

AUTHORS AND ACKNOWLEDGEMENTS

AUTHORS

- Henri SAVALL, Director of ISEOR, Professor of Management Sciences at the University Jean Moulin Lyon 3, France.
- Veronique ZARDET, Co-Director of ISEOR, Professor of Management Sciences at the University Jean Moulin Lyon 3, France.
- Marc BONNET, Deputy Director of ISEOR, Professor of Management Sciences at the University Jean Moulin Lyon 3, France.

INTERNATIONAL SCIENTIFIC COMMITTEE

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Preface to second edition

It is always a pleasure to be asked to write the preface for a new edition of a well-known book. Firstly because it proves that the previous edition was a success and secondly because the decision to reprint a work shows that the interest is unflagging and that the needs that justify the book are still current. It is also an opportunity to examine what has changed and progressed in the approaches even if the basics are still the same.

From this point of view, it is clear that ISEOR method is still innovative and relevant and that the reasons for co-operation with the ILO (International Labour Office) are still valid.

The basis for this profitable co-operation is the idea that economics must be people-based and consider mankind as social beings interacting in relationships. We share this approach which is now widely accepted and increasingly understood.

In the foreword to the first edition we said

“The increasing importance of man management skills and the need to change man management methods imply the need to develop the skills of directors and management staff. Man management skills are essential to build healthy working relationships in companies and organizations. These skills permit the tools used to promote implication and communication among the personnel to be developed and adopted. Many employer organizations now wish to provide their members with programs facilitating the control of corporate change”.

This book provides “evidence that the link between social performance and economic performance is central to the long term performance of companies and organizations. It is particularly interesting for companies and organizations that the socio-economic method developed by ISEOR can diagnose hidden costs and define the means to reduce them.

ISEOR methods highlight the consequences of poor social performance and enable significant gains in productivity. As productivity is an essential factor in competitiveness, employer organizations want to act even more positively in this area.

This book helps them to do so”.

All this remains true, as does the need for a method and studies demonstrating applicability. Over and above the second edition of this handbook, it is our joint project, and the training which accompanies it, which must continue so that this new edition enjoys the same success as its predecessor.

Jean-François RETOURNARD
Director ACT/EMP
Office of Activities For Employers
International Labor Office

Introduction¹

by the Bureau for Employers' Activities of the International Labour Office

The development of sound workplace relations through an industrial relations system external to the enterprise (e.g. at national level) through labour law, freedom of association, collective bargaining at national and industry levels, dispute settlement machinery and so on, has been a significant feature of industrial relations over recent decades. It has also been an important focus of the ILO. Among other things, this 'external' system helps to restore a measure of equality in bargaining between employers and workers through recognition of workers' rights to freedom of association and collective bargaining.

Today, however, there is growing recognition of the need to concentrate on the development of sound relations at enterprise level, with the focus on managing and developing human resources. Several circumstances have accounted for this trend. First, the increasing emphasis on enterprise competitiveness is leading employers to pay much greater attention than before to issues such as productivity² and quality, flexibility in relation to functions, pay and working hours, safety and health, and skills training and employee development. Such matters, by their very nature, need to be addressed at enterprise level. These developments have created an understanding that dealing successfully with the issues above and achieving enterprise competitiveness depend on the quality of the relations between management on the one hand and employees and workers' representatives on the other. Second, it is now recognized that absenteeism, low productivity, and sometimes even poor discipline, are symptoms of labour problems. Corrective measures or initiatives in this regard need to be taken at enterprise level. Third, high performance today depends heavily on an organization's employees - hence the emphasis on employee motivation and better management of people.

The growing value and importance of people-management skills and the need to change the ways in which employees are managed, has led to an appreciation of the need to develop the skills of executives and supervisors. They have to be retrained to lead and facilitate rather than direct and control. Rank-and-file employees need leadership, interpersonal and teamworking skills. These people-management skills are essential to sound employment relations at enterprise level. Such skills are the basis of effective mechanisms for employee involvement and communication. At the same time, therefore, action is required to develop the necessary mechanisms and programmes to foster employee involvement and communication. These will minimize grievances and the development of dysfunctional relationships which could undermine sound employment relations at the workplace, and frustrate the business goals of the enterprise concerned.

¹ Introduction to the first edition, may, 2000.

² See in particular, ILO and APO : *Productivity and quality management : A modular programme* (Geneva, ILO : 1996).

Many national employers' organizations have, in the past, tended to concentrate on lobbying, negotiating above the level of the enterprise, and engaging in tripartite and bipartite dialogue on issues of policy. At the same time, industry organizations have provided direct services to enterprises on labour relations issues. However, many employers' organizations now wish to offer programmes to facilitate change at enterprise level. In developing countries, employees often do not have access to inexpensive, credible information and training on how to improve workplace relations. Employers' organizations could be a highly effective channel for providing information and training. But many do not have the programmes and staff to offer such services - hence, the need to develop a competence to provide advice and training to their members.

Commencing in the year 2000, the Bureau for Employers' Activities will support a programme designed to strengthen employers' organizations in improving workplace employment relations as a way of enhancing enterprise performance. The programme involves employers' organizations and, through them, their member enterprises' as it is at enterprise level that implementation will take place. The programme is expected to contribute to the development of new services by some employers' organizations and also enhance enterprise performance.

The present document is the result of collaboration between the Bureau and the Socio-Economic Institute of Firms and Organizations (ISEOR), which is a research centre associated with the University Jean Moulin Lyon 3. It is based on the premise, supported by ISEOR's research over the years, that organizations have significant hidden costs which are not reflected in formal documents such as the balance sheet of an enterprise. These hidden costs are often due to dysfunctions resulting from human-related problems. The diagnostic tools developed by ISEOR help to identify and act on the causes of these dysfunctions. This material is one of many training manuals which will be used in the Bureau's programme and it offers a number of important elements.

- The material is based on 35 years of ISEOR research carried out in a variety of organizations in different parts of the world; it thus reflects a wealth of experience. Though it does not deal directly with industrial relations, its relevance to improving human interactions in the workplace lies in the fact that it establishes a strong link between economic and social performance. The material makes a significant contribution to diagnosing and reducing human-related problems at the workplace.
- It provides evidence that the link between economic and social performance is central to enterprise performance in the short, medium and long term.
- It is particularly attractive to enterprises because the socio-economic approach to management diagnoses the hidden costs which are not reflected in the normal information system of an enterprise, and suggests means of reducing them.
- Quite apart from underlining the consequences of poor social performance, application of the methods developed by ISEOR will result in major productivity gains. As an essential component of competitiveness, this is an increasingly important area for employers' organizations. Consequently, the material contributes to fulfilling this need as well.

The capacity of ISEOR to prepare the material in English, French and Spanish enables it to be used in the different regions of the world where ILO operates and thereby to reach a wider audience.

It is recommended that before reading Part I, Appendix I be read in order to understand the origins of the socio-economic approach to management as created, developed and applied by ISEOR since 1973.

MAY, 2000

PART I

**WHY EMPLOYERS AND MANAGERS
NEED NEW FORMS
OF MANAGEMENT AND
SOUND WORKPLACE RELATIONS**

1

THE MAIN ISSUES FOR ENTERPRISES IN A COMPETITIVE ENVIRONMENT

1.1 The environment in which enterprises operate has changed

The rapid pace of change resulting from the new competitive environment, technological advances, and innovation have made many employers feel that it is increasingly difficult for their enterprises to survive and develop. Very often, their first objective is to cut costs in order to preserve their market share and profits. **However, such practices are not sufficient to remain competitive, mainly because enterprises sustain hidden costs and have untapped potential.**

This first chapter will explain why new management practices are required to foster proactive strategies in an environment of intense competition. We demonstrate that it is necessary to train management in new forms of leadership, which results in improved competitiveness and sound employment relations. These practices are based on the implementation of the Socio-Economic Approach to Management (SEAM), developed by the ISEOR Research Centre. The approach has been used in over 1,200 enterprises and organizations around the world spread out between 34 countries on 4 continents in to different activity sectors (industrial, tertiary, service) (for the origins of SEAM see Appendix 1).

In the past, enterprises evolved in a relatively stable environment. Even if greater pressure on price and growing demand for quality were observed, these constraints did not necessarily threaten the survival of the organization. In this context, failure or bankruptcy were due to serious managerial mistakes such as lack of cost control, or commercial mistakes arising from poor market analysis.

In recent years, employers have had to face puzzling and threatening phenomena. Even well-managed enterprises have experienced crises and even failure. Some management theorists have tried to explain these events as the result of an adaptation crisis which leads to a new economy¹, based mainly on intangibles such as training and communication. As with every transition to a new economy, some enterprises disappear to make room for new forms of business. The resulting «chaos»² is just a passing or transitional phase leading to a new management age. However, other theorists claimed that

¹ See in particular Hitt, M. ; Keats, B. ; Demarie, S. : *Navigating in the new competitive landscape* (Academy of Management Executive, Vol.12, n°4, 1998)

² See in particular Levy, D. : *Chaos theory and strategy: theory, application and management* (Strategic Management Journal, n°15, 1995)

the world is heading towards a more turbulent environment, marked by the «blur paradigm»³.

Paradoxically, globalization with its ensuing « hypercompetitiveness » has created an atmosphere of instability and economic anxiety which is considered a major threat for enterprises. Therefore, enterprises have to continually acquire and develop the necessary resources, and also implement effective management strategies to ensure their sustainable competitive potential in the short, medium and long term.

In this context, it is not sufficient for enterprises to adapt in order to survive. They must play an active role in change in the current turbulence. **Three major trends account for the present competitive environment :**

- **The growing evolution towards market globalization⁴ trend**, due to liberalization, internationalization of large enterprises, decrease in transport costs, and quick and easy access to information through the Internet. Fewer and fewer enterprises are protected from competition. This is already the case in industry and becoming increasingly true of services such as banking and insurance.
- **The growing pace of innovation.** This is illustrated by the timespan between fundamental innovations: over 8,000 years between metal tools and the steam boat, then 100 years till the widespread use of electricity, and 50 years to the microprocessor in 1971. Since then, a growing number of inventions in different sectors have changed the classical rules of competition. The pace of change in the technological area, especially in process automation, does not allow for catching up if the production system is not adapted. Technological innovations affect the product life cycle by shortening demand for the product and decreasing its price. The increasing pace of product change leads to the obsolescence of products and services⁵ and to the erosion of technical and competitive edge. Such erosion also results from the lack of legal protection, especially in the field of intangible assets. One of the major risks for enterprises is the substitution and growing obsolescence of products and technologies.
- **The third trend has affected society itself.** Social evolutions linked to urbanization and the development of new life styles lead to the death of industries. Urbanization has been accelerating; modifications to traditional values and changes in ways of life have been occurring. Major changes in dietary or clothing habits, in methods of transport (increasing use of cars), or in means of communication are altering consumption habits and, in turn, modes of production and distribution. The legal environment is also becoming more complex and, in most countries, managers can no longer ignore environmen-

³ Davis, S. ; Meyer, C. : *Blur* (Reading, Mass, Addison-Wesley, 1998).

⁴ Mohrman, S. ; Galbraith ,J. ; Lawler III, E. : *Tomorrow's organization* (Jossey-Bass Publishers, 1998).

⁵ Zardet, V., Coste, J.H., : *Building integrated hospital performance : Meeting the challenge of security, high quality, and cost-effective health care with socio-economic change process* (Lyon, ISEOR, 1999).

tal laws or health and safety regulations and norms⁶ with urbanization having such an impact on consumer habits, many craft workers cannot survive in the new environment. On the other hand, urbanization has promoted the development of new enterprises in the food and construction industries.

These developments should not be exclusively considered as threats; they are also opportunities for enterprises. Opportunities in the competitive environment arise from the following factors:

- Companies today have potential to grow nationally and internationally.
- The competitive environment has generated so many new customer needs that almost any enterprise can adapt by changing its original service or product.

New firms dealing with new technologies and the computer sciences are experiencing rapid growth, whereas others in traditional industries or services are suffering from decline whatever strategies they adopt. Therefore, new management practices need to be developed, such as entrepreneurship⁷, intrapreneurship and cooperation. New products have to be developed at an increasingly rapid pace in order to meet growing demand from the global market.

The growth of intellectual capital (and knowledge) has increased the opportunities for production and also for distribution, as traditional shops are disappearing in favour of supermarkets, franchised dealers and even mail order sales through the Internet. Such trends are more pronounced in the following circumstances:

- In transitional economies, the liberalization and privatization process is driving enterprises into a competitive environment. Yet the enterprises and their personnel are not equipped to operate in this environment, since they are not trained to adapt.
- In countries emerging from armed conflict, where activities need to be reoriented (e.g. switching from military to civilian activities), there is a lack of infrastructure and employees are in poor health.

⁶ On the complexity and evolution of the normative environment, see Savall, H., Zardet V., *Tétranormalisation : défis et dynamiques. _Tetranormalization: challenges and dynamics_*. Paris : Economica.

⁷ Bird, B.: *The Roman god Mercury: An entrepreneurial archetype*, *Journal of Management Inquiry*, (Sept. 1992).

1.2 Effects of the competitive environment on enterprises organization

In the environment in which enterprises now have to compete, new methods of management have emerged. These have the following major components:

- The search for growth and expansion, to reach a size compatible with the market of the « global village » (in other words, the whole world). Small enterprises in sectors such as automobiles or pharmaceuticals have had to face take-overs by larger firms. In some cases, small firms have lost their independence due to asymmetric power sharing between the partners.
- Focus on the core competencies⁸ of the firm, leading to outsourcing and a new division of tasks. At enterprise level, competency management keeps track of intellectual potential and increases it when necessary. It plays a major role in motivating the workforce. Many modern analyses of management stress the need for integrating employees in the implementation of strategies.
- The development of networks⁹ with an increasing number of partners, in the context of project teams and virtual organizations. New forms of organization are being developed such as virtual firms, fleeting project teams and so on. Networking flexibility refers to the ability of a firm's subunits to develop relationships with stakeholders to secure acceptance of the firm by these parties and improve customer satisfaction.
- Reorienting the organization to take account of customer needs. Reaction time is shortened, which leads to the creation of a lean organization. Such organizations orient their employees towards customers through Total Quality Management techniques. Quality management¹⁰ includes a business strategy centred on procedures and specifications on the one hand, and workers involvement on the other. To reach this goal, enterprises have to do more than simply comply with the certification process. They also have to abandon bureaucratic modes of work organization and replace them with proactive systems. Such systems give more power to customers, whether they are external or internal to the enterprise, through the implementation of a customer-supplier relationship within the enterprise.
- Improved competitiveness, which usually requires enterprises to compare their cost structure with the best performers in the industry. Benchmarking¹¹ is drawn from best practice analysis and can be defined as the search for superior performance by measuring an enterprise's performance indicators (process, team organization, costs) against those of the industry leaders.

⁸ Hamel, G.; Prahalad, C.K.: *The core competence of the corporation*, *Harvard Business Review* (May-June 1990).

⁹ Rockart, J.; Short, J : *The networked organization and the management of interdependence*, in Scott Morton M.S. : *The Corporation of the 1990's* (Oxford University Press, 1991).

¹⁰ See in particular Imai, M.: *Kaizen, the key to Japan's competitive success* (New York, Ramdon House Inc., 1986) and Jaco : *TQM : more than a dying fad ?* in *Fortune* (19th Oct., 1993).

¹¹ Camp : *Benchmarking : The search for industry best practices that lead to superior performances* (ASQC Quality Press, 1989).

- Cost cutting usually implies restructuring the organization and eliminating low value-added tasks. It refers to management practices such as reengineering¹² which aims to overcome the inertia generated by obsolete processes. It is especially useful for new product development or consumer services in industries facing dramatic change in their competitive environment (e.g. substitutes for the current products or pressure from new competitors)¹³. Enterprises also reduce the number of hierarchical levels (delaying) in order to cut costs and reduce obstructions to communication within the enterprise.

The following chapters demonstrate that a lack of managerial effectiveness results in high dysfunctional costs and lost opportunities, which affect enterprise performance and threaten organizational survival or development.

¹² Hammer, M. ; Champy, J. : *Re-engineering the corporation* (Harper Collins, 1993).

¹³ Porter, M. : *The competitive advantages of the nations* (Basingstoke, 1990).

2

NEED FOR NEW MANAGEMENT SKILLS

2.1 The increasing need for new forms of leadership

In the new economic environment, enterprises are facing increasing complexity in their information and decision-making systems: for instance, the development of a new product in a mechanical company will need a minimum of 14,000 contacts and transactions. Such complexity is no longer compatible with a traditional centralized style of management and leadership. But decentralization is also difficult because the various stakeholders are influenced by their own values, rationales and objectives. It is thus necessary to combine the advantages of decentralization with those of synchronization to focus all the efforts of the workers on strategic targets.

This requires a management style based on teamwork, involvement and empowerment, training, communication and negotiation. It is also vital to secure acceptance by all the actors involved in organizational change and to improve the level of skill.

ISEOR studies have demonstrated that the absence of this form of leadership results in dysfunctions, because of the informal power of the participants actors throughout the enterprise. For instance, employees may avoid giving valuable information that would have allowed the enterprise to win a client because they are not satisfied with their working conditions. Such behaviour is a symptom of underlying resentment towards the enterprise, although there is no direct evidence of it. Other examples are collective resistance to change during a strategic turnaround or reluctance to innovate, although the enterprise needs to launch new products.

2.2 Effects of inappropriate management methods

Facing a strategic threat management's first response is to control costs, especially wages, because these often represent a high percentage of costs. However, the experiments conducted by ISEOR in various enterprises have demonstrated the limits of such a response in the new economic environment.

- Even if lay-offs enable an enterprise to reduce some visible costs, they also entail side effects¹⁴. The ISEOR database shows hidden costs increase due to dysfunctions linked to loss of know-how, disorganization and a decrease in confidence. Moreover, lay-offs are not sufficient by themselves to reorient the enterprise towards implementing new high value-added tasks.
- When employees are underpaid, perhaps by exploiting the gap between male and female wages, it can increase short-term control of costs and lead to

¹⁴ Bonnet, M. ; Coste, J.H. : *Managing post-downsized organizations : Toward a more comprehensive managerial consulting approach based on socio-economic experiments* (Academy of Management Meeting, San Diego, 1998).

good results in the short run. But it does not encourage creativity or promote innovation.

- When underpaid children are illegally employed by enterprises to perform simple tasks, it can lead to short-term savings, since no investment is made in automation. However, such a practice is not sufficient to develop medium range competitiveness. Indeed, globalization enables competitors in the same country or in other countries to automate their production and lower their production costs.
- ISEOR has also observed that child labour cannot cope with the growing complexity of tasks required by a competitive environment. Further, the boycott of goods produced with child labour results in commercial set-backs¹⁵.
- Autocratic styles of management may improve productivity in the short run, but this is offset by an increase in dysfunctional costs in the medium and long term. Dysfunctional costs take the form of low quality, absenteeism, customer dissatisfaction, and increased resistance to innovation and change. Authoritarianism enforces formal rules and behaviour, but workers often adopt informal modes of resistance which cause the enterprise strategy to fail. Change can lead to the creation of a shadow organization (increasing rather than solving problems), in which low value-added tasks and processes cannot be reduced; they may even destroy value added.

2.3 New leadership skills required

In order to survive and develop in this new competitive environment, the core management skills should consist in shifting the enterprise from low value-added tasks to high value-added activities. The competitive environment requires enterprises to define new strategic targets, creating new activities and new tasks to upgrade the organization performance. Simultaneously, the enterprise has to do away with obsolete tasks which add little value. Achieving such a transformation is called « strategic implementation »¹⁶. In the past, this was not as difficult as it is today, because competition has never been as fierce as it is now. Executives did not need specific skills in the management of change and they were often unaware of leadership skills.

Figures 2.1.a and 2.1.b indicate the requirements for change.

¹⁵ See Savall, H., Zardet V., *Tétranormalisation : défis et dynamiques. [Tetranormalization: challenges and dynamics]*. Paris : Economica.

¹⁶ Péron, M.; Savall, H., : *How to negotiate possible obstacles between academics and practitioners : Consultancy as a scientific research tool in management: case studies* (Lyon, ISEOR, 1999, forthcoming). See also Savall, H.; Bonnet, M. ; Moore, R. : *In search of an integrated approach to management interventions* (Chicago, Academy Of Management Conference, 1998).

Figure 2.1.a: Requirements for upgrading activities in a competitive environment

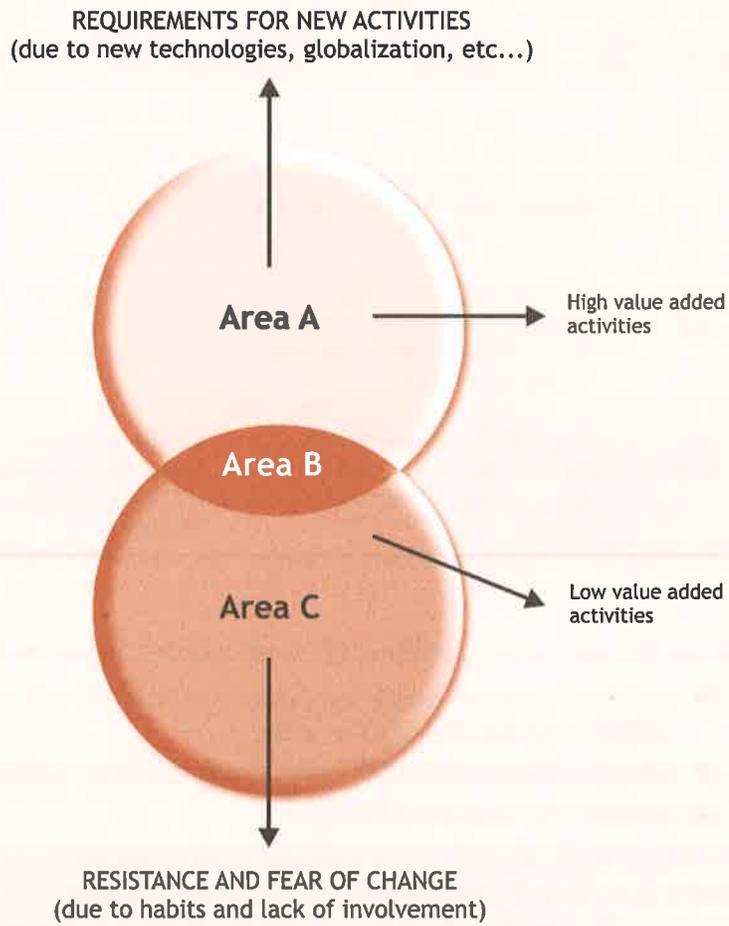


Figure 2.1.b: New management skills required to implement strategy in a competitive environment

Areas	Value of the activities and tasks	Skills required of managers
A	High value added activities and tasks to be undertaken in order to become more competitive e.g. teamwork to finalize a product.	Ability to define the strategy and to implement it through new activities and tasks.
B	Current high value added tasks and activities which contribute to the value added of the enterprise.	Ability to improve the efficiency of current high value added activities.
C	Current low value added tasks and activities which have to be eliminated to cut costs.	Ability to pinpoint the low value added tasks and overcome resistance and fear of change.

Let us take the example of a bakery which faced intense competition and had to:

- spur innovation and create new products in order to meet customer needs, using the highest level of value added ;
- reduce production costs of the current product in order to attract customers ;
- abandon low value added tasks.

Some products and tasks had to be abandoned while others continued to be competitive. At the same time, the enterprise had to create new products to improve customer service and observe just-in-time delivery deadlines. In order to upgrade the organization, management had to develop new skills to:

- define the new objectives and specific tasks to be achieved, e.g. participating in a group devoted to a new product development ;
- pinpoint tasks which have to be eliminated, such as packaging which could be automated ;
- train teams to use new machines and adopt new methods and procedures ;
- demonstrate the advantages of the new organization of work which means involving themselves in different tasks ;
- negotiate the effort needed to learn more complex procedures in the production process ;
- reorient the enterprise towards new activities e.g., monitoring new technological developments by participating in trade shows.

Through these means, managers have to become more open to the environment¹⁷ and spend more time outside the enterprise, especially with customers. The expected results of the socio-economic intervention were to double the profit margin and to improve the strategic position of the enterprise. This case study illustrates how better leadership practices contributed to proactive behaviour in the enterprise and to a new competitive organization. It also indicates that employers and managers should develop three main skills:

- the ability to define strategy and implement it ;
- the ability to improve the efficiency of current high value added tasks ;
- the ability to identify low value added tasks and to overcome resistance and fear of change through greater worker involvement and sound employment relations.

¹⁷ D'Aveni, R.: *Hypercompetition: Managing the dynamics of strategic maneuvering* (New York, Free Press, 1994).

