

## Hutber Meets LOUC

*Hutber's law states that "improvement means deterioration". It is founded on the cynical observation that a stated improvement actually hides a deterioration.*

I really love these wry observations. I think the first I learned was Murphy's law, but the one I most often cite is the law of unintended consequences. My version of the law of unintended consequences is – In any human endeavor an action that is designed to achieve a certain outcome will inevitably produce other outcomes and these may be greater and opposite of the intended outcome. Hutber's law is new to me, but it dovetails nicely with the law of unintended consequences.

It is easiest to find examples of these laws in the field of public policy. A classic example is public housing policy as practiced from the 1930s to the 1970s. The stated goal of public housing policy was to provide safe and decent housing for low income people previously living in substandard housing. Public housing authorities were created all over America to meet this goal. In most major cities, this ultimately led to high rise housing complexes built on either demolished neighborhoods or undesirable property. Policy makers consistently pointed out the great success of such projects by claiming that thousands of people were being served and that they were no longer trapped in unhealthy tenements. That "improvement", however, simply masked the deterioration that was going on as unintended consequences of the public policy. Most of the projects became breeding grounds of drugs, gangs, crime and other social decay. Thankfully, projects such as the high rises of Cabrini-Green in Chicago are for the most part being demolished.

Examples of the interplay of these two laws also exist in business. The great business strategy when I entered the work force was diversification through building conglomerates. Many of these business strategies failed. We can all think of examples, some of the big ones I know personally were Federated Department Stores acquisition by a real estate developer and Baldwin Piano's acquisitions of insurance and finance companies. Of course, each acquisition was cited as a great improvement and each had unintended consequences. In these cases the strategy failed and the businesses ended up in bankruptcy court. The core reason for failure of a diversification strategy oft cited is management losing focus on its core business. (In my two examples lost focus may have contributed, but there was also the little problem of being over leveraged.)

It isn't just a big business that can run afoul of the intersection of Hutber's law and the law of unintended consequences. Let's take the case of small manufacturer whose owner sets out to improve the value of his business by increasing sales and ends up going broke while succeeding at increasing sales. The owner sees great improvements (increased sales), but a hidden deterioration is occurring. Maybe this is due to not being able to make the increased shipments or not having the financial ability to support the increased sales or some other business

disaster occurring while the CEO is out selling full time. Any of these are unintended consequences; the CEO never intended that his production unit get over extended, that he wouldn't have enough cash flow to support new receivables, or that his controller would embezzle that \$400,000 when he wasn't looking.

## How does our owner avoid these unintended consequences?

Let's look at the plan. The goal of the owner's plan was to improve the value of the business and the strategy chosen was to increase sales. Absolutely nothing wrong with either the goal or the strategy. However, if that is all there was to the planning process, the plan could not be executed.

Many owners' plans look essentially like this:

We will improve our company by

- Increasing sales by 35% per year
- We will add two new customers of at least \$xxx,xxx in sales this year and three next year
- We will expand our geographic base beyond Home Town, one market this year and two next year.

I have seen plans like this (and yes I have written them too). If the owner writes this plan and then shares it with his sales guy (after all it only involves sales) the plan has not truly been communicated. If it has only been handed out at the annual management meeting and will not be pulled out until next year it is not a real management tool. Either of these are initial failures to execute the plan. Unless our owner is a one man shop executing any plan requires that it be effectively communicated. And, if you are a one man shop, make the plan the wall paper on your computer screen.

So, avoiding the unintended consequences involves communication. Effective communication includes a communication plan. The beginning of a communication plan includes such actions as posting the plan, referring to it in management meetings, making sure your banker is aware of the plan and otherwise using the plan as appropriate.

The next step to beating the law of unintended consequences requires expanding the plan. This step also expands the items that need to be managed. The owner needs to align the plans of each business unit to support the overall goals. Typically and most effectively, this requires that the initially established goals have been communicated to all business segments and all business segments have put their own plans in place to meet the overall goal. This adds "action plans" to the overall plan. Manufacturing needs to plan the increased production, HR needs to plan hiring (or retention improvement) based upon manufacturing needs, purchasing needs to line up suppliers, etc.

A major caution is in order. The owner can't accept action plans that don't address all the issues, For example, a manufacturing plan that simply says "we'll hire 20 new hourlies when the order comes in" is heading for problems. There are usually many other elements involved. Do you need another supervisor? Do you have the warehouse space? Does this mean another shift? Do we have engineering, supervision, quality, shipping assets to support a second shift? How do we train 20 new people? Action planning identifies the actions that need to be taken, lead times required and resources needed. Don't forget that facility management, HR, QA, engineering, maintenance, purchasing, IT, finance and others all need plans; I don't mean to pick on production alone.

But you're the small business man, you don't even have all those departments. Sorry, you do have those departments! You just think of them as functions. As owner you may be the sales department, IT, finance and HR. Your production department may handle maintenance with its foreman and even do most purchasing. Don't think of your action plans as simply department based, you need to focus on functions, on what needs to be done. This type of action planning is something cross functional teams can do especially well. There are also processes and models available to help with this sort of planning.

The next step to avoiding unintended consequences is managing the plans, yes that's plans. A properly structured business plan will have metrics and depending on the complexity of the "departmental" or "business units" these may have sub plans that also have metrics. Typically, action plans have benchmarks, set to timelines. In either case, these metrics or benchmarks can be reviewed periodically.

Let's go back to our simple business plan of increasing sales 35% the first year. If my base is a million dollars in sales, then I may need \$25,000 YTD increase in the first quarter, \$75,000 in the second, \$100,000 in the third and \$150,000 in the last. This metric can be broken down into monthly if appropriate. The owner's management of the business plan would certainly include a review of success on these metrics at quarterly management meetings. To be effective more detailed meetings focused on the metrics may be required monthly. The goal of these meeting would be to celebrate success and overcome obstacles. That is the core of managing the basic plan.

Even in a small organization, an action plan will underlie the basic plan to increase sales. This may mean that in order to increase sales 6 potential new customers need to be contacted each month, 3 proposals need to be sent, follow-ups by letter or sending brochures need to happen, a web page improved, a trade show attended. This is the kind of detail that goes into an action plan and this detail provides the benchmarks. Completion of the benchmarks can be reviewed and making sure the benchmarks are met is a key step to managing the action plan.

The next step is testing the plan. Testing involves having metrics, tracking the results, holding people accountable for results and making adjustments. In our example for the sales action plan testing involves making sure the benchmarks are completed. If the benchmarks are being checked off, but the sales metric is not being met, it is time to adjust the action plan or the responsibility for it. In the case of the portion of the plan that says sales in the first quarter will increase by \$25,000, a graph of last years sales compared to this year's would be a good metric. At the end of the quarter, this can be communicated to everyone. If the goal has been met then that needs to be acknowledged. If the goal has not been met the owner will need to determine what must be done to catch up so that the annual goal can be met. Determining what the obstacles to meeting the goal are and eliminating those obstacles would likely become a priority. Management may need to reallocate resources. This is the core of managing the plan.

Beating the law of unintended consequences requires planning, articulation of the plan, communication of the plan and testing of the plan and these steps apply to all functions and levels of the organization that have input into completing the plan. Each level including the owner needs to manage the applicable portion of the plan through action plans. To avoid apparent improvement hiding deterioration, metrics and benchmarks need to be set and met. Adjustments will undoubtedly need to be made, but that is part of any business.

*Note: The term has seen wide application in business, engineering, and risk analysis. It was first articulated in the 1970s by Patrick Huber, an economist and journalist working for The Sunday Telegraph in London Wikipedia entry.*