending to buy two tickets that cost $80 each. She arrives at the theatre, opens her wallet, and discovers to her dismay that the $160 with which she was going to make the purchase is missing. She could use her credit card. Will she buy the tickets?”

“Most [respondents] believe that the woman in the first story will go home without seeing the show if she has lost tickets, and most believe that she will charge tickets for the show if she has lost money. … The version in which cash was lost leads to more reasonable decisions. It is a better frame because the loss, even if tickets were lost, is ‘sunk,’ and sunk costs should be ignored. History is irrelevant and the only issue that matters is the set of options the theatre patron has now, and their likely consequences.” [Daniel Kahneman, Thinking, Fast and Slow, Penguin (2012), page 371.]
Firms Emerge To Create Currencies For A Community
This month the world lost a great thinker and Nobel prize winner on organisational theory in Ronald Coase, who died on 2 September. Coase is best known for a seminal paper in 1937, “The Nature of the Firm”, where he sought “to discover why a firm emerges at all in a specialised exchange economy”. In this paper he looked at the ideal size of a firm by introducing the concept of transaction costs to explain the nature and limits of firms. Large firms stick together so long as they have lower transaction costs than outside the firm. His work is invoked to try and explain why large firms exist as well as outsourcing and crowdsourcing. To quote The Economist, “Mr Coase’s theory of the firm would suggest that firms ought to be in retreat at the moment, because technology is lowering transaction costs: why go to the bother of organising things under one roof when the internet lowers the costs of going to the market?” Our ninth metaphor of organisations as communities of currencies builds on Coase’s ideas, yet is subtly different. A good manager needs to make sure his or her internal currencies are more efficient than going outside the firm and contracting directly. Sometimes these choices are forced, “you must use central procurement”. Other times these choices are too lax, “it’s easier to get it printed outside because our central printing department overcharges for overheads”.

As currencies are tools for more efficient transaction costs, hopefully positively, I wonder whether a richer view of the organisation might be to consider the organisation as a community where the ideal size is determined by the efficiency of its currencies. If the organisation is seen as a central bank issuing these currencies, then we move from just transaction costs to look at the system as a whole. The currency value includes the backing of a larger, direct community over the tax-extinguished backing of an external fiat currency. This might explain why large firms persist as communities, despite increasingly lower transactional costs due to information technology. Their internal currencies aid persistence not just as media of exchange, but also as units of account and stores of value that are not equivalent outside the firm. Outside the organisation your status as Super-Duper Procurement Manager of MegaCorp is worth less than within. Your corner office status is an impediment to trading outside. People will go a lot further to get their money’s worth out of time they’ve served with a troubled large corporate – a trove of currency values embedded in a large community – than they might for a troubled smaller company with which they could have worked as long. If you need a quick thought on this, consider how people participate in the alumni programmes of large corporations after they’ve left.

Fix the FX
I began by emphasising that mono-money/mono-currency organisations can be dangerous and we may need more than one currency. Here I will note that too many currencies can be dangerous. To explore this a bit, I want to touch on another thing that computers have increased, various forms of non-financial reporting both within and outside organisations. The first, and very laudable, dimension of non-financial reporting is that we seek to have people report on important things that may not be fully covered in the accounts. This leads to discussion, sometimes pressure by activists, and also sometimes too much pressure and rule gaming. However, the second dimension is trying to create an alternative reporting system of duration alongside money. Here I am less convinced and why I’m queasy about the various capital analyses put forward by numerous activist NGOs. As financial people we should already abhor externals. Externalities mean that someone is harming others and not bearing the cost. We should seek to ‘internalise’ externalities where we can. If we can ‘internalise’ an externality, then we have lots of appropriate tools to deal with it – financial accounts, audits, investment structures, etc., as well as some emerging tools, for example Confidence Accounting to reflect uncertainties in the numbers. When something remains an externality, our tools are limp and pathetic, including non-financial reporting.

An example might be mandatory carbon reporting. Yes, we should be examining carbon emissions closely. But wouldn’t it be better to have the real costs? Still, auditors love new reporting, and love the idea of additional reporting. Carbon emissions reporting means more numbers and more fees. I contend though that auditors and accountants have a hard enough time reporting financial numbers. What qualifies them to audit carbon emissions? The professionals in that field are scientists and engineers who, frankly, have been doing it for far longer than we financial folks have noticed. The financial community should seek to ‘internalise’ carbon either by pushing for working carbon markets (my preference - http://www.longfinance.net/index.php?option=com_content&view=article&id=70&Itemid=157) or taxation, and then let markets or governments set the price. In either case, when the externality is monetised we can deal with it using traditional financial tools.

By creating reporting standards, we create a problem for managers. They need to make optimising decisions from many different currencies – money, staff, carbon emissions, water use, energy use, ... Consider the annual appraisal of two managers both working in the same organisation, Goodie Twoshoes and Cruella E-ville:

Goodie Twoshoes: “Well I realise you’re looking forward to our e-commerce system rolling out anytime now, as it is twelve months behind schedule, but we should really look at the bigger picture. All staff are highly motivated; human resources tells us so; training schedules are fully met; staff have been on appropriate sensitivity courses; and the entire division has achieved several kitemarks for excellent management. I’m particularly pleased at our compliance with recent corporate work/lifestyle balance initiatives. It’s all been hard work. Despite our complete lack of any profit whatsoever, I’m looking forward to a cracking bonus.”