3

HOW SEAM CAN ENDOW EMPLOYERS AND CEOs WITH NEW SKILLS REQUIRED BY THE COMPETITIVE ENVIRONMENT

3.1 Brief presentation of the SEAM¹⁸

The Socio-Economic Approach to Management (SEAM) was created in order to monitor the time needed to transform an enterprise in a new competitive environment. The basic assumption¹⁹ is that employees in an organization exercise their informal power either to slow down or to accelerate the pace of change. The SEAM demonstrates that there is always a difference between the situation expected by the actors (employees, managers, customers, shareholders) and the actual situation. This difference stems from the following six dysfunctions (as illustrated by the example of a bakery):

- **Working conditions:** because of flimsy partitions between offices, some employees used to disturb their colleagues who needed to concentrate on the development of new products.
- **Work organization:** procedures were not meeting customer quality requirements, which were increasingly demanding.
- **Communication-coordination-cooperation:** lack of communication between the marketing and R&D departments resulted in lengthy delays in the creation of new products.
- **Time management:** managers and supervisors spent more time on routine tasks than on development activities.
- **Integrated training:** employees were not adequately trained in new production techniques.
- **Strategic implementation:** participants were not clearly aware of the development activities and tasks to be undertaken.

These dysfunctions resulted in the identification of five main categories of hidden costs:

- **Absenteeism:** when a machine operator was absent, the machine was not used. This reflected the cost of not having multi-skilled workers.
- **Occupational injuries and diseases:** because of inadequate attention to safety rules, unnecessary accidents and diseases occurred, resulting in hos-

¹⁸ See Appendix 1: The history of SEAM.

¹⁹ The main characteristic of this assumption is that it links the social and economic performance of the enterprise, whereas many other management theories analyse these two aspects separately. Our studies often show that cost-cutting programmes may have side effects on structures and behaviour which harm implementation of the strategy and result in higher hidden costs.

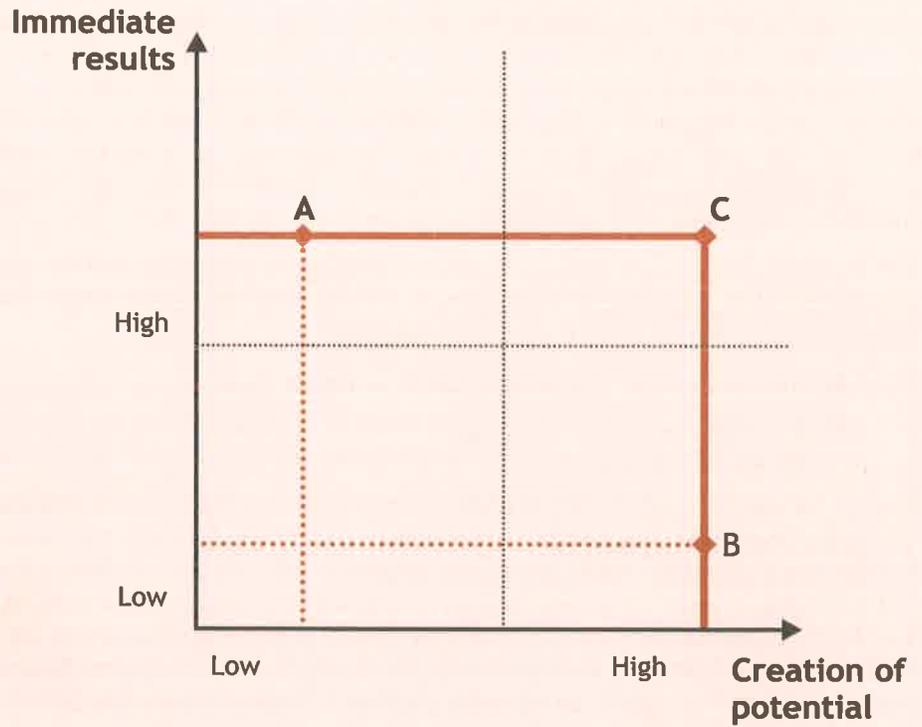
pitalization costs and the risk of having to pay compensation and higher contributions.

- **Staff turnover:** some highly qualified employees left the enterprise because they had been offered better wages by competitors. The enterprise had to spend a substantial amount of time and money on recruiting and retraining employees.
- **Nonquality:** through lack of knowledge of procedures and inadequate training, customer complaints led to commercial set-backs and product rejection.
- **Direct productivity gaps:** in the case of two shift teams, employees used to avoid starting a new product at the end of their shift, which caused delays in the following shift, producing a domino effect.

These hidden costs were evaluated through the assessment of cost components such as overtime to cover absenteeism, or non-production hours due to delays in launching products, and waste of resources due to quality defects. **In this particular case, the costs represented the equivalent of 35 percent of the payroll.** An in-depth analysis showed that the main reasons for all these dysfunctions were a combination of unsuitable structures and inappropriate behaviour within the enterprise (See Appendix 1):

- The structures should include all the resources available for the activity: physical (facilities), technological (know-how, equipment), demographic (breakdown by age-groups, seniority, qualifications, gender), organizational (organization figures, procedures, hierarchy, project team, working groups) and mental (intellectual “capital”, values, skills).
- Behaviours should take account of different factors: individual targets, work group professional categories, pressure groups, collective habits. For example, front line managers in the bakery must integrate different targets - their own and also the objectives of the enterprise as a whole.

Figure 3.1 shows the analysis of structures and behaviours in this enterprise.

Figure 3.2: The two dimensions of economic performance

We will next examine how to train managers in the skills needed to avoid dysfunctions and increase both immediate results and the creation of potential. The SEAM includes three main dimensions: the process of improvement (cyclical), the management tools (permanent) and the strategic and political dimension (periodical).

3.2 Training managers in leadership skills through the socio-economic process of improvement

The process of improvement aims to help the enterprise upgrade its activities, as illustrated in figure 2.1.a. It consists of four stages which lead to a continuous improvement process.

3.2.1 The four stages of the process of improvement

Socio-economic diagnostic

The diagnostic consists of an inventory of dysfunctions throughout the enterprise and an evaluation of their financial consequences. This diagnostic helps management to identify two kinds of financial impacts of the dysfunctions:

- The avoidable costs due to the low value added tasks, such as rectifying quality defects. In the bakery, 45 percent of machine time was spent recycling products which did not meet quality standards.
- The nonproducts (loss in earnings) and the inadequate creation of potential due to a poor implementation strategy. Delays in improving products resulted in loss of sales by at least 10 percent for one of the products of the bakery.

The socio-economic diagnostic is presented first to top management and executives then to shop-floor workers. It shows both the dysfunction costs and the reasons given by the participants to account for them. This is called a « mirror effect », because it clearly reflects the dysfunctions and highlights the improvements that the enterprise needs to make.

The diagnostic sensitizes managers to the dysfunctions of the enterprise and to the improvements required. It helps them understand that it is not sufficient to focus exclusively on visible costs; it is necessary to pay more attention to hidden costs and untapped potential. Eventually, it helps all the employees to see the need for change. Such a diagnostic reveals the importance of the informal power of the actors. It makes it possible to link the financial consequences of the dysfunctions to the lack of management skills and points to the need for sound employment relations in the workplace.

Socio-economic project

The project is based on the diagnostic and aims to prevent dysfunctions rather than correct them in a repetitive manner (principle of prevention). The project helps construct an improved way of functioning. It involves management in teamwork and finding creative ways to avoid dysfunctions. Tailor-made solutions are devised by all participants and then synchronized in order to be consistent with strategy implementation. The socio-economic project group method combines employee participation with a certain level of guidance to favour a « disciplined creativity ». Indeed, ISEOR has observed improvement actions in many enterprises which have not been synchronized between the different parts of the organization. These uncontrolled actions result in a waste of time and energy. For example, in an industrial company, it is useless to im-

prove a product if the sales department is not involved because the improvements may not entirely meet customer needs. The socio-economic project method may thus be considered as in-house retraining for managers.

Implementation of the socio-economic project

This stage consists of planning and implementing the different improvement actions designed during the project phase. It relies on project management methods to operationalize the plan. The implementation process helps management obtain a better balance between day-to-day activities and development actions. Implementation requires monthly feedback meetings in order to ensure that there is no delay in the improvement schedule, which requires some « coaching » on behalf of management to accelerate the pace of change.

Evaluation of the socio-economic results

The evaluation compares the inventory of dysfunction costs found in the diagnostic phase and those measured after a one-year period. It allows the results of the improvement actions to be assessed on the basis of qualitative, quantitative and financial data. It also reveals what is still left to be done, and it shows the financial effects of the improvement process on the performance of the enterprise. Evaluation is also a means of changing the way the enterprise is seen by management and of discovering that a new management style based on leadership and sound workplace relations is more efficient than traditional styles. An example of evaluation is seen in the case of the bakery in the improvement actions aimed at implementing multi-skills in a ten-person team. Figure 3.3 illustrates the cost of the action including training time (30,000 euros), resulting in an increase in productivity and allowing more sales and bigger profit margins, estimated at 125,000 euros.

Figure 3.3.: Example of economic balance of a socio-economic project concerning training in multifunctional skills of a ten-person team

COSTS		PERFORMANCES	
Training time	30,000 euros	Increase in productivity	125,000 euros
Result in the first year	95,000 euros		
(and intangible investment pay-back within less than one year)			

This example also demonstrates that the hidden value of a development task may be overlooked: e.g. investing in employee training may be a cost but it may improve performance in the short run and be an asset in the long run.

3.2.2 How to implement the improvement process: The “HORIZONTAL and VERTICAL” method (HORIVERT)

Change management experiments show that the actions to improve the different parts of the organization should be linked. This means integrating all the parts into a common structure known as the Horizontal-Vertical (HORI-VERT) method in the SEAM. This method comprises two simultaneous actions - a horizontal and a vertical one:

- **The horizontal action** is aimed at the management team and the executives of the firm. It helps to change the organization and improve cooperation between the different departments. An example would be a new method adopted in a chemical company to reduce delays in responding to customer requests.
- **The vertical action** is aimed at workers, employees, technicians and supervisory teams in the basic units (workshop, service, agency), in order to enhance empowerment at all levels. It focuses on integrated training to improve the skills of the personnel.

This method is illustrated in the chemical company referred to above, where horizontal and vertical actions were synchronized. At horizontal level, the top management initiated a policy to increase awareness of the technical and commercial environment: they called this an indicator of vigilance. All departments were involved in this process at vertical level: many employees, sales representatives and front line managers were given tasks to perform and objectives to reach in the fields for which they were responsible.

3.3 Socio-economic management tools

The purpose of these new tools is to give management the means to continuously upgrade the organization so that it can handle high value added tasks and activities. There are six main management tools.

- **Internal/External Strategic Action Plan:** To list and classify the strategic initiatives that the firm wishes to undertake in the medium term (3 to 5 years) as a sort of master plan. This serves as the basis for planning actions to achieve the strategic objectives of the enterprise. This three-to-five year plan gives management and employees a clear idea of what is important for the development of the company and their role in the overall plan. For example, in the bakery, all participants are aware of the stake they have in the freshness of the products because this criterion ranks first in the strategy of the enterprise and in customer requirements.
- **Priority Action Plan (half-yearly):** To continuously identify the new high value added tasks which are to identify the low value added tasks, the SEAM recommends a Priority action plan (PAP) to be implemented. This consists of planning all the development actions to be implemented in the enterprise and each of its departments. These development actions are targeted at implementing the strategic objectives and at preventing dysfunctions.

- **Competency grid:** To train employees and to enable them to gain efficiency in their new activities, the SEAM proposes a management tool called the « Competency grid ». This helps the managers identify the training needed.
- **Time Management:** To eliminate time spent on low value added tasks and to devote more time to development actions, management needs new tools which accurately schedule development actions, help get rid of low value added tasks and avoid wasting time.
- **Strategic Piloting Indicators (or Strategic Piloting Logbook):** To measure the results in terms of the value created through management changes, strategic piloting indicators must be used. They include improvement indicators for the immediate results as well as for the creation of potential gains. The immediate results mainly stem from a decrease in hidden costs and from increased sales and profit margins. The creation of potential gains (future economic results, either probable or certain) stems from improvement actions such as the finalization of new products or an increase in skills and knowledge potential.
- **Periodically Negotiable Activity Contract:** To negotiate the additional effort required to implement new activities, management needs a tool called a periodically negotiable activity contract. This gives managers and employees more room to negotiate performance improvement.

3.4 Political and strategic decisions

In order to give a structured framework to the improvement process and to the implementation of management tools, it is necessary that the senior management team make several crucial policy decisions. These decisions concern the structures of the enterprise (e.g. technological choices) and behavioural ethics (e.g. expectations of the personnel so as to ensure equity).

4

NEED FOR A NEW APPROACH TO MANAGEMENT

Chapters 1 to 3 (Part I) presented the context of the new competitive environment and the rationale for training employers, managers and employees in a Socio-Economic Approach to Management (SEAM).

We demonstrated the need for both an internal and external strategy to achieve sustainable development, involving the human potential by promoting sound workplace relations.

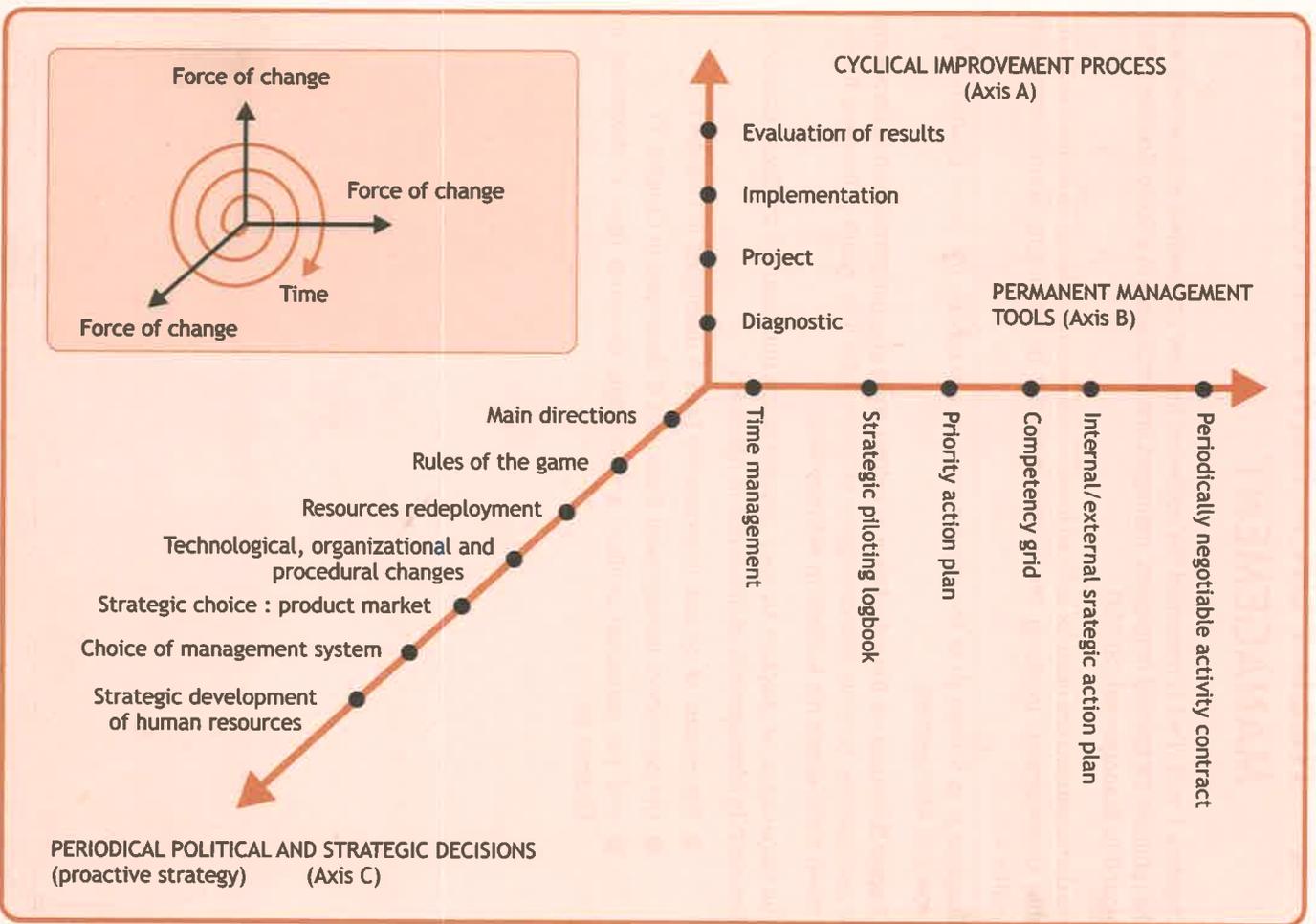
Chapters 5 to 9 (Part II) of the training material will explain the Socio-Economic Approach to Management.

Chapter 5 focuses on the calculation of hidden costs and performance; it is necessary to calculate the possible economic gains or losses to be fully aware of the need for improved socio-economic leadership management.

The following three chapters are each devoted to one dimension of the Socio-Economic Approach to Management as illustrated in figure 4.1 :

- the process of cyclical improvement (axis A developed in Chapter 6),
- the permanent management tools (axis B developed in Chapter 7)
- and the periodical political and strategic decisions (axis C developed in Chapter 8).

Figure 4.1: The three axes of the socio-economic intervention dynamics





All these points will be exemplified by case studies based on ISEOR's experiments with enterprises. They include public and private companies, large and small firms and enterprises in different parts of the world. Among the enterprises there are some bakeries. ISEOR has been experimenting with the SEAM in one of these bakeries since 1984, and the experience is presented as a case study.

This company produces sweet-rolls and croissants and was created in 1978. By 1984 it had 240 employees and 3,300 in 2007. The company was quoted on the stock exchange in 1986 and its stocks have been among the best performing in Europe according to a survey conducted by the Boston Consulting Group in 1997. This survey showed an average increase in share value of 35 percent per year over the last ten years, which allowed the company to rank first for lasting creation of value for shareholders. According to the CEO, these outstanding results have been due to the efforts of the management teams and other personnel, and to the ISEOR intervener-researchers who transferred it and adapted it to the company context.

We will draw on many examples from this particular case study because they clearly illustrate the theory of the SEAM and may be considered as a story line. This does not mean that the SEAM method is limited to one particular kind of enterprise, because all the principles which are exemplified in specific contexts have been applied and studied in all types of enterprise and organization.

PART II

HOW THE SEAM INTERVENTION RESULTS IN RELEASING HIDDEN POTENTIAL OF COMPANIES AND ORGANIZATIONS THROUGH TRAINING IN NEW MANAGERIAL SKILLS

5 HIDDEN COSTS AND HIDDEN PERFORMANCE

5.1 Definitions and examples

The aim of this chapter is to present the concepts of hidden costs and hidden performance, demonstrating that these are high in any kind of enterprise. We will illustrate the hidden costs and performance and explain how to pinpoint these phenomena and control them.

5.1.1 Hidden costs and hidden performance considered as an inseparable duo

Figure 3.1 has shown that organizational performance can always be upgraded because there is always a difference between what the actors (employees, managers, customers, shareholders) expect and what actually occurs. Hidden costs reveal the exercise of the informal power of employees through dysfunctional behaviour. There are six dysfunctions: working conditions, work organization, communication-coordination-cooperation, time management, integrated training and strategic implementation. These dysfunctions result in costs which are not always visible, which means that:

- There is no specific heading to record the cost in the accounting system of the enterprise (e.g. a cost linked to client dissatisfaction).
- There is a specific account to record the cost but it is not assessed. For example, there is an account for absenteeism but the complete cost of absenteeism is not assessed.
- The cost is assessed but no action is taken to reduce this cost e.g. some enterprises try to estimate the cost of nonquality but they do not try to reduce this cost through concrete actions.

Consequently, hidden costs are not identified, quantified or controlled by classical information systems such as budget, general or cost accounting. Hidden costs are distinct from the visible costs which fall under specific headings for accounting purposes, such as labour costs or raw material expenditures. Thus, hidden costs cannot be measured or controlled with classical managerial tools.

Hidden costs are high in all organizations even in the better performing ones ; they often amount to the payroll costs of the enterprise. The aim of estimating hidden costs is not to judge the enterprise's performance but to help it to upgrade its management and its potential through a learning process. One major difference between a long-term performing enterprise and a short-term performing one is that the latter does not control and prevent its hidden costs.

PART II

**HOW THE SEAM INTERVENTION RESULTS
IN RELEASING HIDDEN POTENTIAL OF
COMPANIES AND ORGANIZATIONS
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5

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Hidden costs are high in all organizations even in the better performing ones ; they often amount to the payroll costs of the enterprise. The aim of estimating hidden costs is not to judge the enterprise's performance but to help it to upgrade its management and its potential through a learning process. One major difference between a long-term performing enterprise and a short-term performing one is that the latter does not control and prevent its hidden costs.

**Hidden costs fall into two categories:**

- They are sometimes incorporated in visible cost accounts, but are then diluted among various operating expenses and hang heavily on the debit side of the income statement. This is so, for instance, in the case of penalties for late delivery which appear as « contingencies ».
- They may be left unrecorded in visible cost accounts. They are then considered as lost earnings assessed in terms of destruction of value added. This type of cost has a negative effect on the credit side of the income statement.

Hidden performance can in turn be considered either as the reduction of hidden costs or as the creation of potential gains which have not been measured. The usual indicators do not take hidden performance into account, because they focus on immediate results. This is detrimental to a balancing long-term and short-term management. Chapter 3 has shown that there is a trade-off between immediate results and the creation of potential gains. The SEAM puts an enterprise on a development path where the reduction of hidden costs and the identification of hidden performance are critical.

5.1.2 Examples of hidden costs

A fishing company attempted to protect its market share by reducing the price and the quality of the products sold (see figure 5.1). This was based mainly on the reduction of supply costs which meant that the company bought poor quality fish (see figure 5.1 period A). This resulted in hidden costs because in the following year some clients stopped buying from this company. To address this, managers developed a new strategy based on the development of quality (e.g. absence of germs) with a high level of health safety. This resulted in a conversion of hidden costs into value-added due to an increase in client confidence, which is not visible in the accounting system and which can be considered as hidden performance (see figure 5.1 period B).

Figure 5.1: Hidden costs and hidden performance in a fishing company

	PERIOD A	PERIOD B
VISIBLE COSTS AND PERFORMANCE	Cut in visible costs due to a reduction in supply costs: + 500,000 euros	Increase in visible performance due to increase in quality: - 1,000,000 euros
HIDDEN COSTS	Increase in hidden costs due to customer dissatisfaction: - 4,000,000 euros	Cut in hidden costs due to an increase in customer loyalty: + 5,000,000 euros
OVERALL PERFORMANCE	Reduction of profit margin: - 3,500,000 euros	Increase in profit margin: + 4,000,000 euros

This example illustrates that cutting visible costs can result in higher hidden costs and a decrease in the profit margin. To assess hidden costs, ISEOR has developed a model which links the dysfunctions to several indicators and components as illustrated in figures 5.2.a and 5.2.b. This grid was designed to represent the hidden costs, the dysfunctions and the financial impact of the dysfunctions. Appendix 5 presents examples of assessment of the five main indicators of hidden costs.

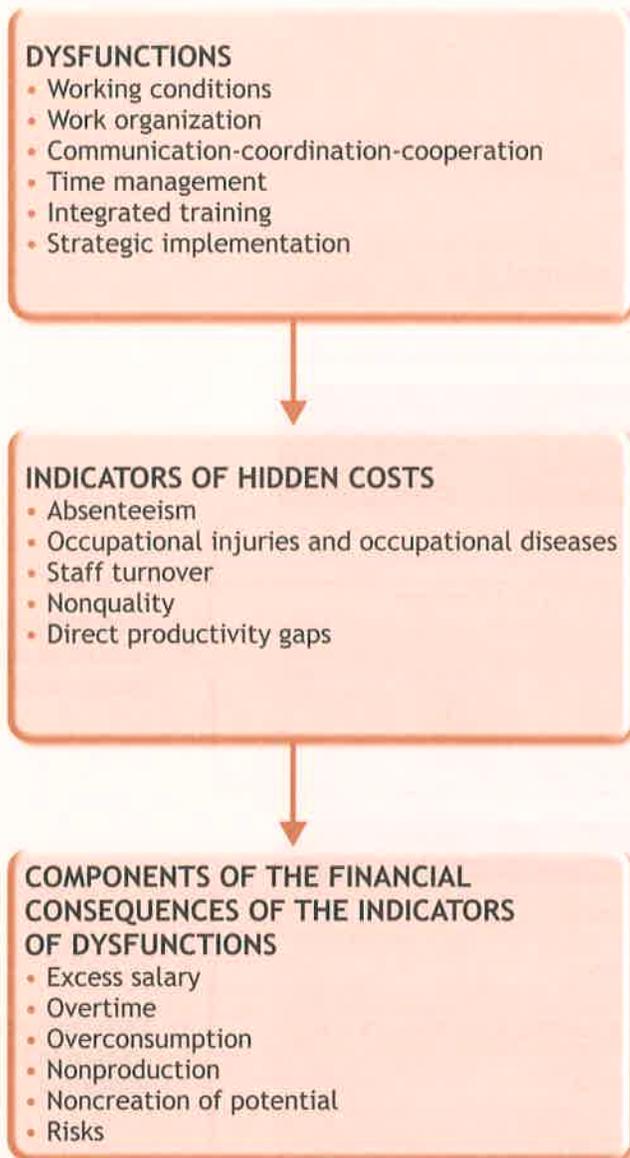
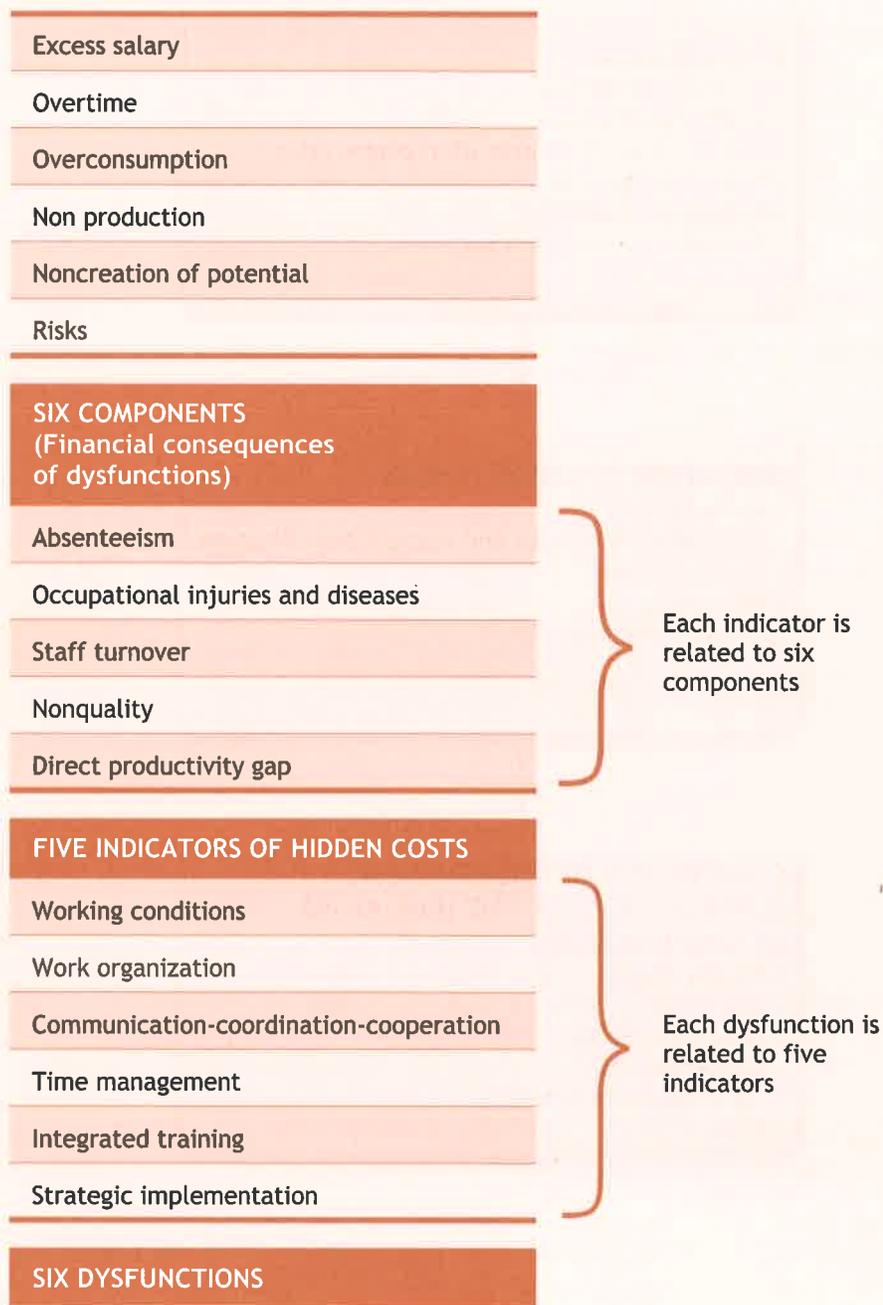
Figure 5.2a: Dysfunctions and hidden costs

Figure 5.2.b: Link between the dysfunction indicators and the components of financial consequences



5.2 How to calculate hidden costs

5.2.1 Hidden costs may be calculated in any kind of enterprise

The following examples illustrate dysfunction costs in different regions of the world. They represent a sample of ISEOR database which shows that there are various kinds of dysfunctions and hidden costs, but that all types of organization are affected.

Example of a fruit juice company (see figure 5.3)

In a fruit juice company, production was frequently disrupted because of delays in the supply chain of fruit due to vehicle breakdown. The **direct productivity gaps** resulting from this disruption was analysed as a nonproduction. Due to the breakdown of delivery trucks, production stopped for an average of two days per month. A total of 2.640 hours (8 hours x 2 days x 15 employees x 11 months) were lost one year, a cost equivalent to 11 percent of the payroll. This example illustrates that hidden costs may have an external cause (breakdown), but they are usually worsened by internal factors (no brick-up truck in this case).

Figure 5.3: Hidden costs analysis in a fruit juice company

Dysfunction cost observed	Frequency	Reasons for the dysfunction	Components of the financial consequences
Production stoppage (<i>nonproduction</i>)	Two days per month	The fruit was picked too late resulting in stock shortage (<i>time management</i>) Low quality of fruit due to the supplier (<i>strategic implementation</i>) Breakdown of the delivery trucks due to lack of preventive maintenance (<i>work organization</i>)	Loss of production for two days per month, which adds up to : 2 days x 8 hours per working day x 15 employees x 11 months = 2,640 hours which represent a cost equivalent to 11 percent of payroll (<i>nonproduction</i>)

Example of a maintenance company (see figure 5.4.)

In a maintenance company, supervisors spent most of their time on jobs which should have been done by less qualified staff. This resulted in excess salary (the differential between the wages of supervisors and those of less qualified staff). The supervisors thought they were creating a substantial amount of value added when they worked 12 hours a day, but they were not aware of the costs linked to shifts in functions (the cost was equivalent to 11 percent of the payroll). The value added to the company depends on the relevance of the work, not on the time spent working. This example reveals the need to link strategy to the high value added activities which should be performed by managers and supervisors.

Figure 5.4: Hidden costs analysis in a maintenance company

Dysfunction cost observed	Frequency	Reasons for the dysfunction	Components of the financial consequences
The supervisors spent most of their time on jobs which should be done by less qualified staff <i>(excess salary)</i>	70 percent of their time	Lack of staff training <i>(integrated training)</i>	excess salary equivalent to 11 percent of the payroll <i>(excess salary)</i>
		Lack of scheduled activities <i>(time management)</i>	Non-creation of potential gains : there are delays in improving the equipment, which in turn affects future turnover <i>(noncreation of potential)</i>

Example of a furniture company (see figure 5.5)

In a furniture company, 30 percent of the managers' time was spent on dealing with absenteeism problems. The **high rate of absenteeism** (12 percent) was due to the lack of empowerment of the personnel and to an inappropriate pay and rewards system. Absenteeism resulted in delivery delays and disruption to the organization. This led to a loss of production equivalent to 24 percent of capacity, resulting in a financial loss equivalent to 32 percent of the payroll.

Figure 5.5: Hidden costs analysis in a furniture company

Dysfunction cost observed	Frequency	Reasons for the dysfunction	Components of the financial consequences
High rate of absenteeism resulting in delivery delays and disruption to the organisation <i>(absenteeism)</i>	Absenteeism rate of 12 percent	Health problems <i>(working conditions)</i> Inappropriate pay and rewards system <i>(strategic implementation)</i>	30 percent of management time was spent on dealing with absenteeism problems <i>(overtime)</i> Loss of production assessed at 24 percent of capacity, resulting in a cost equivalent to 32 percent of the payroll <i>(nonproduction)</i>

Example of a chemical company (see figure 5.6)

In a chemical company, **delays in launching a new product** affected enterprise performance. On average, it took two years to finalize a product while competitors only needed one. This was because the company did not invest enough on updating equipment and training employees. Moreover, the lack of cooperation among the different departments, the fact that the strategic objectives were not clearly defined and the reluctance to change increased the risk of losing customers. Consequently, the destruction of value-added on sales (for a one-year period) was calculated at 64 percent of the payroll. This example illustrates that cutting visible costs is sometimes useless when the result is a failure to create value.

Figure 5.6: Hidden costs analysis in a chemical company

Dysfunction cost observed	Frequency	Reasons for the dysfunction	Components of the financial consequences
Delays in launching a new product (<i>nonquality</i>)	On average, it took 2 years to finalize a new product while competitors took only one year	Lack of cooperation between the R&D, marketing, and production departments (<i>communication-coordination-cooperation</i>)	Loss of margin on sales during one year equivalent to 64 percent of the payroll (<i>nonproduction</i>)
		Reluctance to change (<i>strategic implementation</i>)	Risk of a competitor cornering the market, which would result in loss of customers (<i>risks</i>)
		Strategic objectives did not clearly show priorities (<i>strategic implementation</i>)	

Example of an electronic components company (see figure 5.7)

In an electronic components firm which had relocated some of its functions to another country, **non-productive tasks** accounted for 25 percent of the activities. As the company suffered from overcapacity but was reluctant to downsize, the manager tried to occupy employees with low value added tasks. It would have been better to create high value added tasks such as retraining courses, which would contribute to the company's economic recovery in the future through the creation of new activities. On the contrary, employees were discouraged as they realized that the tasks assigned were useless. The cost of the non-productive tasks was estimated at 35 percent of the pay-roll.

Figure 5.7: Hidden costs analysis in an electronic components company

Dysfunction cost observed	Frequency	Reasons for the dysfunction	Components of the financial consequences
The company had relocated some of its high value added tasks to another country, leaving only low value added tasks to be performed in the original location <i>(direct productivity gaps)</i>	25 percent of the activity was affected	New assignments for employees were not ensured <i>(work organization)</i>	Non-production representing 35 percent of the pay roll <i>(non production)</i>
		Lack of retraining <i>(integrated training)</i>	Risk to maintain low value added tasks <i>(risks)</i>

5.2.2 The five main indicators of hidden costs

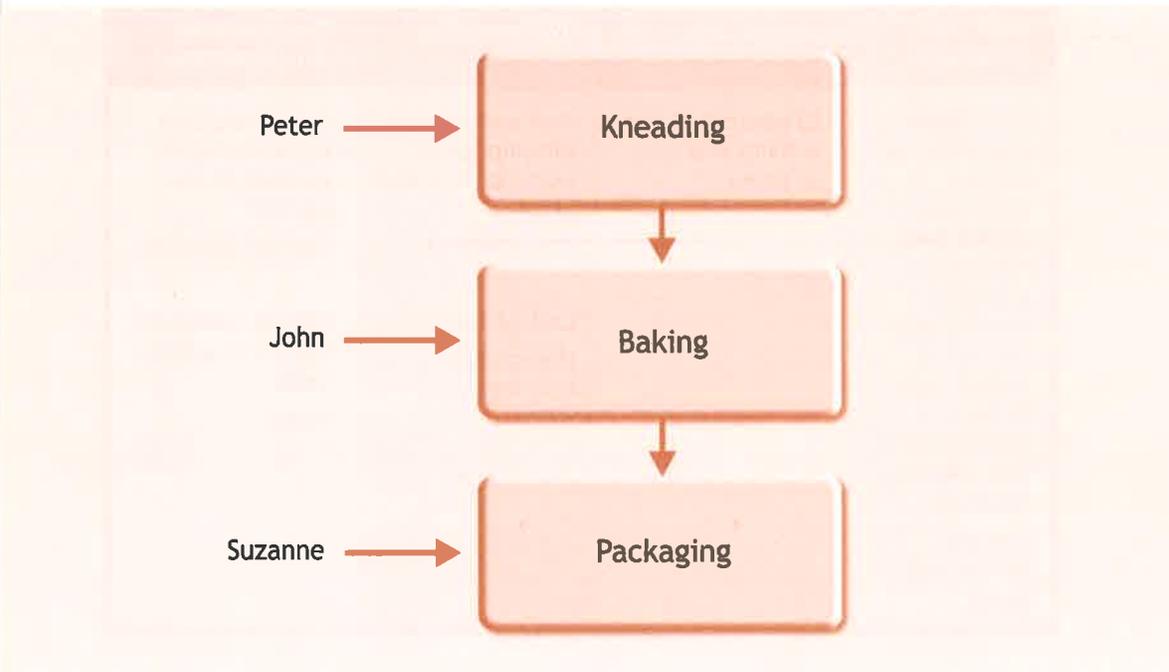
Hidden costs are identified through five indicators: absenteeism, occupational injuries and diseases, staff turnover, nonquality and direct productivity gaps.

Absenteeism (see figures 5.8 and 5.9)

Absenteeism in a bakery: the cost preventing absenteeism would have been much lower than the cost of accepting it. The following example shows how to estimate the hidden costs linked to absenteeism.

The production line was divided into three different operations. First the dough was kneaded, then it was baked and the product was finally packaged. This process required three different employees as shown in figure 5.8.

Figure 5.8: Production process in a bakery



After an argument with his supervisor, Peter decided to take sick leave for a week. In his absence, John and Suzanne were asked to perform Peter's work for which they were not trained. Figure 5.9 gives a financial evaluation of the result of absenteeism. In this case, the cost was equivalent to 4 months of Peter's salary.

Figure 5.9: Evaluation of the cost of absenteeism in a bakery

Organizational impact	Components of the financial consequences
Line start-up delayed	Nonproduction
Time spent by management reorganizing the line	Overtime
Bonus given to Suzanne and John	Excess salary
Inappropriate use of ovens	Overconsumption
Line production below normal	Nonproduction
Risk of losing customers	Noncreation of potential

Occupational injuries (see figure 5.10)

In a building company, the manager believed that the costs of health care and compensation due to industrial injuries were supported mainly by the state. In fact, an in-depth investigation has demonstrated that the hidden costs were much higher than the visible costs of an accident prevention programme. The costs linked to industrial injuries consisted of the cost of production disruption and the company's contribution to the National Health Service. The economic impact of industrial injuries on this building company can be assessed as shown in figure 5.10.

Figure 5.10: Evaluation of the cost of occupational injuries in a building company

Dysfunction cost observed	Frequency	Reasons for the dysfunction	Components of the financial consequences
High rate of sick leave due to occupational injuries	15 times a year	Safety rules are not applied or non-existent <i>(work organization)</i>	Sick leave due to accidents disrupts the organization of the construction site and causes delays. The cost is equivalent to 14 percent of the payroll <i>(nonproduction)</i>
Serious and even fatal accident <i>(occupational injuries)</i>	3 times a year	Lack of safety equipment (ropes, hard hats, gloves) <i>(working conditions)</i>	Payment of compensation to incapacitated workers, in addition to social costs involved <i>(noncreation of potential)</i>

Staff turnover in a metal casting company (see figure 5.11)

Because of a temporary slump, this metal casting company had laid off highly skilled employees. When demand recovered, the company suffered from a loss of skills: the hidden costs stemmed from a short-sighted human resource policy. Staff turnover can be seen as a dysfunction as soon as it results in disturbances to the company. Hidden costs linked to staff turnover depend on the level of turnover and on the measures implemented to address this turnover (in other words, hidden costs are influenced by the recruitment policy, the integration of newcomers and so on). The following figure illustrates the effects of downsizing and its impact on the performance of the metal casting company in the face of high staff turnover.

Figure 5.11: Evaluation of the cost of staff turnover in a metal casting company

Dysfunction cost observed	Frequency	Reasons for the dysfunction	Components of the financial consequences
High turnover resulted in loss of skills (<i>staff turnover</i>)	Up to 20 percent loss on certain activities	Due to loss of skills, the company could not function properly in respect of the sophisticated products (<i>integrated training</i>)	Loss of 8 percent of turnover resulting in a cost equivalent to 15 percent of the payroll (<i>nonproduction</i>) Time wasted due to disruption in the organization: 42,000 hours were wasted, the equivalent of 14 percent of the payroll (<i>overtime</i>)

Nonquality in a clothing company (see figure 5.12)

In a clothing company, the costs of nonquality were the result of weak in the organizational processes, e.g. design, production, delivery. It is necessary to repair defects before sending clothes to the market. If the defects are not repaired the company faces the risk of having to do the work all over again, but the process is also a cost to the company. ISEOR calculated that this kind of waste represented 8 to 10 percent of work hours. Moreover, the lack of quality made it necessary to lower the price.

Figure 5.12: Evaluation of the cost of nonquality in a clothing company

Dysfunction cost observed	Frequency	Reasons for the dysfunction	Components of the financial consequences
Quality defects (nonquality)	8 percent of the production	Machines badly adjusted (work organization)	Overconsumption of material (overconsumption)
Lack of quality in the design (nonquality)	Most of the products	Loss of concentration due to overwork (working conditions)	Time spent on repairs (overtime)
		Lack of cooperation between the sales department and the design department (communication-coordination-cooperation)	Need to lower the price due to poor quality of the product, resulting in a loss in earnings estimated at 16 percent of turnover (nonproduction)

Direct productivity gaps in a travel agency (see figure 5.13)

In a travel agency, the 75 employees had to stop work for 10 minutes 15 times per week because of computer trouble. It turned out that 9,750 hours of productive work per year were lost because of a data processing system overload.

Figure 5.13: Evaluation of the cost of direct productivity gap in a travel agency

Dysfunction cost observed	Frequency	Reasons for the dysfunction	Components of the financial consequences
Overloaded data processing system resulting in work disruption (<i>direct productivity gaps</i>)	15 times a week for 10 minutes each time for each employee	Failure to analyse the needs of employees involved in data processing (<i>communication-coordination-cooperation</i>)	75 employees had to stop work for 10 minutes 15 times a week. This added up to : 75 employees x (10/60) hours x 15 times x 52 weeks = 9,750 hours. (<i>overtime</i>)

Other examples of low direct productivity may be given. Some of them stem from the inadequacy of the equipment and the underemployment of workers.

Concerning low productivity caused by inadequate equipment and premises, ISEOR has noted the following examples:

- *Breakdown of the computer system cost* approximately 11 percent of the travel agency payroll.
- *Costly and partly useless equipment* in a mining company: instead of buying an expensive drill, managers should have subcontracted part of this activity. The difference in cost resulting from the purchase of the drill was estimated at 4 percent of the payroll.
- *Underproductivity of new equipment*: when a new computer system was installed in a metal casting company, it took one year for employees to master it. As the investment was depreciated over a 3-year period, the extra cost was estimated at 33 percent of the investment.
- *Underutilization of premises* accounted for 3 percent of the payroll in a dyeing company. The major part of the cost resulted from the fact that the building was too big and not sufficiently functional.

Concerning the low direct productivity of workers, the following situations have been identified:

- *Differences between time spent in the enterprise and productive time*: in a cleaning firm, productive time was estimated at 57 percent of the time spent in the enterprise. The rest was spent in chatting and frequent breaks. This variation represented a cost equivalent to 68 percent of the payroll.
- *Unnecessary work*: in a food company, the product orders were given both orally and in writing. The accountant spent 25 percent of his time doing the same job twice. This cost was estimated at 44 percent of his salary (including social security contributions).

5.2.3 The six components of the financial consequences

The assessment of hidden costs is based on a classification of the dysfunctions and a precise study of their financial impacts. Dysfunctions usually affect the enterprise either by increasing a resource consumption (e.g. raw materials, work hours) or by limiting sales in the short term and slowing the creation of potential gains in the long run. Therefore, in the profit and loss account, the hidden costs have an impact both on overheads and on sales.

The components of hidden costs are the following:

Excess salary: example of shift in function in a department store (see figure 5.14)

Excess salary result mainly from a shift in functions, when managers perform tasks that should be done by subordinates. Given the differential between the salaries of managers and the wages of their subordinates, the enterprise pays a premium for low or medium value added tasks assumed by management and executives.

This is the case when the departmental supervisor of a chainstore takes 2 hours per day to display the product, while this job should be done by subordinates. If the salary differential amounts to 5 euros per day, the cost is 5 euros x 300 days = 1,500 euros per year. In this example, the departmental supervisor decided that the shift in functions was justified because employees were not trained. However, he forgot to take account of the excess salary and to balance this cost against the cost of a training scheme. In this case, the cost of such a training programme was 500 euros to which should be added 1000 euros given the time spent by the supervisor with his employees to implement the programme. This investment of 1,500 euros would have been recovered in 12 months due to the conversion of hidden costs into value-added.

In this case, it was critical to make the supervisor more aware that he was not paid to display the product but to perform tasks that need special attentions such as responding to customers' needs and developing economic vigilance.

Excess salary can derive from different sources such as:

- a shift in function due to absenteeism ;
- a shift in function due to lack of personnel ;
- a shift in function due to over-activity, when managers take up tasks because subordinates are overworked ;
- unnecessary time spent by superiors correcting subordinates' errors.

Figure 5.14: Example of excess salary in a service company

Types of excess salary	Examples
Excess salary due to absenteeism	Managers often take up tasks normally performed by subordinates
Due to lack of personnel	Managers take up low value added tasks because nobody else performs them
Due to over-activity	Managers take up tasks because subordinates are overworked
Due to errors	Managers spend time correcting errors of subordinates

In this example, the cost of the dysfunction is 600 euros (12 hours at 50 euros per hour). As the company was out of stock of spare parts more than 18 times in one year, the total cost was 10,800 euros. Made aware of this cost, managers could see that it is less expensive to spend 1 hour per month (12 months x 1 hour x 50 euros = 600 euros) to ensure a permanent supply of spare parts.

Overtime can be classified as follows:

- Overtime: due to errors.
- Overtime: due to unnecessary work, such as following pointless procedures. In a food firm, ISEOR found that 6 percent of working time was spent in the preparation of useless reports or documents due to the bad design of the information system. Moreover, employees used to write reports out of habit and because they thought it would make their jobs more secure. This company was not able to overcome its delivery delays because of lack of time.
- Overtime: finding the right data: in the same company, the lack of organization and poor information flow between services led to a loss of 2 hours in dealing with each customer complaints. As the company received two complaints a week, this represented 200 hours lost in a year. This time could have been used to improve the quality of service and shorten delivery delays.
- Overtime: because of distractions: in a service company managers were not used to writing notes to exchange information. An analysis of the managers' time showed that they could gain two hours by holding a weekly meeting, by being more disciplined during meetings and by developing a minimum of written communication. Over a year, this would represent a gain of more than 100 hours per manager, which could be used to work on product innovation.
- Overtime: because of inefficient machinery: in a food company, ISEOR observed that cleaning was difficult owing to a lack of room around the machines. This wasted half an hour per day and led to health risks. More space should have been left round the machines when the factory was built. The cost would have been ten times lower than the cost of the overtime.

Figure 5.16: Examples of overtime in a food company

Types of overtime	Examples
Quality defects	Running through the production process a second time
Errors	Finding and correcting errors
Useless work	Two employees doing the same job
Searching for information	Looking for reports or checking data
Distraction	Unprepared meetings
Inadequate equipment	Fixing the equipment

Overconsumption (see figure 5.17):

Overconsumption is defined as consumption that could have been avoided. For example, the use of raw materials or energy tends to vary even if production stays at the same level. The gap between the resource needed and the actual consumption of input is thus overconsumption. In other words, certain resources are used but do not produce any output or value added. Overconsumption can be classified into different types:

- **Squandering:** in an administration, 25 percent of the office stationery was wasted or stolen. The hidden cost linked to this dysfunction was equivalent to 4 percent of the payroll.
- **Overconsumption of energy:** in a transport company, there were wide variations in the consumption of petrol (a variation of 20 percent depending on the drivers). The reduction of this variation could result in savings estimated at 5 percent of the payroll.
- **Overconsumption due to errors:** in a service company, an employee forgot to deliver a product to a customer and special delivery had to be arranged.