Cruella E-ville: “Sure I’ve cut a few corners around here, who wouldn’t, but we’ve managed to implement one heck of an e-commerce system in just twelve months. A few early customers probably won’t return, but month
on month our turnover is rising. I realise the paperwork’s a bit behind, the press has been a bit harsh and I don’t really want to get into those two lawsuits for sexual harassment; after all you need a bit of spirit when you’re driving a team hard with such high staff turnover. Despite the kinks along the way, including the jail sentence, I’ve made a heck of a lot of profit and am looking forward to a cracking bonus.”

Multiple currencies and multiple currency systems lead to exchange rates. I term this the ‘prime metric problem’. Cruella E-Ville and Goodie Twoshoes are being evaluated in a variety of ‘currencies’, e.g. the profit currency, the compliance currency, the staff satisfaction currency, etc. Cruella E-ville has made profit her primary goal. Goodie Twoshoes has made compliance with mandatory initiatives her primary goal. Neither manager can be criticised. They have not been given the tools to choose between conflicting goals or a single variable to optimise. They have not been given an algorithm or exchange rate that would allow them to convert sub-optimal performance on profit into socially responsible goals, or vice versa. We have “currency dissonance”. We manage what we measure, but too many measures is sloppy management. Helping people make better choices involves simplifying currencies appropriately too.

Coase extended his work in a 1960 paper “The Problem of Social Cost”. There he explained how defining property rights helps to overcome externalities. The Coase theorem holds that regardless of the initial allocation of property, when people can trade an externality without costs then bargaining will lead to an economically efficient result. If we can internalise what we want to manage, then currencies can handle it. But we need to balance mono-currencies against unmanageable complexity.

Some might argue I’m for internalising the world and selling it. Not really, I just contend that those bits of the world over which our economic organisations hold sway need to be internalised to the economic system as best we can. There are many things that cannot be ‘internalised’. Many things that are beyond price or value and should not be bought or sold. I look particularly at biodiversity and come down broadly in favour of reserves, sanctuaries and set-asides because internalisation may be impossible. My preferred approach is “to seek to internalise externalities” in the first instance, though, to be sure, various capital analyses and reporting regimes may be useful steps on that path.

In portfolio analysis, the biggest risk and biggest mistake most people make is leaving a risk out of the portfolio, thus negating the point of the analysis. Likewise, for organisations one primary risk is not having a primary risk within one of the organisational currencies. Thus, we need to balance the dangers of mono-money obsession against the dangers of multicurrency paralysis. A Sorcerer’s Apprentice currency against a Goldilocks’ number of currencies. Within organisations, we might also look at Abraham Maslow’s five level hierarchy of needs to see the limits of our currency approach. At the first levels, physiological needs, we as managers should be providing the basics regardless. However the following three levels of safety, belonging and esteem are all suitable to currencies. The top level, self-actualisation is, like physiological needs, probably not amenable to currencies. Of course I love my friend Douglas Board who goes beyond self-actualisation and calls his venture Maslow’s Attic.

Watching The Punch Bowl
So, in the vernacular, “what’s the takeaway?”, what might you do differently tomorrow? An organisational metaphor is just another way of looking at the world to help you make decisions. This ninth metaphor of organisation as communities of currencies implies that first, you have to move beyond focusing too much on cash. Second, you have to create appropriate currencies to achieve your goals without overdoing it. Third, you have to manage a complex system of anthropological currencies.

Where might you look for inspiration? Well, I’d suggest that the basic functions of a central bank may be appropriate for modern managers looking to manage the complex systems of modern organisations. I’ve simplified, perhaps oversimplified, a central bank’s core functions as: Creating – coming up with the currency idea in the first place, from using the debts of sovereigns to create national monies, to creating a currency for workplace chores; Supplying – working out the system which will manage credits and debits in the community, from a simple chit system to a complex online currency with accounts, and managing the extent of inequality; Protecting – avoiding a devalued currency, often conflicting with a desire to oversupply, including such things as counterfeiting, to looking for long-term stable values and being the banker of last resort; Exchanging – ensuring that relative value is controlled and that there is sufficient liquidity without too much gaming of the currency, as well as arbitrating conflicts and redesigning dissonant currencies; Informing – creating faith in the overall system and providing information to help people make better decisions based on the money supply.

Professor Morgan notes that any metaphor is both a way of seeing and a distortion. “We have to accept that any theory or perspective that we bring to the study of organisation and management, while capable of creating valuable insights, is also incomplete, biased, and potentially misleading. ... No single theory will ever give us a perfect of all-purpose point of view.” [Morgan 1997, page 5] Still, I think that ‘organisations as communities of currencies’ is worth further exploration and with a bit more work could join Morgan’s eight other core metaphors.

I’ll conclude with a quote from Simon Carr, a journalist for the Independent, writing at one peak of the financial
crises (12 January 2009) - “Money turns out to be whatever we agree it to be. It is a collective work of the imagination.” That is our job as managers, to use our imagination to create currencies that fire the imaginations and success of our organisations. I hope that tonight’s metaphor, organisations as communities of currencies, helps you understand your role better, and do a better job at managing.

Further Reading

Further Surfing
COBBETT, William, Paper against gold: or, The history and mystery of the Bank of England, of the debt, of the stocks, of the sinking fund, and of all the other tricks and contrivances, carried on by the means of paper money ..., William Cobbett (1828) - http://books.google.co.uk/books? id=RvoJAAAAIAAJ&printsec=frontcover&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false

Thanks
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