Figure 5.17: Examples of overconsumption in a transport company

Types of overconsumption	Examples
Squandering of raw material	Stationery wasted or stolen
Waste of energy	Variation in the consumption of petrol
Correction of errors	An employee forgot to deliver a product to a customer and special delivery had to be arranged

Nonproduction (see figure 5.18)

Nonproduction is defined as disruption or stoppage of activity linked to a dysfunction. The following instances of nonproduction in a plumbing and heating company were identified:

- Idle period: when ordering spare parts, the computer was so slow that for each entry employees wasted 3 minutes. Twenty orders were placed daily with this company. The time wasted was estimated at 12 percent of the time spent in the supply department and the cost was equivalent to 16 percent of the payroll of this department.
- Slowdown in production due to delays or bottlenecks in the production process: for example, the crane was not available on a building site when the plumber needed it. The employees continued to work, but at a slower rate. Due to such disruptions it was estimated that the firm was working at only 88 percent of capacity, so that non-production amounted to 12 percent. The cost linked to this dysfunction was equivalent to 20 percent of the payroll.
- Disruption or stoppage of the production process: some equipment was not working well, resulting in disruption of production. The cost of such a dysfunction was estimated at 8 percent of the payroll.

Figure 5.18: Examples of nonproduction in a plumbing and heating engineer company

Types of nonproduction	Examples
Idle period	Time wasted when ordering spare parts
Slowdown of the production flow	Employees had to work slowly because the crane was not available
Stoppage or disruption of the production process	Some equipment was not working well
Hold-ups on a production line	Breakdown of a machine

Noncreation of potential (see figure 5.19)

Noncreation of potential can be seen as an opportunity cost for the company. The following instances were observed in an electronic component company.

- **False savings:** when investing in a new building, the company decided to limit the storage space in order to save 3 percent of the investment cost. However, the cost of the overtime due to lack of storage room was estimated at 8 percent of the working hours. This cost will be paid each year over the 10 following years, which correspond to the life cycle of the investment. The overall cost was equivalent to 40 percent of the investment costs.
- **Loss of market share.**
- **Loss of know-how:** in this company, a highly qualified technician decided to leave the enterprise. The cost of recruiting and training a replacement was estimated at one year's salary of the new technician.

Figure 5.19: Examples of noncreation of potential in an electronic component company

Types of noncreation of potential	Examples
Lack of storage capacity due to false savings	Future overtime
Loss of market share	Future nonproduction
Loss of know-how	Future overconsumption due to recruitment and training costs
Delays in launching a new product	Future loss in earnings due to lost turnover (nonproduction)

Risks (see figure 5.20)

Risks are possible future costs generated by current dysfunctions. To assess them, one could estimate the probability of the risky event actually occurring and multiply this probability by the costs generated by the dysfunctions. For example, in a logistics company, there may be a 20 percent risk of losing a customer because of delivery delays, which would result in a loss in profit margin of 500,000 euros. The cost of the risk may be assessed as follows: 20 percent x 500,000 euros = 100,000 euros. These hidden costs may be generated by the following dysfunctions:

- Absenteeism
- Occupational injuries and diseases
- Staff turnover
- Nonquality
- Direct productivity gaps

Figure 5.20: Examples of risks in a logistics company

Types of risks	Examples
Absenteeism	Risk of absenteeism due to backache
Occupational injuries and diseases	Risk of accidents due to lack of safety rules within the plant
Staff turnover	Risk of employees leaving due to health problems
Nonquality	Risk of loss of clientele and commercial set-backs
Direct productivity gaps	Risk of delay leading to cancellation of an order

5.2.4 Methodology for calculating hidden costs (see figure 5.21)

To measure hidden costs, managers have to fill in specific grids to analyse and measure dysfunctions. Figure 5.21 represents a grid used to evaluate the global amount of hidden costs:

Figure 5.21: General model for calculating hidden costs

Components of hidden costs	Overcharges (historical costs)			Nonproduct (opportunity costs)			Total
	Excess salary	Overtime	Over-consumption	Non-production	Non-creation of potential	Risks	
Indicators							
Absenteeism							
Occupational injuries and diseases							
Staff turnover							
Nonquality							
Direct productivity gaps							
Total							

All the indicators and components of the hidden costs are represented in this grid. Using the socio-economic diagnostic, managers should be able to identify the dysfunctions. Once these are identified, managers still have to analyse their impact:

As previously mentioned, excess salary are mainly due to a shift in functions: if a manager performs the tasks of a subordinate, the financial estimation will be based on a wage differential because it represents a surplus that the company is paying. This surplus is not productive since the same task should have been performed, with fewer resources.

Overconsumption is quite easy to deal with since it can be estimated in relation to the price of the goods wasted. As in the case of excess salary, overconsumption is the utilization of resources that does not produce value added.

To assess **non-production** and **overtime**, it is necessary to compute the hourly contribution to value-added (or margin) on variable costs. Let us take the example of a company where 100 employees work 2000 hours per year, and sell goods for 9,800,000 euros. Its variable costs are estimated at 3,000,000 euros.

The margin is then assessed as follows (see figure 5.22):

Figure 5.22: Calculation of hourly contribution to value-added (or margin) on variable cost

Sales (turnover)	: 9,800,000 euros
Variable costs	: 4,200,000 euros
Value-added (margin) on variable costs	: 5,600,000 euros
Overall number of hours worked Per year (100 * 2,000)	: 200,000 euros
Hourly contribution to value-added (or margin) on variable costs (i.e. average hourly margin on variable costs)	: 28 euros

The variable costs in this case consist mainly of raw materials. Wages and depreciation allowance are not included in costs which are variable in the short term. One hour lost means that with the same wage costs and the same infrastructure expenditure, the company could have made and sold more products. In this case, we assume that the market is not saturated. If the market is saturated, the hour lost remains an opportunity because it could have been devoted to the creation of potential or to the development of new ways to control costs and increase efficiency and effectiveness.

Some components of the calculation of hidden costs affect the immediate results, whereas others are detrimental to future economic results (noncreation of potential).

5.3 The creation of potential as hidden performance:

5.3.1 The creation of potential is underestimated and underdeveloped

As presented in figure 3.2, the economic performance of a company includes both immediate results and the creation of potential. When an enterprise invests in implementing its strategy (e.g. development of new products, acquisition of new technologies and so on) or in improving its functioning (development of multi-skills), this is not entirely taken into account in the accounting and budgetary information system.

For example, a chemical company decided to develop a new kind of paste. The tangible part of this investment was estimated at 300,000 euros and the hidden investment representing time spent by technicians and other employees was estimated as an extra cost of 400,000 euros. This additional cost resulted in a short-term profit loss of 400,000 euros, yet this loss should have been viewed as the creation of potential and hence as a kind of hidden performance. In this case, the entire estimated cost for developing the new product was 700,000 euros instead of the mere 300,000 euros which appeared in the initial accounting records. A failure to take into account the hidden performance of this intangible investment may lead to two kinds of mismanagement:

- Lack of intangible investment due to a budget strictly limited to 300,000 euros. This is futile because the tangible investment in the new product without the intangible investment will lead to no profit gains at all: thus, inadequate training will inevitably lead to incorrect use of equipment, and therefore poor quality of the new product.
- Sanctions against middle-management for not respecting the required profitability when in fact there is a hidden performance in the creation of potential, resulting in a medium and long term gain. Indeed, in this case, the 400,000 euros invested in the development of the new product and in training time significantly affect the previously accepted budget for the fiscal year.

In this case, the 700,000 euros investment redeemable over 3 years yielded 500,000 euros per year in value added due to increased sales and improved productivity, resulting in a pay back period slightly inferior to 6 months.

5.3.2 Different types of creation of potential

There are two kinds of creation of potential: those resulting from implementation of the strategy and those stemming from development actions focused on preventing the dysfunctions.

Creation of potential related to implementation of the strategy:

These consist mainly of the creation of new products, the development of new markets and finalization of new technologies, and the upgrading of human potential. An example is the case of a bank (see figure 5.23), where the development of commercial activities consisted of improved financial advice to the clients. This required the creation of the following potential gains, consisting of both tangible and intangible investments:

- Tangible investment in lap-top computers (400,000 euros).
- Intangible investment in human potential consisting of training employees in commercial negotiation and of management time spent supporting employees in their first negotiation. The time spent was valued at 300,000 euros. In this case, the overall result was 1,400,000 euros due to a better profit margin resulting from increased customer satisfaction.

Figure 5.23: Example of creation of potential related to implementation of the strategy in a bank

Type of investment	Tangible investment	Intangible investment	Return on investment per year
Reorientation of administrative employees towards commercial activities (investment in human potential)	Investment in lap-top computers to calculate repayments	<ul style="list-style-type: none"> • Retraining for employees in commercial negotiation • Management time spent supporting employees in their first negotiation 	1,400,000 euros
	Costs: 400,000 euros	Costs: 300,000 euros	



Creation of potential focused on preventing dysfunctions:

These investments correspond to the development actions taken by the enterprise to improve its operations by reducing dysfunctions. The investments may be related to :

- working conditions
- work organization,
- communication-coordination-cooperation,
- time management,
- integrated training,
- strategic implementation.

In the case of a transport company, time management was improved through better concerted delegation: instead of directly answering telephone calls (shift in functions), the manager delegated this responsibility to an assistant, thus gaining an hour per day to deal with more appropriate development actions such as writing quality procedures.

This prevention of dysfunction required a 3,000 euros tangible investment in a direct access telephone system, plus a 7,000 euros intangible investment in training employees to perform the delegated tasks. The overall 10,000 euros investment resulted in a 24,000 euros value-added increase per year due to increased customer satisfaction, as illustrated in figure 5.24. Moreover, it was observed that the job enrichment of the assistant was accompanied by improved working conditions.

Figure 5.24: Example of creation of potential related to the prevention of dysfunctions in a transport company

Dysfunctions which were prevented	Tangible investment	Intangible investment	Return on investment per year
Delegation of answering telephone calls to allow manager to spend more time working on development actions (reducing shift in functions)	Investment in a direct access telephone system	Time spent by an assistant in training Assistance by a management consultant to train managers in collaborative delegation	24,000 euros increase in value-added
	Costs: 3,000 euros	Costs: 7,000 euros	

5.3.3 Evaluation of the hidden return on creation of potential

ISEOR has worked in over 1,200 companies of very different sizes - from 10 to 30,000 employees - in 70 different industrial, public and private sectors and has constantly shown the very **high profitability of investment in human potential**, whenever companies and organizations adopt pro-active strategies through mobilizing all categories of personnel.

Results presented at the First Transatlantic Accountancy, Management Audit and Cost Management Congress organized with the International Institute of Costs (IIC) and the American Accounting Association (AAC) **are spectacular: between 200% and 4,000 %** depending on the case. 1€ invested in the development of human resources during the process of effective participative change generates a return on investment in the form of the creation of value added of from 2 to 40 euros - pay-back in 1 to 6 months²⁰! **No technological investment is as profitable!**

The same logic applies to business and non-profit organizations. It is important to assess the overall creation of potential consisting of both tangible and intangible investments, but it is also necessary to assess both their visible and hidden impacts. Figure 5.25 illustrates an example of the impacts of a 45,000 euros investment made on a production line in a bakery. The investment consisted of both a tangible investment in a new software system (15,000 euros) to pilot the production line, and of an intangible investment in time spent in training employees (30,000 euros) as shown in figure 5.25.a. This overall investment made it possible not only to yield visible returns due to higher productivity (estimated at 10,000 euros per year), but also to achieve a conversion of hidden costs into value added as shown in figure 5.25.b. For example, a 33,000 euros hidden cost generated by poorly baked products was expected to be reduced by two-thirds leading to an expected 22,000 euros reduction of dysfunction costs per year. Figure 5.25.c shows an overall expected reduction of hidden costs of 59 percent, resulting in a 52,000 euros additional profit.

Figure 5.25: Example of conversion of hidden costs into value-added on a production line in a bakery due to both tangible and intangible investments

Figure 5.25.a Evaluation of the total cost

New software system (tangible investment)	15,000 euros
Time spent training employees	30,000 euros
Total cost of the creation of potential gains (both tangible and intangible investments)	45,000 euros

²⁰ See Savall, H., Zardet, V., (2008). Le concept de coût-valeur des activités. Contribution de la théorie socio-économique des organisations. [The activity cost-value concept. Contribution of the socio-economic theory of organizations]. *Revue Sciences de Gestion – Management Sciences – Ciencias de Gestión*.

Figure 5.25.b Analysis of the conversion of hidden costs into value-added due to the creation of potential (both tangible and intangible investments)

Impact of the creation of potential gains	Present hidden costs (per year)	Conversion rate of hidden costs into value-added	Expected hidden performance (per year)
<ul style="list-style-type: none"> ● Poorly baked products 	33,000 euros	2/3	22,000 euros
<ul style="list-style-type: none"> ● Boxes damaged or broken during packaging 	9,000 euros	2/3	6,000 euros
<ul style="list-style-type: none"> ● Overweight products 	30,000 euros	1/3	10,000 euros
<ul style="list-style-type: none"> ● Time wasted on cleaning and maintenance due to carelessness 	10,000 euros	3/3	10,000 euros
<ul style="list-style-type: none"> ● Useless maintenance interventions due to operating errors 	6,000 euros	2/3	4,000 euros
TOTAL	88,000 euros	59 percent	52,000 euros

It is possible to gather all the data in the economic balance illustrated in figure 5.25.c. The main figures are the following:

- Visible cost of the investment redeemable over 3 years: 15,000 euros software system
- Expected visible performance : 10,000 euros risk in productivity per year
- Hidden creation of potential gains: redeemable over 3 years: 30,000 euros intangible investment in time spent training employees.
- Expected conversion of hidden costs into value-added: 52,000 euros per year

This example demonstrates that there is a 8.7-month investment pay-back period based on visible cost and performance. The traditional accounting system would show lower investment (without the intangible investment) but the payback period would be twice as long due to the lack of conversion of hidden costs into value-added.

Figure 5.25.c: Economic balance and calculation of the pay-back period of the creation of potential

Element	Costs	Performances
Visible costs and performance	New software : 15,000 euros	Rise in productivity : 15,000 euros per year
Hidden costs and performance	30,000 euros intangible investment in time spent training employees	52,000 euros conversion of hidden costs into value-added
Hidden qualitative and quantitative data	The need to define new quality standards	A 35 percent increase in customer satisfaction due to improved product quality
TOTAL	45,000 euros redeemable over 3 years	62,000 euros plus increased customer satisfaction
ANNUAL COSTS/ PERFORMANCE	15,000 euros	
PAY-BACK PERIOD	4.13 months	

6

LEARNING HOW TO CONVERT HIDDEN COSTS INTO VALUE-ADDED AND CREATE POTENTIAL THROUGH THE SEAM

6.1 Definition

The preceding chapters have demonstrated that hidden costs and performance are derived from the structures of the enterprise and from the behaviour of employees, middle and top managements.

Those hidden costs can be very high, and their conversion into value-added must involve the whole enterprise through an innovative form of leadership management. Actions based only on a «horizontal» approach (involving mainly top management team and sometimes middle managements) would result in dysfunctions at the employee level as a consequence of the informal power of the actors. On the other hand, solutions involving mainly employees according to a «vertical approach» would not necessarily be in line with company strategy.

To implement efficient actions, it is necessary to work at both top and middle management and employee level. The database created by ISEOR demonstrates that a reduction of dysfunctions calls for actions involving every member of the enterprise. In order to be efficient these actions are not limited to a number of self-designated participants as is the case in some change management methods.

This chapter will outline the socio-economic process of improvement (see axis A in figure 4.1) used to involve all participants. Three main issues are discussed in the chapter.

Learning to cope with dysfunctions to improve economic performance

The SEAM enhances learning within the enterprise aimed at reducing dysfunctions. A real competitive edge does not depend on the difference in hidden costs between a company and its competitors, but on the difference in speed of learning to reduce dysfunctions and create potential in order to develop pro-active strategies. The assessment of hidden costs and performance is a means of stepping up the pace of learning. The socio-economic intervention to convert hidden costs into value-added creation and improve sustainable economic performance consists of four major phases: diagnostic, project, implementation of the project and evaluation of the results. These ideas are developed in part 6.2.

Learning a global approach to pro-active management through socio-economic intervention

Compared to some management methods which focus on a partial or specialized improvement project, the SEAM demonstrates that it is more efficient to synchronize different projects within the company, whether they come from top and middle management or from shopfloor employees. The horizontal and vertical method (“HORIVERT”) is a way of implementing projects using a global and carefully coordinated approach. Part 6.3 will examine this in more detail.

Learning the key solutions to enhance performance and to release untapped potential

Managers are often tempted to employ a quick fix or some fads to limit the effect of dysfunctions. However, these solutions are not entirely satisfactory because they do not deal with the core problems, which cause dysfunctions: we use the term «root causes» of the dysfunctions. For example, the apparent reason for absenteeism in a metal-casting company was an outbreak of sickness. However, the diagnostic carried out in the company revealed the «root causes» to be linked to a lack of involvement of the employees due to a breakdown in communication and to uncomfortable working atmosphere. Part 6.4 defines solutions which have an impact on the root-causes of dysfunctions and enable the enterprise to reach both economic and social objectives.

6.2 Learning to improve economic performance while coping with dysfunction costs

The analyses which pinpoint the dysfunctions within an enterprise are usually carried out by the firm’s own management. However, the rate of learning is not quick enough to cope with the ever-accelerating pace of change in the competitive environment. Therefore, enterprises need to be assisted in order to intensify the socio-economic learning process. This often requires the skills of properly trained and experienced people who are, among other things, capable of making a socio-economic diagnostic to lead interviews and calculate hidden costs which requires specific skills. It should be mentioned that some enterprises are reluctant to call on the services of management consultants because of a previous unproductive experience. Often times it is not accepted practice on the part of management to call for outside help in order to improve management methods, which is even more the case in SMEs. Nevertheless, the objective study of a well-trained management consultant (either external or internal) has proved in many cases to be a good way to save time and money through converting hidden costs into value-added. The socio-economic learning process consists of four phases as illustrated in figure 4.1: diagnostic, project, the implementation of the project and evaluation of the results. This process is illustrated by a case study on a bakery.

6.2.1 Socio-economic diagnostic

The diagnostic is designed to reveal dysfunctions and their hidden costs within the enterprise. This first phase does not focus on the strong and weak points of the organization, but on the weak points, which are too often under-estimated by top and middle management and by employees because of routine or fear of change.

The socio-economic diagnostic leads to the evaluation of hidden costs, mainly through interviews, which enables the enterprise to list the cost of the dysfunction under the headings of the five hidden cost indicators. Interviews are carried out with a wide range of people from top and middle managers down to workers. These may be supplemented by interviews with staff representatives.

On-site data collection is not limited to interviews. It also relies on direct observation and document analysis:

- Direct observation is necessary to study the dysfunctions and their consequences. The information obtained is validated in the course of interview which make it possible to check whether the dysfunctions and their consequences are exceptional or recurrent.
- Analysis of documents and quantified indicators make it possible to evaluate the hidden costs. It also helps identify some of the causes of dysfunctions.

Once the data have been analysed, the diagnostic can be broken down into two parts (see figure 6.1):

- The first part is based on listening to what management and employees have to say about dysfunctions and problems. This results in a « mirror effect » which makes all participants more aware of the need to prevent dysfunctions, instead of repairing them once they have occurred. The findings are presented orally together with the assessment of hidden costs in order to collect opinions and observations. This oral presentation opens the manager's eyes to the risks the enterprise undergoes when reluctance to learn from the dysfunctions is observed.
- The second part is an in-depth analysis of the root causes of the dysfunctions and is called « expert opinion ». It helps management to identify the most appropriate measures for reducing dysfunctions. The emphasis is on the root-causes, which managers and personnel are often unaware of and find difficult to identify and lead to in-depth actions (see figure 6.1).

Figure 6.1: Part of the diagnostic in a bakery**MIRROR EFFECT****(CONSISTING OF TYPICAL FIELDNOTE QUOTES USED BY INTERVIEWEES):**■ **QUALITATIVE ANALYSIS**

"We are not always informed of the specific ingredients of the new kind of dough"

"The air conditioning of the workshop is not properly regulated, which results in differences in the biological process"

"It may happen that there are mistakes in the production process because of a lack of appropriate skills and equipment".

■ **FINANCIAL ANALYSIS**

Dysfunction cost observed	Frequency	Reasons for the dysfunction	Components of the financial consequences
dough defect (nonquality)	Twice a week	<ul style="list-style-type: none"> • The dough may be too wet • The baker did not respect some of the production process parameters • Differences in temperature and humidity 	<ul style="list-style-type: none"> • Non-production • Overtime • Overconsumption (cost equivalent to 4 percent of the yearly payroll)

EXPERT OPINION:

three main root causes for the dysfunctions were highlighted:

- The managers have not spent enough time formalizing the recipes and training the bakers in production of the new dough.
- The project methods used in the enterprise when designing new equipment do not take account of workers' needs on the shopfloor.
- The efforts required of the bakers when they have to learn new recipes are not taken into consideration.

The diagnostic report presented, discussed then handed to the enterprise may be considered as a list of dysfunctions to be corrected during the months or the years to come. It should be emphasized that the intervention is by no means restricted to the diagnostic alone. It necessarily includes the project phase together with the application of socio-economic management tools. Experience shows that enterprises find it difficult to set up efficient projects methodically and that the risk of non-completion of the improvement process is very high without assistance in the field of socio-economic management.



6.2.2 Project

Following the diagnostic, managers have to work with the consultant to lead two kinds of focus groups: the horizontal project group and the vertical project groups.

The “**horizontal project focus group**” aims to involve top managers in the improvement process concerning the general dysfunction of the enterprise. Managers learn to develop problem-solving abilities and team management; they build up skills through the socio-economic project which enhances creativity and innovative solutions to prevent dysfunctions. The project groups foster communication and negotiation between the different participants (functional and operational actors). Each category of actors has its own understanding of the problems, which is one of the main reasons for the dysfunctions. Therefore, the focus group participants train themselves to share a common language and common ground as well as to negotiate solutions which may be accepted by the various services or departments. For example, in a chemical company the sales department and the production department were involved in a horizontal project group focused on a better understanding of customer claims and on improved procedures to respond to these claims efficiently and on time.

Vertical project focus groups involve a large variety of participants and the aim is to develop solutions at the departmental level. In the bakery, project groups were formed in different departments:

■ **Production department:**

- Restructuring of to create production lines which replace the three different workshops (kneading, baking and packaging).
- Multi-skills were incorporated in each team on the line which followed production from its conception to delivery. The aim of varied tasks was to increase the workers' interest and importance (empowerment in the work).
- Laboratory planned to train supervisors and operators in the production department with pertinent skills such as quality control (checking for sponginess, freshness).

■ **Sales department:**

The new role of the sales representative included not only negotiating with chain stores, but also delivering, displaying the product, observing customer needs and checking on competitors. The sales representatives will supply the products and display them on the shelves. Back in the delivery truck, the sales representatives have to communicate their observations to the nearest factory in order to adjust immediate production and to the marketing department in order to analyse data concerning competitors' strengths and weaknesses. This kind of observation partly avoids the need for market surveys and enables the marketing department to obtain more reliable data.

Horizontal project focus group focused on top management and higher executives teams.

The horizontal project in the bakery concentrated on work organization and integrated training. Like the vertical project in the production department, the multi-skill concept is also developed within the management team. Each member will be in charge of different stages:

- operational responsibility, e.g., managing one of the six plants ;
- responsibility for the product itself: e.g. developing a new product such as cakes with jam or chocolate filling attractive to youngsters ;
- responsibility for a sector of the market: e.g. a major chain store.

Along with their knowledge of each process, all members of the top management team had to acquire a general view of the whole organization, to enable them to react appropriately to problem or change at any level. Moreover, each manager is assisted by experts in dealing with specific problems.

For example, when a new plant is set up the plant manager is assisted by an experienced production line specialist. The latter's knowledge allows a myriad of improvements such as the opening of oven doors in order to gain time when the machine has to be served, or the design of shelves where the dough is kept before baking in order to avoid contamination by microscopic mould. This acquisition of overall expertise by the management team is conducive to reinforcing operational solidarity amongst all those involved.

This project is a reflection phase, carried out at management level with the help of an expert or a trained internal consultant. The project phase allows the enterprise to accumulate knowledge to prevent dysfunctions.

6.2.3 Implementation of the project

Implementation of the project begins with the selection of certain actions. They have to be listed and detailed in order to implement decisions taken in the project. The first step is to analyse the value added that may be created while avoiding the duplication of existing actions. This includes the identification of a workflow schedule, ranking the different actions to be undertaken.

At the same time it is necessary to allocate resources to project implementation, which represents in itself a creation of potential gains. These resources are both tangible (equipment, new machinery, etc.) and intangible (time devoted by managers). The intangible investment requires deciding whether time devoted to low value added tasks may be reallocated to the project, or whether new personnel should be recruited.

In most cases, few tangible investments are necessary since many resources are already available. In other cases, the project also involves a tangible investment, which requires more resources but may provide a better return.

It also requires that managers learn to delegate because the project implementation is in itself another task. Managers have a part to play in training employees in newly delegated tasks. This point is critical because lack of delegation will lead managers to un-

undertake additional development work while continuing with their daily activities, which might result in overwork. It is also necessary to focus on follow-up, which is done using two different tools: the steering committee and personalized assistance to management.

- The steering committee must evaluate the actions implemented according to the plan and keep it on track. It should also focus on the problems raised in implementation and propose solutions.
- Personalized assistance is used both as « coaching » support and as methodological training in management. It is used to prepare steering group meetings, to classify the problems encountered and the solutions identified. Through this assistance, managers learn to develop their leadership skills and working methods, especially in communication, coordination and cooperation.

During the months and years which followed the project in the bakery, the management continued this development and set up seminars twice a year for the purpose of exchanging experiences and creating a continuous improvement process throughout the enterprise when the half-year PAP is being renewed. During these seminars their team evaluate the results of the effort to learn what has been improved, what is yet to be improved and what limits there are to improvement.

These seminars foster the organizational learning process. An example of an improvement due to exchanges of ideas during the seminar is the design of the loading area rubber door rims which used to be worn out in less than a year because of the friction when trucks backed into them. The exchange of ideas concerning design of the platforms resulted in a saving of 3,000 euros a year per plant. Such minor improvements can result in substantial cost savings. The improvements in this company did not result in any job losses since they allowed to increase sales, and consequently to create new jobs the enterprise had one plant and 240 on its payroll in 1984, when SEAM was introduced, whereas it now boasts 12 sites and 3,300 wage-earners.

6.2.4 Evaluation of results

The evaluation of results consists in analysing the positive effects of the project and the improvements yet to be put in place. This phase aims at two different goals:

- first, to see if the hidden costs have decreased and if value added has been created (conversion of hidden costs into value-added);
- next, to develop new information on the dysfunctions and to integrate it in the transformation process.

The evaluation of results is commonly used to orient the enterprise towards a self-improvement learning process by which management learns how to improve enterprise functioning on a continuous basis. The evaluation of results of results is based on comparing visible and hidden costs and performance before and after implementation of a given project. An example of evaluation is found in the case study of a bakery (see figure 6.2).

Figure 6.2: Evaluation of results in the production department of a bakery

Indicators	Dysfunction costs before the project (percent of the payroll)	Dysfunction costs after the project (percent of the payroll)	Explanation of the results
Absenteeism	7 percent	4 percent	Not only has absenteeism dropped, but multi-skills have allowed better interchangeability of people
Occupational injuries and diseases	Not significant	No change	
Staff turnover	Not significant	No change	
Nonquality	9 percent	3 percent	Better training of the workers and higher acceptance of parameters
Direct productivity gaps	12 percent	6 percent	Workers' brainstorming leading to creative ideas reduced wastage and fewer hold ups on lines

The gain is equivalent to 15 percent of the yearly payroll

An evaluation in a metal casting company took a global view by applying both horizontal and vertical socio-economic projects. The result was a 5.1 million euros per year increase in value-added, bringing the enterprise from a 3 percent profit margin to 12 percent (see figure 6.3).

Figure 6.3: Evaluation of economic results of the socio-economic innovation process in a metal company

Qualitative evaluation	Quantitative evaluation	Financial evaluation (gain per year)
Reduction in rate of quality defects	Reduction in quality defects by half, from 5 percent to 2.5 percent	1,000,000 euros
Increase in machine productivity	The efficiency of the equipment has increased by 3 percent a year	200,000 euros
Energy saved	5 percent gain per year on energy consumed	1,100,000 euros
Cut in inventories due to reduction of delays	20 percent decrease in interest paid to the bank	200,000 euros
Innovation and broadening of skills have resulted in increased clientele and profit margins	10 percent increase in sales due to more sophisticated products that better meet the needs of the clients	2,600,000 euros
TOTAL		5,100,000 euros

The main advantages of evaluating the results are as follows:

- It encourages and motivates managers and employees by giving concrete evidence of success, even if more improvements are necessary at a future date.
- The results are in themselves a proof of the benefits of the intangible investments made by the enterprise within the framework of a socio-economic development scheme. Otherwise, such projects are sometimes considered as fads.

- The projects prove to be self-financing, which allows rewards for all the stakeholders: management, employees and owners of the company or stockholders. In the bakery for example, wages and working conditions were substantially improved while the **stock value increased sixtyfold** since its first quotation on the stock-exchange in 1986.

6.3 A global approach to management through a socio-economic intervention: The HORIZONTAL and VERTICAL intervention (HORIVERT)

The evaluation of change management programmes demonstrates that it is more efficient to link the improvement actions of all the sectors of the organisation. Very often, however, enterprises implement improvement actions separately for each part of the organization without coherence and synergy between the elements or between the different levels of the organization. For example in a chemical company, management had undertaken development actions at the top, including the recruitment of new executives and the re-engineering of dataprocessing methods to obtain better control of the subsidiaries. At the level of the different departments many kinds of action were undertaken, focused on safety, productivity, quality (certification). However, the enterprise encountered difficulties in making these activities coherent. The lack of planning resulted in overworked executives and a decrease in impact. There were also conflicts between the two levels of actions. Thus the policy defined by the new data processing manager did not correspond to the different projects implemented in the departments. In order to cope with these difficulties, the socio-economic intervention consisted of two simultaneous actions:

- **a horizontal action**, consisting of methodological assistance aimed at the top management team. This was mainly based on training the team to select the actions which would yield the highest value added and ensure their coherence and feasibility. For example, managers learnt how to define a half-yearly Priority Action Plan allowing improved coordination involved in developing a new product between the different departments in order to prevent delays in scheduled launching times.
- **a vertical action** in at least two basic units (project team, service, department) aimed at the staff and the supervision teams in those units. Three main steps were undertaken:
 - improved efficiency in the sales department ;
 - a diagnostic and project to prevent dysfunctions in one of the plants ;
 - another project focusing on avoiding production stoppages due to bad inventory of spare parts.

In general, socio-economic experience demonstrates that employers and managers have to undertake improvement actions in two specific areas.

- The first area concerns the general dysfunctions that affect the entire enterprise. This consists mainly of communication problems between the different departments.

- The second area concerns the piloting and coordination of the different projects implemented in each department to ensure a high degree of consistency between different actions.

This requires vertical interventions in different departments and a horizontal intervention to deal with general dysfunctions and the synchronization of the vertical projects. This is complementary to vertical actions consisting of processes implemented in each service unit and department.

This dual action, both horizontal and vertical, enables managers to implement the enterprise strategy more efficiently, and to find solutions to basic dysfunctions. For example the reduction in maintenance costs in the chemical company, referred to as « vertical action », required an improvement of the data processing in the whole company, referred to as « horizontal action ».

In this chemical company, the results obtained due to the HORIVERT intervention were the following:

- increase in production ;
- reduction in the time needed to start a new production process ;
- reduction in maintenance costs ;
- reduction in the need for spare parts ;
- savings in the purchasing process ;
- gain in new clients ;
- improvement of strategic awareness ;
- increase in the sales representatives' efficiency.

The above actions resulted in an increase of the profit margin by 90 percent the following year.

The evaluation of management improvements in all types of enterprise proves that it is highly efficient to control and synchronize the different levels of actions through global structured planning. Otherwise, improvement at the top would not spread down the enterprise and limited vertical improvements would not result in an overall gain in sustainable performance.

Figure 6.4.a demonstrates the limits of either vertical or horizontal approaches.

In the case of vertical action alone, focused on a single department of the enterprise, the change process is not extended to other service units and does not benefit from the participation of top management.

In the case of a horizontal action alone, focused only on the top management level, the lower levels of the firm do not participate in the intervention and resistance to change is observed. A combination of the two approaches is necessary to develop a performance project (figure 6.4.b).

Figure 6.4.a: Limits of vertical or horizontal actions alone

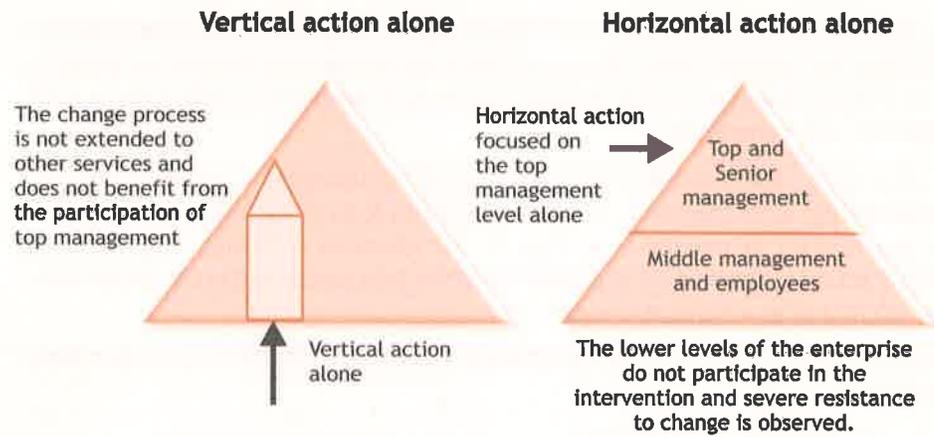
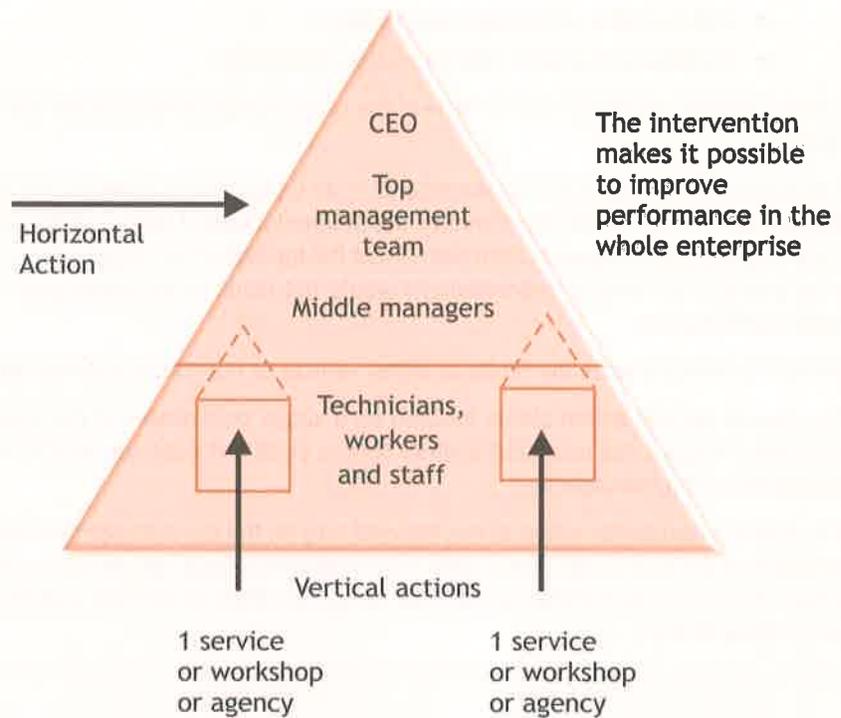


Figure 6.4.b: HORIVERT intervention (both horizontal and vertical levels)



6.4 Learning to enhance performance and release untapped potential through converting hidden costs into value-added

Seven key development actions implemented in many enterprises with ISEOR assistance have proved to be highly efficient in different contexts.

6.4.1 Empowerment through collaborative delegation at all levels

Owing to an increasingly complex context entailed by the necessity to develop new products and technologies, company management and executives have to free a certain amount of time so as to avoid being overworked.

The ISEOR database demonstrates that managers usually need two to four hours per day to concentrate on new development tasks in addition to their regular workload. To find this time, managers must delegate certain tasks and activities through the empowerment of subordinates. However, there are pitfalls which should be avoided in the delegation of tasks:

- Giving too much responsibility to subordinates without adequate control can result in poor quality e.g. when subordinates take the initiative without consulting their supervisor.
- Controlling too much, e.g. if the manager is always looking over the subordinates' shoulder, this stifles their creativity and self-confidence.

To avoid these two hazards, it is necessary to analyse the tasks which have to be delegated. The following example is a model of concerted delegation in a chemical company:

Analysis of the tasks which have to be performed

First, it is necessary to make an inventory of all the tasks performed by managers and to measure the time spent monthly on each task. In the case of the production manager of a chemical company, this inventory showed the following results (see figure 6.5.a).

Figure 6.5.a: Inventory of tasks performed by a production manager

Tasks performed	Time spent per month (on average)
Ensuring proper level of maintenance	24 hours
Production management and coordination	32 hours
Quality procedures (e.g. ensuring that recyclable products are disassembled)	40 hours
Coordination between the control room and the production area in changing equipment and making it operational	12 hours
Writing reports	60 hours
Personnel management including performance evaluation, covering staff absence and scheduling shifts	40 hours
Total	208 hours

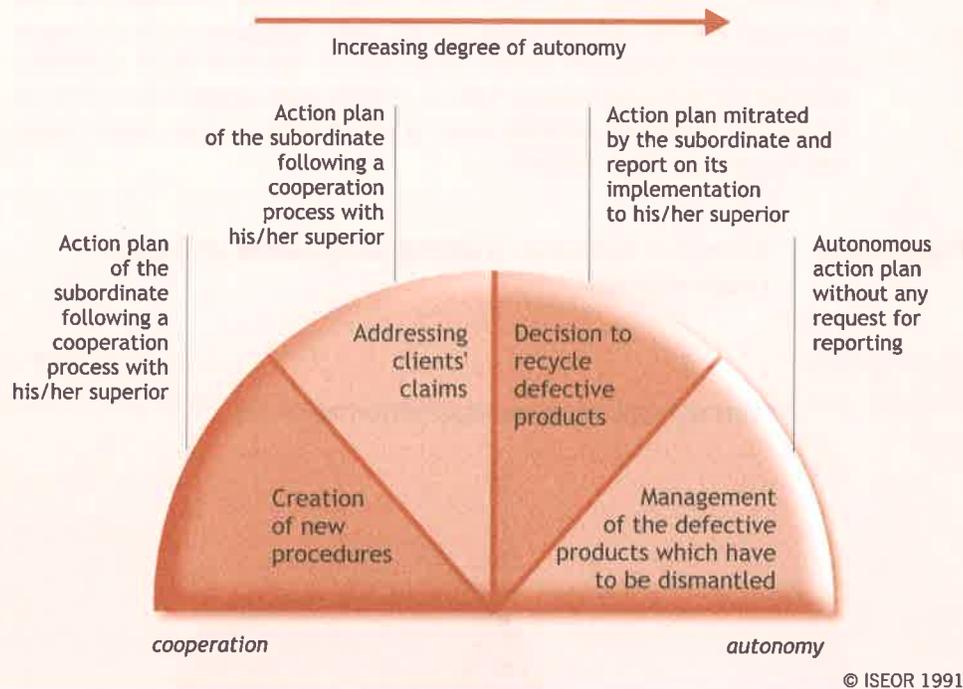
Competition compelled this company to develop new products, requiring a further 30 hours per month of work for the production manager. It was therefore necessary to delegate several tasks. In this case the production manager decided in this case to delegate responsibility for quality procedures to the employees.

Guidelines in the delegation process and the span of collaborative delegation (see figure 6.5.b)

The production manager held meetings with subordinates to discuss the need for delegation and feedback. In the case of the chemical company, the span of delegation was formalized as follows (and concerned ten employees):

Figure 6.5.b: Span of collaborative delegation of quality procedures in a chemical company

Due to the delegation of these tasks, the production manager gained 30 hours per month in extra time, whereas employees had almost no work overload for the following reasons:



- Immediate response to workers' questions enabled time to be saved in production.
- Empowerment led to greater efficiency.
- Unproductive time during the shift was used to perform the newly delegated tasks.

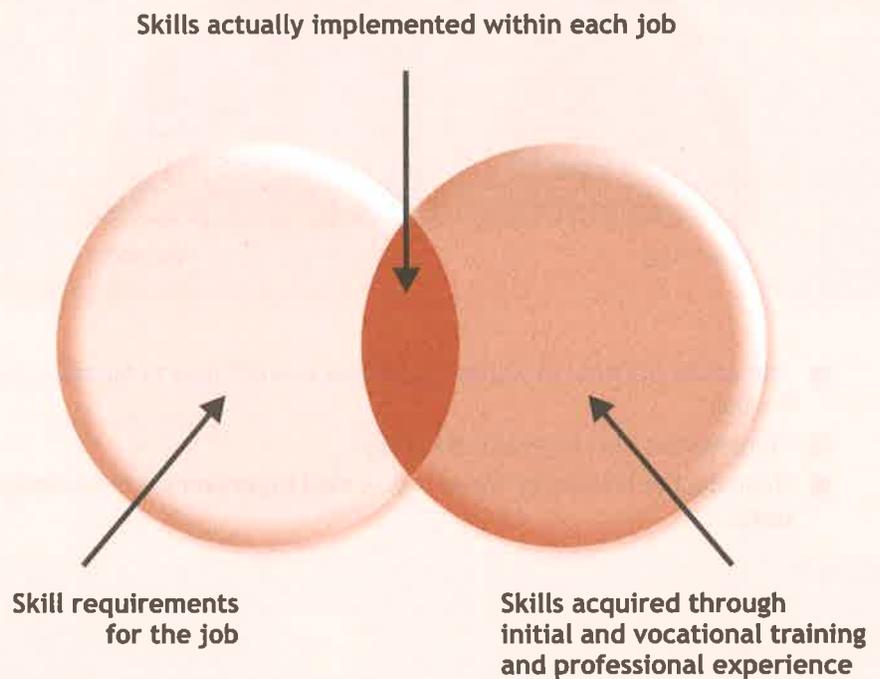
6.4.2 Upgrading skills through integrated training

Inadequacy of training programmes (see figure 6.6)

In order to undertake higher value added operations, managers have to delegate tasks but also ensure that employees are sufficiently trained to carry them out. This requires appropriate vocational training schemes. However, it has been observed that these training programmes are not sufficient or may be ineffective for the following reasons:

- Sometimes, employees who have been trained outside the enterprise have learned skills which are not relevant to the newly delegated tasks. For example, secretaries have been trained to use EXCEL Software which includes a database, but have not learned how to produce well-designed pro forma invoices. This mismatch between training programmes and job requirements may be represented as follows:

Figure 6.6: Mismatch between training programme and job requirements



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- Sometimes, the training programme was successful in upgrading skills, but the newly acquired skills were not used on the job because managers delayed implementation of the delegated tasks. Two main reasons accounted for this situation:
 - Managers were not confident about delegating tasks due to mistrust of the training scheme in which they were not involved. For example, a supervisor might say: « I know you have attended courses: you can handle the theory but not the practice ». This results in a passive response from the employees who lose their motivation to make the effort to apply what they have learned.
 - Managers may feel threatened because employees are better qualified than they are themselves to perform certain tasks. Therefore, managers become reluctant to continue the delegation process. They may fear losing power because of a narrow skill differential. The employees are consequently frustrated by the attitude of managers and decide to minimize their efforts because they are not given enough consideration.
- On some occasions the training programmes have nothing to do with equipping the employees to perform the delegated tasks and may be considered as mere rewards. In this case, the reward should be considered and negotiated as a form of incentive. For example, in a public service enterprise employees were offered training sessions in art subjects, which were not connected with their profession. However, management considered this as a reward since they were not permitted to increase wages or pay bonuses, even if employees were performing exceedingly well.

All these dysfunctions in the training process result in hidden costs: overtime and money wasted on training programmes.

Need for appropriate integrated training manuals

In order to raise the level of skills, the SEAM uses integrated training manuals (ITM) which consist of four main actions:

■ **Formalizing know-how**

Formalizing managers' and employees' know-how by having them create the material which will be used both for the training sessions and also as a reminder for everyone (a procedural and operational handbook). For example, in a company which prepares farm products, some employees did not know the symbols well enough, risking possible crop destruction if herbicides were confused with fertilizers. In order to avoid such mistakes, supervisors spent an average of two hours a day checking the work of their subordinates. Thanks to a short training manual explaining the procedures and labels, managers gained more than an hour per day, enabling them to devote more time to high value added tasks.

The economic balance of the integrated training manual showed that the time devoted to its preparation (16 hours from supervisors and 30 hours of outside assistance) was very quickly made up by the time gained by each supervisor saving 200 hours per year.

■ **Involving managers and employees in keeping their own skills up-to-date.**

Managers and employees were involved in preparing the integrated training manual, which meant writing down their informal knowledge capital. In the case mentioned above, the supervisors formalised their knowledge and experience of agronomy. They also had to contact other specialists and obtain documentation concerning the chemical characteristics of their products. Writing down their informal intellectual potential was thus an opportunity to improve their own skills. It also had a positive impact on the quality of service, as they were better qualified to advise customers, resulting in possible sales increases.

■ **Simplifying the existing documents.**

Integrated training manuals focus on the facts which are useful for the tasks in hand. Manuals often overexplain processes that the enterprise never puts into practice. It is also important to make the contents easily understandable by workers with few qualifications and very little education.

In the company mentioned, even managers could not understand all the contents of a 500-page handbook which focused on the chemical components of fertilizers and could only be understood by specialists. Only a few pages in this book were useful for the integrated training manual.

■ **Focusing on the answer to dysfunctions through teaching based on the analysis and prevention of dysfunctions**

In a metal company, the employees asked their supervisors to help them adjust the machine when changing the shape of certain pieces because they were concerned about making mistakes. In this case study, the supervisors prepared the training manual with the assistance from the development department. The supervisors then explained how to adjust the machine and discussed the reasons for mistakes. Four one-hour sessions were organized, each consisting of three phases: fifteen minutes were spent in a room explaining the theoretical principles of the machine. Next, the trainees had to put the theory into practice in the workshop for half an hour. Finally, fifteen minutes were devoted to a feedback session in order to discuss the best practice. In this case, the investment in the integrated training manual was approximately 30 hours resulting in a ten-hour gain per month for each of the four supervisors who could now devote more time to development tasks. This example also demonstrates that an enterprise can quickly cover the cost of the intangible investment made in a training manual: in this case, the pay-back period was less than one month. This example also shows that teaching based on answering employees' concerns about dysfunctions was more efficient than teaching based on an abstract conception of the right way of doing things.

Advantages of the Integrated Training Manuals (ITM)

The main advantages of the integrated training manuals are the following:

- Upgrading management skills through preparation of the manual. In many cases, management may receive assistance from competent in-house personnel or from outside specialists. In most cases, the management team will separate the tasks according to their individual background so that each may progressively become expert in one field.
- Breaking down management reluctance to train employees since preparing the ITM manual makes it possible for them to stay ahead in technical skills.
- Creating material for skills transfer in the enterprise. The manual enables the company to preserve know-how in case of staff turnover or absence.
- Formalizing the knowledge in written form, even for enterprises in countries with a strong oral tradition. An integrated training manual (ITM) eliminates many dysfunctions due to lack of formalization which results in a lack of self control. Such formalization must be part of a concerted effort and a participative process to agree on the coordination practices and a common language in the enterprise.
- The ITM takes account of the analysis of dysfunctions and improving cooperation within the enterprise because the written formalization of know-how reveals inconsistencies and enables workers to share the best practices.

Involving managers in training the workforce reinforces their status, because receiving new skills from management enhances the value of employees. This justifies management in being more demanding.

6.4.3 Improving cooperation and developing teamwork

Given the growing complexities in a competitive environment, enterprises must break down the communication barriers between employees, services and departments to facilitate a swift evolution towards higher value added tasks. This requires reinforcing teamwork at all levels of the enterprise through daily, weekly or monthly meetings.

The ISEOR experiments demonstrate that the advantages of this kind of teamwork are the following:

- Improved coherence in implementing the strategy because the team will take more account of the impact on other departments of a decision taken in one section of the enterprise.
- Improved quality of decision making through pooling intelligence and knowledge when facing tricky problems.
- Increased solidarity among top and middle-level managers and reduced vulnerability of the enterprise in the case of absence or departure of the senior executives, since the management team learns to take up the reins.

In a metal company, a weekly meeting of the top management team was held with the support of a set of strategic piloting indicators. These indicators were shared by everybody in the team; e.g., they discussed figures illustrat-

ing delays to decide the best action to take. The decision involved all the departments of the enterprise because it consisted of a number of specific operations which had to be balanced and synchronized as follows:

- More temporary workers were hired for a three-week period to increase capacity in the production department. Both the production manager and the personnel manager were involved in this decision, but the accounts department to adjust the payroll budget accordingly, which required the director's agreement.
- Some of the orders were subcontracted to meet the deadlines required by customers. In some cases, the profit margin on such orders was reduced to zero, but the marketing manager and the director preferred this to losing these particular customers.
- Some action had to be taken to eliminate bottlenecks in quoting for an order by a new customer. Top management arranged a meeting of staff from the sales department, the technical department and the cost accounting service. This meeting lasted one to two hours and took place shortly after the top management meeting to provide with a quotation in the shortest possible time.

This kind of top management team meeting accelerated decision making, which was particularly important in the face of increasing competition. It also allowed top management to make sound decisions through improved collective intelligence. The time spent in the meeting was a real intangible investment because it allowed the enterprise to save money, avoid losing customers and increase sales. In this case, the return on investment was over tenfold. To be efficient, this kind of meeting requires not only financial indicators, but also qualitative and quantitative operational indicators, consisting of accurate and up-to-date forecasts, designed to facilitate communication. In this company, all the members of the top management team had the same information and indicators in user-friendly folders.

A second step was to develop teamwork at all levels of the enterprise. In the same metal company, this kind of teamwork was implemented in each department and each service through short weekly and monthly meetings in addition to day-to-day coordination. This required that line managers be trained to lead meetings efficiently: the meetings had to be prepared, data had to be collected to produce up-to-date figures, and checklists written at the end of the meeting for followup. The same kind of action was also implemented at the level of inter-departmental project teams. Each development programme in the company was managed by project teams in order to consider all the aspects of a given problem; such as finalizing a new product or a new technology. Teamwork also required half-yearly meetings on development and improvement actions with regard to socio-economic performance.

In the bakery, these meetings collected ideas on improving the efficiency of the team to reduce dysfunctions and better implement and schedule strategic actions, e.g. a meeting in the sales department was partly devoted to ac-

tivities in new regions. Most of the best ideas resulted from discussion (sometimes animated) between the sales representatives and the sales manager. These meetings could be considered as brainstorming sessions to enhance creativity in preparing the half-yearly Priority Action Plan for the forthcoming period. Due to these regular meetings, managers have progressively discovered that the most efficient approach is to involve their subordinates in the decision making process.

6.4.4 Improving the management of investments and projects through better control of intangible investments

Dysfunctions due to lack of intangible investments

As mentioned in Chapter 3, it is important to evaluate the creation of potential which represent hidden performance. Intangible investments are usually underestimated and constitute a hidden creation of potential which should be taken into account when investments are made in an enterprise. Otherwise, despite the care used in preparing an investment budget, some irregularities are often observed in enterprises:

- The investment budget is overextended because of unexpected difficulties.
- The investment process takes longer than planned, with serious initial problems.
- Once made, the investment does not bring satisfaction or the expected revenue.

These three phenomena lead to a significant decrease in investment profitability and can sometimes even turn sound technological projects into financial disasters. Two main reasons for these dysfunctions have been observed:

- Adverse reactions to new technologies or new equipment during the investment phase.

Such negative reactions lead to very high costs since the equipment is abandoned or sold off. In a food company, the establishment of a new production line resulted in the manual use of automatic packaging machines for a year and a half. The packagers considered that the equipment was not properly designed, and that this « was not their problem », but that of the engineering services. Production workers sometimes passively watched the set-backs of the new technologies without suggesting ways to correct them. Their attitude seemed to be : « let the engineering department fail in this project. This will show it cannot work if we are not consulted ». Moreover, the users had information, often informal, about the conditions of the proper functioning of the investment, e.g. bakers' experience is often more accurate than machines for baking time. These dysfunctions resulted in additional costs estimated at 2 million d'euros, which was an increase of 40 percent of the investment budget, initially set at 5 million d'euros. Finally, the company had to re-launch a process that increased the manufacturer's involvement. It took two more years for the line to function almost normally.

- Workers difficulties in learning and assimilating new technologies once the investment has been made.

In a metal company, the directors were confronted with a decline in the company's traditional markets. This made them take a new strategic approach consisting of launching new products which were more sophisticated and suitable for a large market. This product innovation resulted in two new demands on the personnel:

- To handle the present equipment with precision (respecting very strict parameters in temperature, proportions, etc.).
- To master new equipment which called for knowledge of computer programming.

Weaknesses in these two areas led to a partial failure in launching the product. Failure of mastering technology led to touch-up rates of over 45 percent for some series, as well as to 3 months' delay in delivery schedules. The dysfunction costs were estimated at 0.7 million d' euros a year, to which a considerable commercial loss must be added (loss of credibility in the market, competitors taking advantage of the delays, etc.). In this case, the socio-economic diagnostic revealed two main difficulties in the assimilation of new technologies:

- The absence of competency grids of the enterprise-which could have helped the enterprise target its product-innovation strategy in the light of existing skills. A clearer view on this point would have led to a more relevant strategy and to the subcontracting of some operations needing skills the enterprise lacked.
- Lack of competence to manufacture the products: what seemed feasible in the research laboratories was difficult to apply in the production phase. This dysfunction revealed that the enterprise did not ensure sufficient communication between its different services at the time of new projects. In the case of a 5 million d'euros investment, it never occurred to anyone to add 0.1 million d'euros of intangible investment in meetings aimed at improving communication-coordination-cooperation. Such meetings would have allowed the company to avoid 1.3 million d'euros in dysfunction costs.

Description of preventive measures

In order to avoid dysfunctions during and after any investment, it is useful to accompany the investment with preventive actions which may be considered a complementary intangible investment. An example may be taken from a food company which was partly automated. The cost of the tangible investment in new equipment was 155,000 d'euros, which was supposed to yield a 20,000 euros per year increase in productivity. The intangible investment consisted of preventive actions in six areas:

- Working conditions: an effort was made to improve the legibility of the indicators on the control screens. The figures appearing on screens showing temperature, control of quantities etc, were designed with the participation of employees, giving them the feeling that the equipment was also « their baby ». This measure helped avoid nervous fatigue and poor quality.

- **Work organization:** the equipment was designed to allow easy maintenance, and the employees were encouraged to do small repairs, oiling and cleaning. This enhanced empowerment and allowed substantial savings on maintenance costs.
- **Communication-coordination-cooperation:** before the machines were installed, meetings and brainstorming sessions were organized between the machine operators, maintenance workers and staff from the research and development department. This allowed savings in equipment design, mainly by eliminating useless features.
- **Time management:** a comprehensive timetable was prepared to improve management of the investment project and encourage timely intervention. For example, it was critical to incorporate marketing surveys at a certain point in order to take appropriate decisions concerning the flexibility of the equipment.
- **Integrated training:** before the new production line started, managers prepared integrated training manuals and organized sessions where employees learned to programme the automated production line. This allowed the workers to be almost fully autonomous from the beginning and avoided low productivity and shifts in function.
- **Strategic implementation:** as the enterprise invested in the new production line, old products had to be eliminated because they would have been parasites on the new lines. They represented little value added and would have compromised the streamlining of the new equipment.

The 45,000 euros intangible investment in the new production line mainly consisted of time spent in preventive action in addition to the 155,000 euros tangible investment in new equipment. Overall, 1,300 hours were devoted to all the work mentioned above (preparing the integrated training material). Such action could be considered an intangible investment, which resulted in four main economic consequences. These were evaluated through a comparative analysis with a similar previous project carried out in the same company without taking into account the intangible investment in socio-economic innovative actions.

- The project enabled the new production line to start without any hold-ups, unlike the previous project. It enabled the company to save 120,000 euros.
- The design of the new production line led to 35,000 euros per year of savings in maintenance costs, allowing the maintenance department to focus on improvements in equipment rather than repairs due to design flaws.
- A third type of savings came from a longer machine life stemming partly from employee involvement in the design process, which led to a sense of responsibility for the machinery. This gained 75,000 euros per year in the lower rate of material depreciation.
- Finally, 95,000 euros annual gains were attributed to total company involvement in redesigning the machinery. The new machinery could be used for multiple tasks, thereby eliminating down time.

The economic balance of the investment may therefore be presented as in figure 6.7.

Figure 6.7: Economic balance of tangible and intangible investments redeemable over 3 years in a new production line

In euros	Cost		Economic performance per year		
	Total	Annual	Total	Annual	
				1 st year	2 nd and 3 rd year
Visible costs and performance	Tangible investment in new equipment: 155,000	51,700	Visible performance (increase in productivity): 60,000	20,000	20,000
Hidden costs and performance	Cost of the intangible investment (consisting of 1,300 hours devoted to present dysfunctions): 45,000	15,000	Reduced hold-ups in production: (only at the start of the new line) 120,000 Saving on maintenance costs per year: 105,000	120,000 35,000	35,000
			Longer machine life (lower rate of depreciation) per year: 225,000 Elimination of down time per year: 285,000	75,000 95,000	75,000 95,000
TOTAL	200,000	66,700	795,000	345,000	225,000
Overall gain in 3 years :	595,000	-	795,000		

Economic results: 278,000 euros for the first year and 158,000 euros in the following years (pay-back period of the investment is less than one year)



6.4.5 Increasing the part played by all employees and not only the sales employees in the sales process (vital sale function concept)

Increased efficiency due to the elimination of dysfunctions may reduce the need for personnel and lead to lay-offs. This may entail reluctance to continue with an improvement programme. Therefore, it is preferable to combine the improvement process with specific measures to increase sales. This strategy will make improvement processes compatible with job security, perhaps leading to increased employment.

ISEOR experience has demonstrated that empowering each employee in the sales process is more efficient than placing the entire burden on the sales department. It leads to an individual sense of responsibility for the growth of the whole company and consequently for each employee's own job security. It must be noted that increased sales in a given enterprise do not necessarily mean unemployment in competing firms if we consider the market for new products and services responding to unsatisfied customer needs. This section demonstrates that each employee in the enterprise has an indirect or direct part to play in the success of the sales process.

An example may be given in a bakery, as in most enterprises, the receptionist has an important role, the machine operators have to be aware of the customer needs, and all the employees have to project a positive image of the enterprise and its products, when outside the premises. In the bakery, it was therefore necessary to train all the participants for their own involvement in the sales process: how to listen to the customer needs and how to negotiate and increase sales through improved customer satisfaction. In this company, sales were once considered to be the sole responsibility of sales representatives. However, the ISEOR socio-economic diagnostic revealed many dysfunctions in the selling process due to a failure to involve each member of the enterprise. Therefore, a project was designed to improve the sales process, involving all employees from the sales department to the administration and even the production line. Six main kinds of development actions were undertaken to improve the efficiency of the sales process:

■ Working conditions:

A feature of the sales representatives' working conditions was that they were very often outside company premises (some would say at the periphery of the enterprise). It was therefore necessary to establish good personal contacts with the other employees to avoid the representatives becoming isolated. Periodic sessions and monthly meetings were organized to allow them to meet their colleagues, become familiar with the other departments. This improved understanding between the representatives and other employees. Reciprocally, some employees from different departments accompanied the representatives on visits to customers, which helped them to understand customer needs. They also learned that working conditions in the sales department were not as easy as they had thought.

■ Work organization:

Representatives were not only concerned with selling and winning orders ; they also had other duties. For example, they delivered to the client, placed

their goods on the shelves, thus avoiding delay and delivery expense. At the same time, they made observations on competing products and reported directly to the sales and marketing departments. The advantage of this work organization was that the company kept « hands-on knowledge » of customer needs, avoiding a conflict between market theorists and actual customer expectations.

■ **Communication-coordination-cooperation:**

Particularly in the case of the annual negotiation of franchises with the supply department of hypermarkets and supermarkets, it was essential for the bakery to develop teamwork in order to present a united front to the customer. For example, the sales representatives handed over negotiations to colleagues when they had reached the limits of persuasion. The strategy was to have a colleague intervene to break the deadlock in discussions. This team-mate had to be accurately informed of what had already been agreed, which sometimes required humility on the part of the first representative so as to promote teamwork by the sales force.

■ **Time management**

Sales representatives had to devote time to immediate results and also to the creation of future sales. They were assessed on sales turnover and on the time spent visiting potential customers. The bonus linked to this kind of objective represented up to 12 percent of their salary and prevented them from focusing only on short-term results. This practice differs from usual incentive systems which are too strongly focused on immediate results and not enough on the creation of potential gains.

■ **Integrated training**

Representatives had to improve their sales pitch as well as their communication skills (responding to questions commonly asked by customers). Listening skills also had to be improved. Meetings were held in the bakery to take advantage of the body of knowledge concerning all possible customer questions. This knowledge capital was incorporated in an integrated training manual aimed at harmonizing the best sales practices in the company. In the training programme, particular attention was given to the fact that sales representatives must earn the respect of buyers to have a negotiating leverage. Sometimes buyers tried to gain the upper hand, which was detrimental to the sales process: representatives had to learn how to keep up their self-confidence.

■ **Strategic implementation**

Two main actions were implemented in the above mentioned company:

- The first was a bottom-up process: sales staff participated in the strategic planning of the enterprise. For example, sales representatives observed that it would be beneficial to change the packaging because of the need for children to carry their snacks in their bags, without spoiling them.



- The second was a top-down process: the sales representatives had to implement enterprise strategy and ensure that they were aligned with the strategic objectives of the company. For instance, representatives were required to adhere to a new sales policy including a change in a product line. A problem arose with this new policy because some representatives preferred the original products which were easier to sell than the new ones. The sales manager was obliged to negotiate with the sales representatives to ensure the full implementation of the new enterprise policy. This was achieved by accompanying representatives on their rounds and by using an integrated training manual

The result of the whole process was that the bakery achieved an annual 24 percent increase in sales over several successive years, which created more jobs. The reduction of dysfunctions yielded a 12 percent increase in productivity per year.

6.4.6 Enhancing vigilance to improve relevant strategic decisions

The complexity of the emerging business environment and its rapid change require close surveillance of many variables (competitors, technologies, laws) and more time spent on analysing their impact. The environment of the bakery was becoming increasingly threatening: there were new competitors, notably chain stores buying frozen dough and cooking it on the spot. The company had to spend time analysing the market and deciding on a course of action. This required data on changes in consumer behaviour due to sociological factors and technological breakthroughs. Therefore, enhancing vigilance became a question of survival for this bakery.

Many companies already have a large quantity of data on the business environment, but this information is not interpreted in such a way as to make it relevant. For example, the maintenance department in the bakery learned from equipment suppliers that one of the competitors was on the verge of buying a large storage freezer. This information had no significance in itself but had to be analysed as part of a set of indicators to obtain an overall image of the potential strategic threat. Due to the variety and quantity of information which had to be gathered, it was impossible to concentrate responsibility for data analysis in one person (e.g. the marketing manager). Therefore, it was necessary to break down vigilance into small domains and to delegate them as indicated below:

- Responsibility for vigilance has been shared among many people. For example, the sales representatives gathered specific data when visiting chain stores, even those which were not their customers. They filled in forms on their laptops and transmitted the information electronically to the head office. Another example was that many employees studied trade journals and picked out relevant information.
- Coordinators were appointed in each field with responsibility for interpreting and synthesising all the data collected by the different services: e.g. analysis of a potential competitor or a new technology. In the bakery, one of the executives kept an eye on a particular competitor to monitor its moves by collecting data such as the following:

- the supply department heard that the competitor was changing its raw material specifications ;
- the financial division noticed in a financial newspaper that the competitor was searching for a small food company to buy ;
- a sales representative discovered a taste testing in a nearby region promoted by the competitor.

The executive gathered all the data and a report on the competitor's strategy to the top management team. This allowed the president to be better aware of the importance of the threat and eventually the company took the sound decision to avoid investing in the same market and to concentrate on other opportunities. Vigilance gave the company the information needed to avoid making expensive mistakes in its strategic choices.

ISEOR experience demonstrates that it is important to be vigilant in four main areas:

- **Products:** notably new products which might be launched by competitors. Being aware of this gives the enterprise more leeway to compensate for the delay in product development or to choose a preventive or defensive course of action.
- **Markets:** new opportunities must be detected as soon as they appear. Concerning the snack business, for example, children who take a picnic to school buy wrapped cakes.
- **Technologies:** a research centre on the other side of the globe might discover a better way to control yeast reactions, which may be quite profitable to the bakery. Obtaining an exclusive patent might result in strategic advantage.
- **Human potential:** e.g. becoming aware that a competitor is planning to recruit a well-known specialist, the company may decide to make a more attractive offer.

6.4.7 Proactive socio-economic strategy

A proactive socio-economic strategy aims to implement a long-term development plan for the enterprise by creating value in both the short and the long term. The strategy has three main characteristics:

- **To develop an internal strategy based on human potential while undertaking an ambitious external strategy.**

Major dysfunctions arise if the external strategy of the enterprise does not take proper account of the internal resources available, consisting mainly of the technology and human potential. While developing an ambitious external strategy, managers should also focus on the internal resources of the organization, strengthening the skills necessary for long-term development. In the bakery, for instance, training programmes were implemented before new products were developed.

- **To respond to and transform the environment.**

The competitive environment should not be seen only as a threat. It is full of hidden opportunities which may make it possible to develop new activities.

Entrepreneurs should learn to transform their environment through their actions instead of deriving their actions from their environment. For example, the bakery had to face strong competition, but sound workplace relations and the utilization of everyone's creativity through socio-economic management allowed the company to discover untapped areas in the market; areas which competitors had not even imagined such as small chocolate brioches in individual packing for children.

■ **To use networking.**

The competitive environment makes it more and more difficult to master all the skills required in a specific area of activity. Managers must learn to find the competence they need outside the company and should use networking to ensure the strategic development of new markets, new products and new technologies. This requires a competency grid (see Chapter 7.3) to identify existing and lacking skills. For example, a food company developed a partnership with a biological research centre to improve product quality, because the company could not afford to hire specialists in this field.

Socio-economic proactive strategic planning integrates two main dimensions:

- **External targets**, mainly products and markets.
- **Internal targets** of strengthening enterprise technology and human potential, and reducing or preventing dysfunctions.

It is important to maintain coherence between the two dimensions. ISEOR experience has demonstrated that a lack of harmony between the internal and the external strategies leads to difficulties in implementation and the risk of untapped potential. For example, there may be some inconsistency when an enterprise tries to increase its production capacity, but loses know-how because of inadequate integrated training. Chapter 7 will explain how to synchronize the two dimensions through internal and external strategic planning.

One of the strategic targets of the bakery was to become a leader in the field, which required the development of its traditional line of products and the creation of new items such as toast bread. To fully succeed in this strategy, the company had to adapt its equipment and invest in new machinery, which also involved the participation and creativity of all the teams as well as retraining.

The internal strategic objectives linked to the external strategy consisted of new management practices including creativity: e.g. the sales representatives had proposed the creation of a new chocolate roll whose unit price would not exceed 0.25 euro, but the cost analysis proved that the value would be 30 percent higher. Due to the development of creativity among the teams and the gathering of many different ideas, the enterprise managed to reach its goal, which resulted in an additional profit of 5 million d'euros a year.

An integrated approach to company strategy has induced the bakery to make strategic choices proposed by ISEOR. These choices were the following (listed chronologically) :

- Constructing a new plant in another region instead of doubling the size of a single mother plant, abandoning the false principle of economy of scale and of size ;
- Developing multi-product factories, abandoning the questionable principle of mass production. This allowed for improvements in customer satisfaction due to just-in-time delivery and product freshness ;
- Making the plants into complete subsidiaries, including marketing and sales. The company has adopted a strategy of overall cost cutting including service costs (delivery) instead of cutting only production costs ;
- Managing the whole range of products, balancing the creation of new products and the updating of older products, as opposed to the haphazard creation of new products ;
- Decentralizing the negotiations with the chain stores: each subsidiary is in charge of a range of major clients, taking into account the concentration in the distribution industry.

We may add further examples of the proactive strategy of this company:

- Moving into international markets: the choice was to develop one foreign market at a time to observe the results and to gain experience. The other alternative was to buy up competitors in various countries, which would have been possible given the capital available ;
- Greater ecological awareness led, right from the beginning, to the use of natural ingredients (no artificial colouring or flavouring) and to waste recycling. This choice was consistent with the fact that most of the employees were previously traditional bakers. Greater awareness of ecological issues brought about two advantages:
 - The development of a new market due to synergy with a trend towards natural products.
 - Savings as a result of not investing in sophisticated artificial preservatives.

In this case, proactive strategic planning was in this case the only way to deal with socio-economic change (see also Chapter 9).

7

THE NEW MANAGEMENT TOOLS

Chapter (6) dealt with the socio-economic change process. In figure 4.1, this process is represented by the axis A.

The present chapter deals with axis B which includes five main management tools, whose purpose is to develop a sustainable form of leadership.

These tools favour sound workplace relations. They are: Internal/External strategic Action Plan (**IESAP**); Priority Action Plan (**PAP**); Competency Grid ; Time Management ; Strategic Piloting Logbook and the Periodically Negotiable Activity Contract (**PNAC**).

To upgrade the organization on a continuous basis, it is necessary for management to be equipped with appropriate socio-economic management tools, as prescribed below.

7.1 The Internal/External Strategic Action Plan (IESAP)

The Internal/External Strategic Action Plan consists of listing and classifying the strategic breakthroughs that the firm wishes to achieve in the medium term (3 to 5 years) as a sort of master plan. This serves as a basis for designing actions to achieve the strategic objectives of the enterprise.

This three-to-five year plan gives management and employees a clear idea of what is important for the development of the company and clarifies their role in the overall plan. For example, all are aware of the stake they have in product freshness because this criterion ranks first in enterprise strategy and in customer requirements. In case the strategy needs to be altered during the three-to-five year period, the medium-term plan is supported by an annual update of the strategic objectives to take account of new threats and opportunities in the environment.

The Internal/External Strategic Action Plan derives from two major forces: the development breakthroughs of the firm and the fight against depletion of resources and negative human energy due to dysfunctions. It consists therefore of two different objectives:

- a detailed definition of strategic actions to be undertaken ;
- the reduction of dysfunctions and the conversion of hidden costs into value-added (which represent a loss of energy to the enterprise and a limitation on its strategic development).

The Internal/External Strategic Action Plan does not only mean defining the long-term external objectives of an enterprise, such as new product and new market development. It is also crucial to making the external objectives consistent with the internal targets, mainly in technological know-how and human potential. It consists therefore of four main areas of action illustrated in the bakery as follows:

- The launching of new products such as new snacks which appeal to children.

- The development of new markets: new sectors are targeted and efforts are made to develop products and brand recognition.
- The finalization of new technologies: e.g., automated baking; strict definition of all baking parameters.
- The development of human potential: the bakers should acquire a minimum of maintenance skills and all the employees should increase their creativity and teamworking.

An example of the Internal/External Strategic Action Plan may also be given in the case of a metal-casting company, where three main goals had to be attained within a four-year period:

- Reducing delivery times by half to increase customer loyalty. This required the development of new production planning software and employee empowerment through incentive schemes.
- Developing new products for the space industry (such as small parts for rocket-boosters). This strategic objective was achieved through equipment improvement, tougher quality control procedures, upgrading staff skills and requiring the sales force to win new clients in the space industry.
- Abandoning some of the traditional products because of fierce price competition from other companies which had relocated to low-wage countries, and because of the strategic choice of the enterprise to concentrate on top-of-the-range products with high value added. It was necessary to reach an agreement with the employees working on the traditional products, as they had to accept changes in their work methods, abandon some tasks and be retrained.

It will be noticed that in each of the three strategic breakthroughs of this enterprise, it was necessary to operationalize the strategy through the four main areas of strategic planning already mentioned:

- products (e.g. rocket components)
- markets (finding new clients)
- technologies (new equipment)
- human potential (upgrading skills)

Very often, enterprises pay more attention to the external strategy concerning products and markets than to the internal domain concerning technologies and human potential. The Internal/External Strategic Action Plan, however, combines the two, because technologies and human potential are considered as important as products and markets. Mastering a new technology and gaining a competitive advantage from it requires the development of human potential. A technological breakthrough requires highly qualified personnel and close cooperation to enhance the knowledge assets and potential of the enterprise. Implementing the internal and external strategic plan therefore requires the involvement of people at all levels of the workplace from top management to the shopfloor.

7.2 The Priority Action Plan (PAP)

The priority action plan helps managers clarify the high value added tasks which must be implemented to achieve the strategic goals of the enterprise. It also identifies the low value added tasks which the enterprise has to eliminate. Thus, the **PAP** consists of two kinds of actions: those which stem from the external strategy and those aimed at preventing dysfunctions, resorting to the internal strategy.

Actions which stem from external strategy (see figures 7.1.a and 7.1.b)

In the metal casting company, the first strategic goal consisted of shortening the time needed to provide clients with a quotation, because this could result in a strategic advantage: quoting a price required a technical survey to analyse the difficulties involved, for instance, in producing a spare-part for an aircraft.

The quotation has to be both swift and accurate because even if unforeseen difficulties arise, and because clients favour companies which respond quickly. To achieve this strategic objective, the enterprise had to introduce a new organizational process called « concurrent engineering ». Among other things, this required improving coordination between marketing and research through well-prepared meetings of assembling technicians from both departments.

They have sessions working on targets with a specific large office. Figures 7.1.a and 7.1.b show the transformation of the strategic plan into concrete actions. This approach compels management to be clear and concrete, and to schedule all the steps necessary to reach the objective. The figures are also educational in that they help managers explain clearly how and when each participant in the project will be involved. These templates also facilitate coordination of four main managerial functions:

- **Spurring:** through transforming strategic objectives into priority objectives, and then into priority actions;
- **Decentralization:** through the commitment of each and all participants;
- **Synchronization:** through scheduling priority actions;
- **Enhancing vigilance:** through specific focus on potential hindrances in the implementation process of priority actions.

Presenting and discussing those templates may also result in a more participative leadership management style on behalf of top and middle managers.

Figure 7.1.a: Transformation of the Internal/External Strategic Action Plan into concrete actions

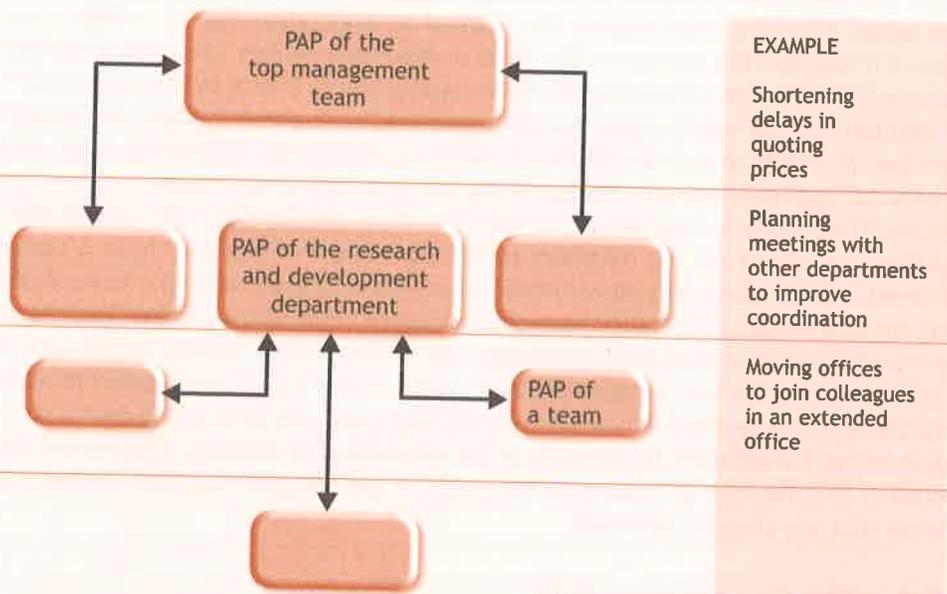
(objectives of the PAP stemming from socio-economic strategic planning: example of shortening the quotation process in a metal company)

STRATEGIC AXES	OBJECTIVES	PRIORITY ACTIONS	DEPARTMENTS/ SERVICES OR PEOPLE CONCERNED		FORECAST PLANNING (1st semester 2008)						COMMENTS	
			marketing	research	J	F	M	A	M	J		
Shortening the delay in providing the clients with a quotation	To quote a price within a week instead of one month	Improved coordination between marketing and research departments Different department staff members put together in the same room	Mr A	Mr B Ms C	→							Meetings have to be planned An office must be extended

Principles :	Spurring energy	Decentralization	Synchronization	Enhancing vigilance
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Figure 7.1.b: Breaking down a strategic objective in a metal casting company



In this example, a number of employees raised the problem encountered when moving partitions which contained the electric wiring. Following several meetings, they found a more appropriate solution, consisting in utilizing a disused archive store. This required that several people had to change their offices, which they readily accepted because they had taken part in the decision process.

Actions to prevent a recurrence of dysfunctions

The second part of the **PAP** consists of identifying dysfunctions and preventing their recurrence. In the metal casting company, it was necessary to improve ergonomics to avoid backaches. Thanks to the **PAP**, all development actions in this company were synchronized according to a master plan, tailored to each level. For instance, giving a quotation, the objective of shortening delays required many actions at lower levels of the company, such as planning meetings with the different departments to improve coordination and moving offices to work together in a large place.

All the actions which stem from strategy and from the analysis of dysfunctions are listed and the managers estimate how much time is required for the development actions. It sometimes happens that the first half of the year may become overloaded in terms of time management. Noticing this will allow management to prioritize the actions effectively and even to choose between postponing or abandoning some actions which are less urgent.

The PAP also provides a means of enhancing teamwork. For example, in the bakery, each team met every six months to assess how the changes were worked and to plan activities for the next six months. The development actions came from both the shop-floor and management teams. For example, the launching of a new product, which is an action stemming from internal and external strategic planning, will involve many teams throughout the enterprise. The general objective is broken down into many specific actions. The part played by the team responsible for one of the production lines might be to decide how to inject chocolate syrup into a doughnut. A single new product involves hundreds of such development actions. Consequently, the priority action plan helps management cope with the launching and ensures that each team functions correctly. If one link fails, it could delay or harm the whole process and might give the competitors an advantage. All members contribute ideas and therefore have a vested interest in the product; they all state their own concern for improvement actions. Workers are thus made aware of their personal importance in the whole process. Team leaders participate in a semi-annual seminar and presents their priority action plan to others including the top management team. This seminar allows team leaders to better synchronize the development actions, to exchange best practices and to create cohesion among the different departments of the enterprise. For instance, it allows the production line manager to know how the products are sold and the sales manager to know how the products are made.

7.3 The Competency Grid

An important management tool is a visual representation of the skills of each team member. Figure 7.2. provides an example of a competency grid in an accounting department. Each line represents a given person's skills and each column represents an operation to be implemented within the team. There are different kinds of operations:

- Some are day-to- day operations such as preparing invoices.
- Others are development tasks stemming from the **PAP**: e.g. accountants are now in charge of analysing ratios on the balance sheet they have edited (which is a recent addition to their job specification in the interests of job enrichment).
- Some represent the qualities required, e.g. speed and accuracy in processing data.
- New operations may be linked to the use of new software in the coming year.

In figure 7.2, the following features should be noted:

- There are weaknesses regarding operations F through K. If Bill is absent, nobody is skilled enough to replace him, resulting in high dysfunction costs because of mistakes. These columns therefore represent the weak links in the team.
- A second observation concerns the last three people on the list Peter, Tom and Bob. Bob was hired recently and is still in training, while Tom, although a long-serving employee, has not acquired many of the basic skills required for this job: the only two operations where he is either entirely or partly autonomous are in data entry (operation A) and in verification of bank state-

ments (operation D). Since operation A will eventually be automated, this leaves Tom to perform low value added tasks. The analysis of the reasons for Tom's lack of skills showed that his superior had not anticipated the dramatic change in this area.

One may interpret this as short-sighted management since it would not have been difficult to retrain Tom over a period of time with the help of integrated training manuals.

The competency grid is an important management tool for the following reasons:

- The grid represents an important part of the intangible assets of an enterprise. In the accounting department, for instance, the cost of integrated training devoted to multi-skilling can be evaluated at double the cost of tangible assets consisting of hardware, software and facilities. Paradoxically enough, in this accounting department, tangibles were assessed in the balance sheet with great precision (down to the last decimal place) but no assessment at all was made of intangibles, which cost the enterprise twice as much! The competency grid is a qualitative evaluation of an important part of the intangibles: integrated training investment.
- The competency grid allows a clear visualization of the skills available in a graphic and systematic form. Semi-annual updating is done at the same time as the **PAP** to prepare occupational training schemes. In the accounting department, it was decided to prepare integrated training manual to overcome the identification by the table of weaknesses. Management may also use these tables to prepare for decisions related to retirements, recruitment, promotions, reorganization and investment in new technologies. In the case cited in figure 7.2, the finance manager had to accelerate the training of Bill's second-in-command, John, due to Bill's promotion to chief accountant in a new subsidiary of the enterprise. The competency grid can also be used in half-yearly assessment meetings to enhance training schemes: e.g. in the accounting department two issues were brought up when Suzan had a meeting with the superior.
 - They tried to find a common ground for the discussion regarding the assessment of skills made by both parties: the superior of Susan had not realized that she had some previous experience in operation C (inventory) and this resulted in upgrading her evaluation on the table.
 - They discussed her prospects in terms of career and of training. A mutual decision was made which led to Suzanne enrolment in a software training programme to prepare the new programmes which would be set up in the accounting department the following year.

7.4 Time Management

It is extremely important that all the participants in an enterprise spend enough time on the new development tasks to implement the strategy rapidly and efficiently. It is therefore necessary to take three major steps in time management to ensure that the strategy is fully integrated in the daily schedule of each participant.

Accurate scheduling of development actions(see figure 7.3)

Implementation of the priority action plan requires the subdivision of each major development task into smaller « sub-tasks », which should be scheduled and recorded in the diary of each actor involved. In a bank, for example, the development of a new service combining insurance policies and check accounts required rigorous time planning for the tasks presented in figure 7.3. Setting up this schedule required close cooperation and synchronization of all participants during the bi-annual meeting on to the priority action plan.

Figure 7.3: Development of a new service in a bank

Order	Operations	Employees involved	Time allocation	Deadline
1	Defining conditions proposed to clients	<ul style="list-style-type: none"> Marketing manager Branch managers 	3 two-hour meetings	January
2	Comparing competitors' products	<ul style="list-style-type: none"> Marketing and assistant manager 	5 days	Mid-February
3	Pre-launch product testing in a given branch	<ul style="list-style-type: none"> Branch manager and sales staff 	40 hours	End of March
4	Preparation of product pamphlets including test results	<ul style="list-style-type: none"> Chairman of the bank Branch sales and marketing managers 	2 two-hour meeting	Mid-April
5	Product launch	<ul style="list-style-type: none"> Top management team including marketing manager All branch managers 	Half-day seminar	End of April

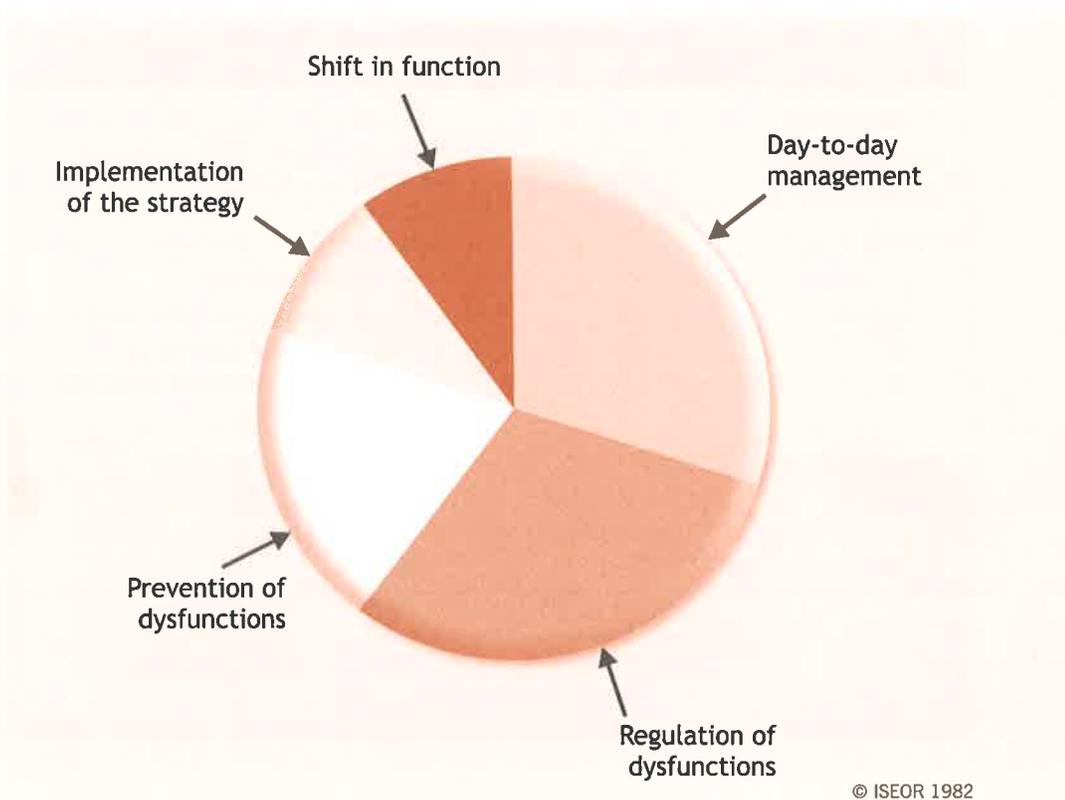
Cleaning-up of low value-added tasks

Implementing new high value added operations may result in overloading the participants if there is no simultaneous cleaning up and up-rooting of the existing low value added tasks. To involve each employee, it is necessary to introduce self-assessment time management analyses: management and employees make a precise record of all daily tasks performed and the time devoted to each one. To ensure cooperation and obtain accurate analyses, this exercise should not be subject to surveillance by management and executives: employees should remain autonomous during their self-analysis of time. This exercise will be followed by an evaluation of value added as illustrated in figure 7.4 which represents the time allotment of a branch manager in a bank and indicates five major types of task according to their value added.

- Tasks devoted to day to day management which result in average value added: e.g. receiving clients.
- Shifts in function, which result in average value added minus the excess salary: e.g. the manager prepared a report that could have been written by a subordinate.
- Management of dysfunctions, which results in no value added: e.g. extending the previous example, the manager spent six hours a week correcting mistakes in accounting reports.
- Prevention of dysfunctions: e.g. time spent on preparing an integrated training manual aimed at preventing quality defects. This creates potential gains due to a reduction in future non-quality costs.
- Implementation of the strategy resulting in the creation of potential gains: e.g. time spent on developing a new product.

The last two tasks represent time dedicated to the priority action plan (PAP).

Figure 7.4: Time allotment indicating five major types of tasks (example of a branch manager in a bank)



The task classification presented in figure 7.5 allows everyone to classify the various tasks that they perform: to be maintained (e.g. receiving clients), to be delegated (e.g. reports), to be transferred or discontinued (e.g. dysfunctions and mistakes).

Figure 7.5: Task classification to upgrade time management

Tasks	Initial	Definition
TO MAINTAIN e.g. receiving clients	A	Tasks which are included in the job description and which cannot be permanently delegated
TO DELEGATE e.g. report preparation	B	Tasks which can be occasionally or repeatedly delegated: <ul style="list-style-type: none"> • to overcome a work-overload or • to increase the motivation of participants by raising their level of responsibility
TO TRANSFER OR ELIMINATE e.g. time wasted due to dysfunctions	C	Tasks which should not be performed any more: <ul style="list-style-type: none"> • Tasks which are not part of the function • Tasks that are useless • Tasks which should be abandoned or reduced by transfer

The branch manager in the bank carried out the time allotment evaluation over a nine-day period. As a result, he was able to make three major observations:

- His schedule was scattered; he was spending a mere 20 minutes on each task.
- There was a large number of low value added tasks (129 out of 285 tasks were considered to be of average or low importance).
- Some tasks were disruptive: 20 percent were due to the delay in preparing for the board of directors' meeting.

The manager decided to restructure his time management through:

- Collaborative delegation of certain tasks to his subordinates (on the basis of concerted delegation methodology; see Chapter 6.4.1).
- Reallocation of time gained (30 percent of his time) to the development of new innovative projects stemming from the internal and external strategic plan.

Efficient time usage

The efficient use of time can be doubled if it is better organized. For example, excessive and superfluous interruptions can hinder concentration and distract from profitable time usage. ISEOR diagnostics in 1,200 enterprises and organizations show that managers are too often disturbed by untimely and intrusive telephone calls and that top management team meetings are often poorly prepared and directed. Two fundamental solutions may be adopted by enterprises to improve time usage efficiency:

- Increasing the use of **written messages** instead of oral communications. This would mean more reports and internal memoranda, and written comments on files and other documents. This permits colleagues more autonomy to understand the significance of the message and prepare an adequate response. It compels clarity of thought and therefore, in some cases, autonomous problem-solving. It allows better quality in decision making, as it demands reflection during the time lag between question and answer. Written messages do not replace oral communication which is necessary for dynamic interaction, but an appropriate balance between the two should be established according to the enterprise needs.
- Improving the **preparation for meetings** and the way they are conducted in the enterprise. Meetings, especially at top-management level, represent an important intangible investment, taking into account the costly time spent. Better preparation for meetings requires the designation of a topic leader who has prepared a scenario for decisions. It is also important for each participant to respect the time allotted to each subject, under the supervision of a chairman. A follow-up report must be drafted during the meeting to clarify the concrete actions to be taken by each participant before the next meeting. The purpose of this work method is not to increase management control but to develop consistency between intention and actions: this enhances the image of management reliability and favours sound professional relations.

7.5 Strategic Piloting Indicators (or Strategic Piloting Logbook) (see figure 7.6)

In order to be efficient, managers have to implement a set of strategic piloting indicators. These indicators should strike a balance between everyday performance based on routine management (immediate results) and development actions leading to the creation of potential gains.

Indicators of routine management and immediate results:

Routine management requires three kinds of indicator:

- **Internal activity** refers to the volume of activity during a given period (e.g. a day, a month or a year). In the bakery such indicators could be the number of packages produced on each production line, the number of deliveries made by the logistics department, the time spent on repairs in the maintenance department and so on. The description of the activity also includes indicators of dys-

function costs: waste on production lines, delivery delays, overconsumption of fuel by the delivery trucks.

- **External activity** refers to the business environment of the enterprise e.g. vigilance indicators on competitors. There may also be indicators of the external reasons for dysfunctions e.g. poor quality flour may alter the dough. Therefore, careful vigilance over suppliers is required.
- **The immediate results** take into account both costs and earnings. In the case of departments and services which have direct sales clients, measuring income is easy. However, it is seldom measured in the case of indirect services such as the administration. It is therefore necessary to improve customer-supplier relationships within the enterprise. For example, the maintenance department in the bakery had two main clients: the production lines which paid for repairs and equipment improvement, and the top management team which commissioned surveys on new technologies.

Costs and income are balanced to calculate the profits, giving the immediate result. The profit is analysed by taking into account the components of the dysfunction costs such as overconsumption or time wasted. In the bakery each production line manager calculated the impact the waste of dough may have on the immediate results.

These strategic piloting indicators enable enterprises to improve the management information system concerning cost and profit accounts. They help managers be more aware of the reasons for poor performance through the calculation of hidden costs and untapped potential.

Indicators of development actions and creation of potential

These indicators focus on the future evolution of the company. Again there are three main kinds of indicator:

- **Indicators of evolution**
 - A comprehensive list of actions stemming both from strategic planning and from the analysis of reasons for dysfunctions. The list indicates what development actions are required to implement the internal and external strategic planning for products, markets, technologies and human potential. In the bakery for example, new research was needed to create new products.
 - A list of the dysfunctions pinpointed by the socio-economic diagnostic, which should be avoided through preventive action. For example, in the same company, multi-skilled employees had to be developed to avoid delays on the production line when staff were absent.
- **Indicators linked to the Priority Action Plan**

These consist of a selection of the development actions listed in the indicators of evolution, which must be implemented within six months. The tangible and intangible investments required by the priority action plan are assessed in order to balance the total investment to be made by each department or the enterprise as a whole. For example, the bakery decided to spread out the **PAPs** devoted to a new product to a new product because concen-

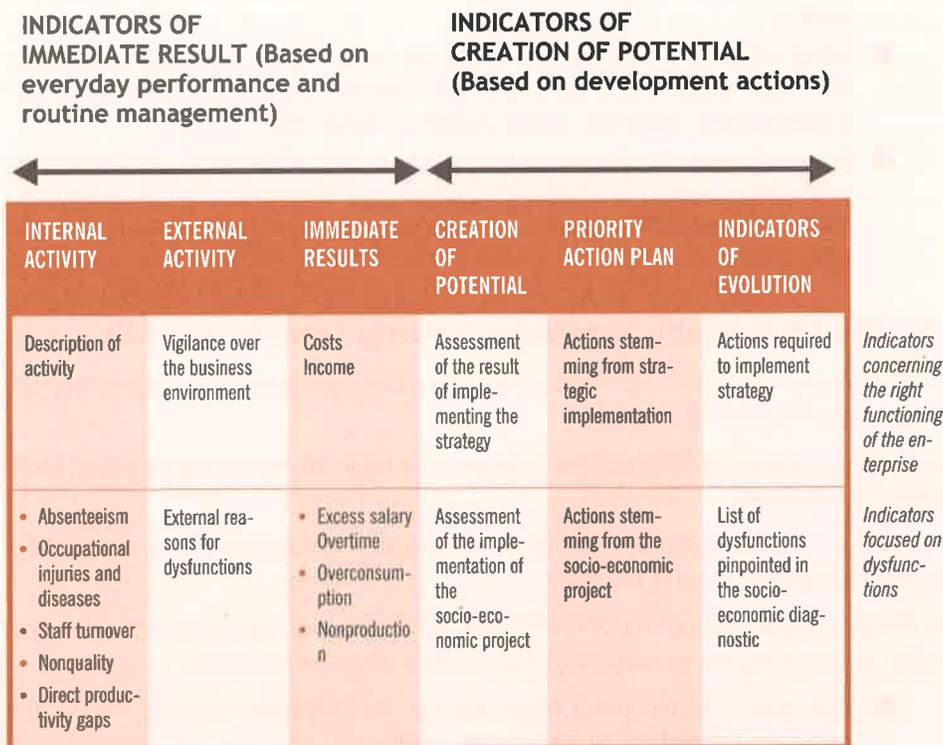
trating the investment in a single six-month period, would have caused an economic imbalance.

■ Indicators of creation of potential

These evaluate the results of the previous **PAP** concerning the actions stemming from both strategy and the prevention of dysfunctions. In the bakery for example, a new product was ready to be launched on the market (strategic implementation) and multi-skills had been developed among different teams (prevention of dysfunctions). These results were not meant to produce short-term profits (immediate results) but long-term and sustainable economic performance (creation of potential).

Figure 7.6 shows the organization of the different sets of Strategic Piloting Logbook. The two middle columns present an evaluation of the overall economic performance of a department or a company in terms of both immediate results and creation of potential gains.

Figure 7.6: Strategic Piloting Logbook



Use of Strategic Piloting Logbook by top and middle management

The Strategic Piloting Logbook is a fundamental management tool for the following reasons:

- All managers use Strategic Piloting Logbook as a personal tool for managing their service and making decisions in a context of increasing complexity. Therefore, they improve the quality of decisions in different fields: strategic decisions, decisions related to the daily running of the enterprise and decisions to prevent dysfunctions.
- Strategic Piloting Indicators include financial data (costs, annual results), quantitative data (planning for implementation of the PAP) and qualitative data (customer satisfaction). This provides managers with a complete picture of their performance and serves as a basis for evaluating staff performance.
- Strategic Piloting Indicators enhance strategic vigilance: they scan the business environment and identify specific information needed for strategic decisions.
- They ensure improved cooperation among teams and departments, since the structure of the tool is the same for all managers even if the information varies.
- Some indicators are presented on figures, which help employees to visualize the improvements or problems in their departments. These figures are discussed during meetings, which enhances leadership.
- Some indicators are only aimed at local purposes while others are addressing more global data. The strategic Piloting Logbook also consists in consolidating many local indicators through the use, if needed, of information systems softwares.

7.6 The Periodically Negotiable Activity Contract (PNAC)

The Periodically Negotiable Activity Contract is a system designed to fix targets and negotiate ways of achieving them.

This negotiating tool has to be used with three other socio-economic management tools previously discussed.

The **PNAC** allows the enterprise and its employees to negotiate the efforts required for successful implementation of the **PAP**.

The **PNAC** is particularly connected with the PAP, the strategic piloting indicators and another socio-economic management tool called « economic balances »:

- The priority action plans help organize the alignment of performance improvement objectives in a synchronized way.
- The strategic piloting indicators measure how targets are being met. These scores are either qualitative (i.e. level of training for a new machine or work procedure?) or quantitative or financial (i.e. reduction in delays or in quality defects).

- The economic balances compare the cost of the means to reach the objectives with the returns once the targets have been attained, in term of immediate results and creation of potential gains.

Figure 7.7: The Periodically Negotiable Activity Contract (PNAC)

THE ENTERPRISE	TEAM AND PERSONS
Strives to improve training, equipment, incentives and so on, in order to implement the PAP	Increase their collective or individual efforts to succeed in the PAP : e.g. : <ul style="list-style-type: none"> • new tasks to be implemented • new skills to be acquired • more discipline

The PNAC includes different kinds of objective:

- Collective objectives affecting everyone in the enterprise and aiming to develop solidarity among all participants in their efforts to meet objectives such as: reducing delivery delays, cutting design lead time, introducing up-to-date technology without disrupting the production flow, etc.
- Semi-collective objectives at a given level in the enterprise designed to improve cohesion within one department or agency and to better meet e.g. the challenge of cost control to maintain the competitiveness of a product or a service.
- Common objectives improving cooperation between people in different departments sharing the same project or aim. There is, for instance, a common quality objective shared by marketing managers and design engineers when designing a new product to satisfy a consumer needs.
- Team objectives: these aim to strengthen solidarity within a group whose members are accountable to the same manager. They concern productivity and quality improvement targets.
- Individual objectives are a part of the negotiations between superiors and each team members on the efforts to be made. They concern new skills to be acquired or long- term objectives such as studying a problem and proposing solutions over a six-month period. The importance of individual objectives is proportionally greater for top executives than for other employees. There is often only one individual objective ascribed at the workers' level, while there are five or six individual targets for a senior manager.

Figure 7.8 provides an example of a **PNAC** in a metal casting company. The various targets are interwoven to improve solidarity at group level and to stimulate individual efforts.

Figure 7.8: Example of a worker's Periodically Negotiable Activity Contract in a metal company

Types of objectives	Objectives	Weighting (out of 100 percent)	Target level	Means
General collective target	Reduction in delivery delays	30 percent	Going from an average of 80 days delivery to 60 without decreasing the quality	Improved flow of the process and setting up of computer-integrated manufacturing
Collective production target	Respect for budget by reducing waste	20 percent	Improvement of the margin by 100,000 euros	Cost control managers will set indicators
Team target	Increase of productive use of equipment	30 percent	Increase of 500 productive hours in the six-month period	Maintenance will improve reliability of the equipment
Individual target	Improvement of skills	20 percent	A list of precise new tasks to be accomplished	Integrated training given by the superior

The objectives are negotiated at each level: at team level for team objectives, and at individual level for individual targets. Moreover, all participants negotiate both targets and means with their superior during interviews that take place every six months. These talks deal with the feasibility of objectives and the ways to achieve them. The means necessary to achieve targets are spelt out by the **PAP** and by the **PNAC** and sometimes negotiated in other parts of the enterprise. For instance, reducing delivery delays in a workshop requires that the data processing department improve the computer integrated manufacturing software.

In numerous cases the means consist of allotting time for improvement tasks foreseen in the **PAP**. Perfecting the use of new equipment may involve a hundred hours of joint work by two departments. A specific means might require a manager to train the team in new skills.

Negotiation can lead to changing the objectives if they prove to be unattainable. Workers may in some cases defend their own views and provide ideas on new objectives.

Depending on the success rate of the **PNAC**, incentives are distributed to the people involved, and could amount to 5 percent to 10 percent of their wages. The strategic piloting indicators must therefore include indicators to measure the achievement of targets.

The **PNAC** is a tool initiated by top management, but it does not exclude union participation. Unions and other labour representatives may have two possible contributions to make:

- Management and workers' representatives may debate on the charter of the **PNAC**. This charter includes all the rules governing **PNAC** negotiations between superiors and subordinates. It ensures objectivity in establishing evaluation indicators to measure the achievement of objectives. It is especially important to satisfy worker representatives that no kind of favouritism exists.
- At the level of services or departments, worker representatives may have to ensure that the implementation of the method is trustworthy and honest: thus, the evaluation indicators should be objective and unbiased.

The **PNAC** method has been tested in many enterprises since 1985. The evaluation of results was carried out through in-depth interviews and performance measurement. All categories of participants were involved in assessing the methodology: top management, executives, employees, workers, and union and personnel representatives when these existed. Three major points emerged:

- From the social performance point of view, the **PNAC** proved to be a good decentralized method of negotiation at all levels of the enterprise, with the following advantages in particular :
 - Development of solidarity among the different parts of the company, due to collective and common targets.
 - A greater degree of fair play since the individual targets allowed rewards for all in proportion to their efforts, especially in relation to training in new skills and the assignment of new responsibilities.
 - Improvement in relationship between management and unions due to the pursuit of a common economic target. The problem was not to negotiate problem of shortage, but to create more wealth together. The issue was to create new surpluses while improving qualitative, quantitative and financial compensations for salaried employees.
- **From an economic standpoint the SEAM methodology has enhanced two main aspects of enterprise performance :**
 - An improvement in the immediate results of the enterprise due to the greater involvement of personnel in quality and productivity improvement and the reduction of dysfunctions.
 - An increase in the long-term economic results through the creation of potential, resulting from stimulating implementation of the strategy
- **The evaluation also demonstrated that three elements have to be taken into account when implementing the PNAC:**
 - First, top management should be aware of the stakes involved in improving negotiating practices within the enterprise. This requires, in particular, identifying dysfunctions and their costs in order to reveal the pool of effectiveness and efficiency that really exists, although nobody has yet been aware of its presence.

- It is then necessary to develop a climate of confidence between the managers, employees and worker representatives, to create the conditions for sound workplace relations management. Management tools such as priority action plans, tables of skills and strategic piloting indicators help promote a climate of trust.
- Finally, it should be emphasized that the **PNAC** is not a substitute for existing negotiation practices in the enterprise. One must take into account the history of labour relations in the firm. In particular, it may be necessary to maintain ongoing negotiations concerning general pay increases and profit sharing plans provided for in the legislation or in collective agreements.

8

POLITICAL AND STRATEGIC DECISIONS

8.1 Definitions

The political and strategic decisions axis (axis C in figure 4.1) is illustrated in the study on the bakery where the following decisions were taken:

- fine-tuning of corporate values: all ingredients should be free of dye and preservatives, in harmony with the ecological values of the company ;
- Determining the adequate number of hierarchical levels in the company structure to enhance communication ; together with functional and operational cooperation
- focusing on pay rewards for creativity, not only for productivity gains ;
- designing a career development system encouraging multi-skills and initiative rather than the traditional hierarchical promotion ;
- encouraging dialogue and negotiation as it is preferable to resolve problems in the early stages rather than having hidden conflicts which result in hidden costs.

This set of rules defined the policy axis in this company and was characterized by a high level of coherence, especially between the external strategy itself and the internal political decisions on the pay and reward systems, the choice of organizational structure. This axis may also serve as a framework for the improvement process and for the management tools shown in axis A and axis B (figure 4.1).

More generally, there are two main kinds of policy and strategic decision: one concerning the structures of the company and the other related to social and behavioural rules²¹.

²¹ The fundamental hypothesis of the socio-economic approach to management is that the functioning of companies or organizations is based on the interaction between structures and behaviours, as it is illustrated in figure 3.1.

8.2 Improvements in enterprise structure

Five kinds of structure are identified; they are illustrated as follows in the bakery:

- **Physical structures:** e.g. location of the company and architectural design of the premises. The bakery chose strategic scattering of several small plants to enhance contact with local customers as opposed to investing in a centralized mega-plant.
- **Demographic structures:** the company encouraged diversity in its hiring policy, including a balance between male and female workers at all levels of the hierarchy.
- **Technological structures:** the company decided to standardize machinery and equipment to lower maintenance costs and facilitate the implementation of technological breakthroughs in all the plants.
- **Organizational structures:** the company broke down organizational walls that hampered communication, e.g. maintenance employees were put directly onto the production lines.
- **Mental structures:** all employees accepted a multi-skills policy which might mean working as a baker and as a front line maintenance operator.

8.3 Behaviour ethics in the enterprise

The enterprise has to negotiate behavioural rules and make them more explicit. It is particularly important to obtain a consensus on the enterprise rules and to avoid behavioural discrepancies resulting in high dysfunction costs. For instance, the operators in the bakery have a dress code which contributes to the company's image and ensures hygiene in the workplace. Political or strategic decisions are related to the five main kinds of behaviour shown in the four-leaf clover (see figure A.1.2 in Appendix 1). They are illustrated as follows in the bakery:

- **Individual behaviours:** everyone has to respect the schedules and to be punctual because of the need for a full team on the production lines. Indeed, the cost of starting the production line only an hour late is higher than the monthly wage of a worker.
- **Work groups behaviours:** the company has to avoid conflicts along the production line. This could be done by giving the team a common goal and defining the rules. In the production department, for example, a daily meeting was held before employees went to take work station, to avoid possible problems with the quality of the dough.
- **Professional categories behaviours:** in the logistics department, decisions consisted of enhancing anticipation at all levels and in all situations. The truck drivers had to respect simultaneously their delivery schedules, comply with safety regulations and minimize fuel consumption and brake usage through smooth driving. Anticipation led to success in these three seemingly contradictory objectives and was encouraged by reward systems based on global and sustainable socio-economic performance.

- **Pressure group behaviours:** the bakery is partly owned by a family whose members had different positions, under the management of two older brothers. One of their brothers is a shop floor worker who has to respect the decisions of his superior who is not a member of the family. This rule allowed the company to avoid high hidden costs resulting from the inappropriate appointment of family members. It was in the interests of both company and family to comply with this directive, to guarantee the continued success of the bakery and the increased value of the stock equally shared between 5 brothers up to 70% of the capital.

It made it possible to avoid a severe dysfunction, frequently found in small and medium size firms, due to the prevailing confusion between company governance and company management.

- **Collective behaviours:** transparency concerning dysfunctions, as well as constructive proposals are required throughout the bakery. Monthly team meetings are held at every level of the company, involving all employees. Workers are strongly encouraged to bring up any subject concerning the functioning of the company and to express themselves freely without fear of repercussions. Such an attitude promotes creativity in the enterprises development.

Political decisions related to structures and behaviour take the form of written documents which avoid dysfunctions due to ambiguity. An applicant for a baker's position in the bakery read the charter on behavioural rules and discovered that he was also supposed to be trained in first-level maintenance tasks. Being reluctant to accept this, he withdrew his application, avoiding possible future conflicts and hence dysfunctions. A written charter is also necessary to provide clarity in the use of management tools, notably a charter devoted to the periodically negotiable activity contracts and the competency grids.

The bakery instituted socio-economic management based on the principle of equity. Negotiations take place to reach a better balance between the contribution made by workers and the psychological and financial returns. A contract of this type is more effective and efficient in the long run than unfairness.

8.4 Different kinds of political and strategic decisions

Political and strategic decisions may range from purely traditional management to a true socio-economic strategy. One may identify four main kinds of political and strategic decisions²² as presented in figure 8.1.

Figure 8.1: Four main kinds of strategy

	Social Goals	SOCIAL GOALS ARE NON- PRIORITY	SOCIAL GOALS ARE PRIORITY
Economic Goals			
ECONOMIC GOALS ARE NON-PRIORITY		Laxity and suicidal strategy	Socio-political strategy
ECONOMIC GOALS ARE PRIORITY		Techno-economic management (Traditional strategy)	SOCIO-ECONOMIC STRATEGY (PROACTIVE AND CONTRACTUAL STRATEGY)

- Laxity and suicidal strategy is when neither social nor economic goals have priority; this leads to a consensus obtained through laxism, and corresponds to a secure income regardless of work performance. It may result in bankruptcy or severe financial losses in a competitive environment.
- Socio-political strategy is when only social objectives have priority. Policy decisions are taken to satisfy the personnel of the enterprise generally. However, both customers and shareholders may object, leading to severe setbacks.
- The traditional techno-economic strategy is the dominant formula in a competitive environment. The social objectives are considered less important than the economic objectives to comply with shareholders' interests and customers' needs. However, this strategy is not sound in the long run because it does not take into account the huge hidden costs which do not appear in the accounts.
- The socio-economic strategy consists of policy and strategic decisions which strive to make the social and economic objectives compatible. The aim is to develop a « win-win » relation among personnel, shareholders and clients.

It should be reminded that pro-active socio-economic strategy results in high flying profitability of intangible investments (see above 5.3.3.).

²² See Savall, H., (1978). Méthode de diagnostic socio-économique des entreprises et des organisations (Colloque IAE de Nice), published by EFMD, Brussels, titled « A method for a socio-economic diagnostic of the enterprise ».

9

PROMOTION OF SOCIO-ECONOMIC MANAGEMENT

Two main points should be highlighted:

- the value of the socio-economic strategy for enterprises
- the role of different actors in the production of the socio-economic management skills.

Value of the socio-economic strategy

Employers and managers often have sufficient training in their technical field and in business management, but they have poor leadership skills. This results in a high level of untapped potential and unsustainable development, especially in a competitive environment. If enterprises consider only economic development, neglecting social factors, high dysfunction costs will detract from the company and its environment. However, targeting social efficiency alone and respect for high social standards do not automatically lead to economic profitability.

The socio-economic strategy outlined in Chapter 8 is a means to reach both economic and social targets, it may even enhance economic efficiency in terms of immediate results and the creation of potential gains.

Vital role of the different actors in the development of socio-economic management competencies

Several ideas could be suggested.

- Employers' organizations should be informed of this method, and they could popularize it among their members.
- Management consultants should be trained to intervene in enterprises and help managers implement this method. They would be responsible for training the management team in socio-economic leadership skills.
- Governments might also encourage the use of socio-economic management through seminars and workshops, not excluding its adoption in their own ministries and public sector enterprises to achieve socio-economic efficiency.
- Unions should also be aware of these socio-economic methods as they may facilitate negotiation with employers and the reduction of conflictual positions. The SEAM enhances the development of compatibility between social and economic target.

APPENDICES

APPENDIX 1:	Origins of the SEAM
APPENDIX 2:	Presentation of ISEOR
APPENDIX 3:	Examples of creation of potential gains
APPENDIX 4:	Dysfunctions analysis
APPENDIX 5:	Calculation exercises of hidden costs and performance in one's own enterprise
APPENDIX 6:	Glossary
APPENDIX 7:	Abstract
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Appendix 1 ORIGINS OF THE SOCIO-ECONOMIC APPROACH TO MANAGEMENT

In the preface to H. SAVALL's first book¹ published in 1974, Mr. Jacques DELORS (who was to become President of the European Union) expressed the hope that both managers and unions would use the ISEOR management negotiating tools and experiment with this method. His interest in the socio-economic Approach to Management was that it could help restore the economic balance of enterprises while enhancing management-employee cooperation.

Fundamental hypotheses² and validated principles

Improving overall performance of the enterprises means taking the premise that there is a double loop interaction between social and economic factors, between the quality of functioning and economic performance, and between behaviours and structures (*the socio-economic-principle*). Productivity goes hand-in-hand with high-quality social performance provided organizational change is reckoned in economic terms (*the measurement principle*). Underestimating the socio-economic « tension » leads inevitably to reduced performance and losses (*the hidden cost/performance principle*).

The management of human resources for economic ends is based on a set of universal principles and context-dependent variables (*the «generic contingency» principle*).

The economic approach to work redesign requires a measurement apparatus as well as numerous experiments in various domains and types of organizations (*the experimental research principle*).

Further, organizational wastage resulting from the gap between operations expected and those achieved can be realistically assessed and reduced only if operational indicators are designed to measure economic results which include dysfunctions and change costs. The ensuing implementation of change is a balancing and synchronizing process in the strategy. The economic evaluation of social performance not only reconciles the economic and the social aspects of people at work, but also spurs organizational innovation, effectiveness and long-term efficiency. It increases social and economic performance inside and outside organizations, blurring artificial boundaries.

In order to achieve such a programme, it is necessary to go beyond the observation of present difficulties and build a coherent theoretical frame. This incorporates the complex interplay of human, technological and economic variables affecting organizational performance such as multi-disciplinary and global approach provides a useful basis for

¹ Savall, H. *Enrichir le travail humain : l'évaluation économique*. Préface de Jacques Delors (Paris, Dunod, 1974-1975). Spanish translation : *Por un trabajo más humano* (Madrid, Tecniban, 1977). English translation : *Work and people: an economic evaluation of job-enrichment*, Preface by Ansoff, H.I., (New York, Oxford University Press, 1981).

Savall, H. : *Reconstruire l'entreprise. Analyse socio-économique des conditions de travail*, Preface by François Perroux (Paris : Dunod, 1979).

² Savall, H., Coste, J.H., "Roots of the SEAM", ISEOR, 1999.

scientific reflection and also stimulates action (*the clinical approach also referred to as the experimentation approach*).

From the very beginning, the general strategic intervention socio-economic by nature, set up by Henri Savall satisfied the criterion of being both research-oriented and action-oriented. It had to stand the validity test of scientific relevance and management practicality and provide knowledge for researchers and practitioners (*intervention-research principle*).

The framework constructed on these working hypotheses now mostly turned into validated principles has been tested and developed since into an integrated method for a socio-economic approach to management.

It testifies to a constant preoccupation within ISEOR research center and on the field to build up a relevant research program and strategic intervention projects the organization actors can appropriate. They are likely to be of interest to all the stakeholders within firms and organizations as well as in society as a whole.

Positioning of the socio-economic theory of firms and organizations (SEAM) vis-a-vis mainstream theories

The socio-economic approach started as a reassessment of the antagonistic contributions made by the classical theory of organization established by Taylor³ with his scientific management and Fayol⁴ with his administrative theory on the other hand, and by the human relations school⁵ that sought to rationalize « the human factor » on the other hand.

These dominant theories were carefully studied, then questioned for their dualism and their theoretical and pragmatic inadequacies. They seemed to swing between extremes. Either they gave excessive importance to economic and technological rationality in their quest for formalized optimization, or they overemphasized people's integration needs, their motivations⁶ or elusive socio-psychological factors.

Despite their shortcomings, these theories shed light on the economic importance of job design and job satisfaction, the central role of cooperation⁷, communication, and motivation in the job enrichment initiative. The cooperative advantage of non-authoritarian lines of command⁸ and teams⁹ was highlighted. Yet, they did not yield significant operational and economic results. In fact, they were not harmonizing formal and informal systems, nor were they integrating the technical and social system as the Tavistock Institute of Human Relations had once advocated¹⁰. The SEAM, as a cross-disciplinary

³ Taylor, F. W. : *The Principles of Scientific Management* (New-York, Norton, 1911).

⁴ Fayol, H. : *Administration industrielle et générale* (Paris, Dunod, 1916, 1966).

⁵ Mayo, E. : *The human problems of an industrial civilization* (New York, Macmillan, 1933).

⁶ Herzberg, F. : *The motivation to work* (New York, J. Wiley & Sons, 1959).

Herzberg, F. : *Work and the nature of man* (Cleveland, World Publishing, 1966).

⁷ Mc Gregor D. : *The human side of enterprise* (New York, Mc Graw-Hill, 1960).

⁸ Barnard, C. : *Organization and Management* (Cambridge, Harvard University Pressn 1949).

⁹ Likert, R. : *The human organization: Its management and values* (N.Y., Mc Graw Hill, 1967).

Likert, R. : *New patterns in management* (New York, MacGraw-Hill, 1961).

¹⁰ Trist, E. ; Higgin, G.W. ; Murray, H. ; Pollack, A. B. : *Organizational choice* (London, Tavistock Publications, 1963). Emery, F. : *Systems thinking* (Londres, Penguin, 1969).

analysis, established a synthesis between strategy¹¹, the theory of organizations, the sociology of work, and social psychology as well as between macro and micro economic theories and accounting theories. The approach suggests an economic re-interpretation of the current techno-economic and human relations perspectives traditionally adopted in job design and the analysis of the working conditions was suggested. An economic evaluation of the conditions of work which applies cost accounting to human resource issues in order to reduce dysfunctions and gain new strategic leverage. The economic approach to new forms of job design had never been tackled before through in-depth experiments conducted throughout enterprises. Industrial psychologists had only studied working conditions in the context of general or individual conflict while sociologists, in the Parson tradition, had considered organizations as living beings trying to achieve order. Actors and systems (Crozier, 1978), behaviours and structures could interact to produce new forms of adjustment, harmonize conflicting and enact rules. Social indicators helped trace hidden costs. Strategic rationality and the sociology of action were reconciled with economics to form an applied managerial theory of strategic management¹². The unhealthy division found in numerous theories between economic and social dimensions, between intrinsic and extrinsic conditions of life at work, was rejected for being too limited. Such theories did not promote transformation and integrated change allowing to improve the overall sustainable performance of enterprises, organizations and national economics.

Emergence and development of SEAM as a scientific intervention-research method and as an operational, effective and efficient management theory

To better understand the original contribution made by socio-economic management it is worth studying the development of this approach since 1973 (35 years long), in 1,200 enterprises in 34 countries over 4 continents. Experiments have been carried out to test and improve new management tools. The research agenda focused on testing the hypotheses and improving the relevance of variables. For this purpose, three stages of experimentation were carried on and involved between 5 and 30,000 people, according to the size of each enterprise.

In the seventies:

The ISEOR Centre endeavoured to ground the theory in the data available and searched for methods to identify and evaluate the hidden costs of dysfunctions. A typology was produced that analysed these costs under five main headings: occupational, injuries, staff turnover, nonquality and direct productivity gaps. The costs of dysfunctions are seen to result from the informal power of the actors who interact with the enterprise structures, as shown in figure A.11 which represents the fundamental hypothesis of the SEAM. Another representation of this hypothesis is the four-leaf clover shown in figure A.1.2.

¹¹ Ansoff, H.I. : *Applied managerial theory of strategic management* (Londres, MacMillan, 1977).

¹² Perroux, F. : *Pouvoir et économie [Power and economy]* (Paris, Dunod, 1972)

Such hidden costs have been identified and evaluated in many enterprises and the results show that the average cost is higher than the payroll cost. For purposes of financial evaluation components of the hidden costs are divided into six categories: excess salary, overconsumption, overtime, non-production, noncreation of potential, and risks. In-depth diagnostics have shown that the dysfunction costs are due to hidden conflicts related to the inadequate social performance of enterprises and organizations defined by six sensitive domains: working conditions, work organization (communication-coordination-cooperation), time management, integrated training and strategic implementation.

It is possible to convert these hidden costs into value-added, as they constitute a pool of economic performance and also an economic stake for negotiation between the actors. The reduction of dysfunction costs helps the actors more from confrontation to negotiation in a win-win game.

Since 1978 ISEOR has experimented with « change management interventions » including a diagnostic and a project method aimed at converting hidden costs into value-added and creating potential.

Figure A.1.1: Hypothesis of the SEAM

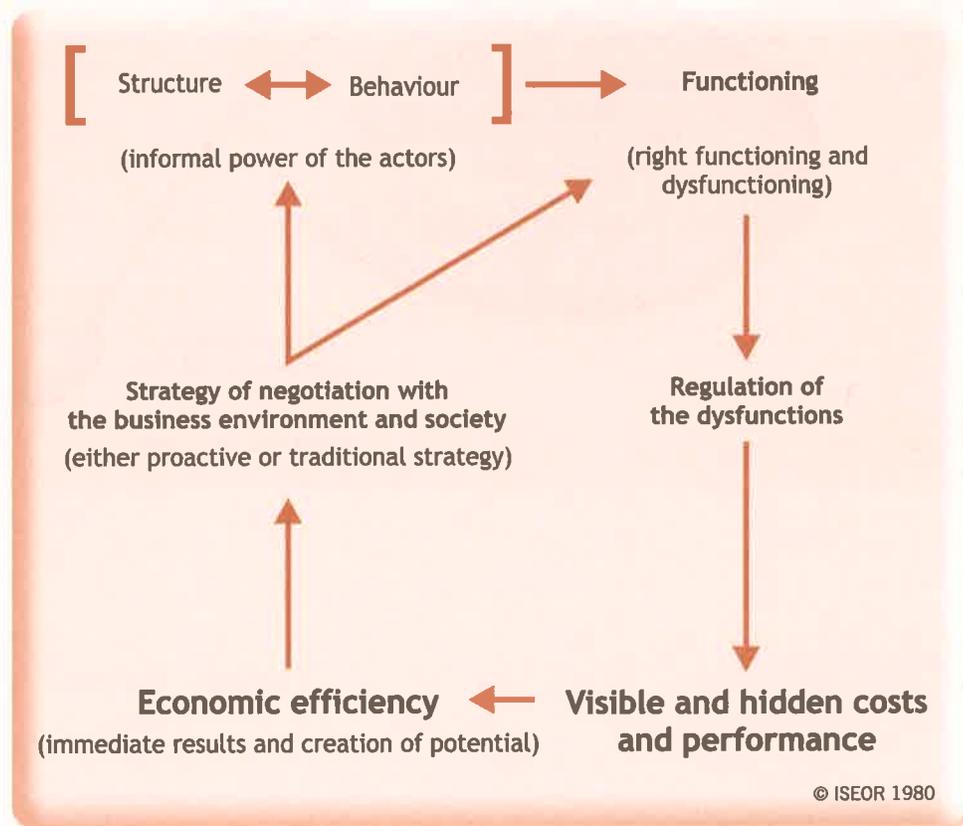
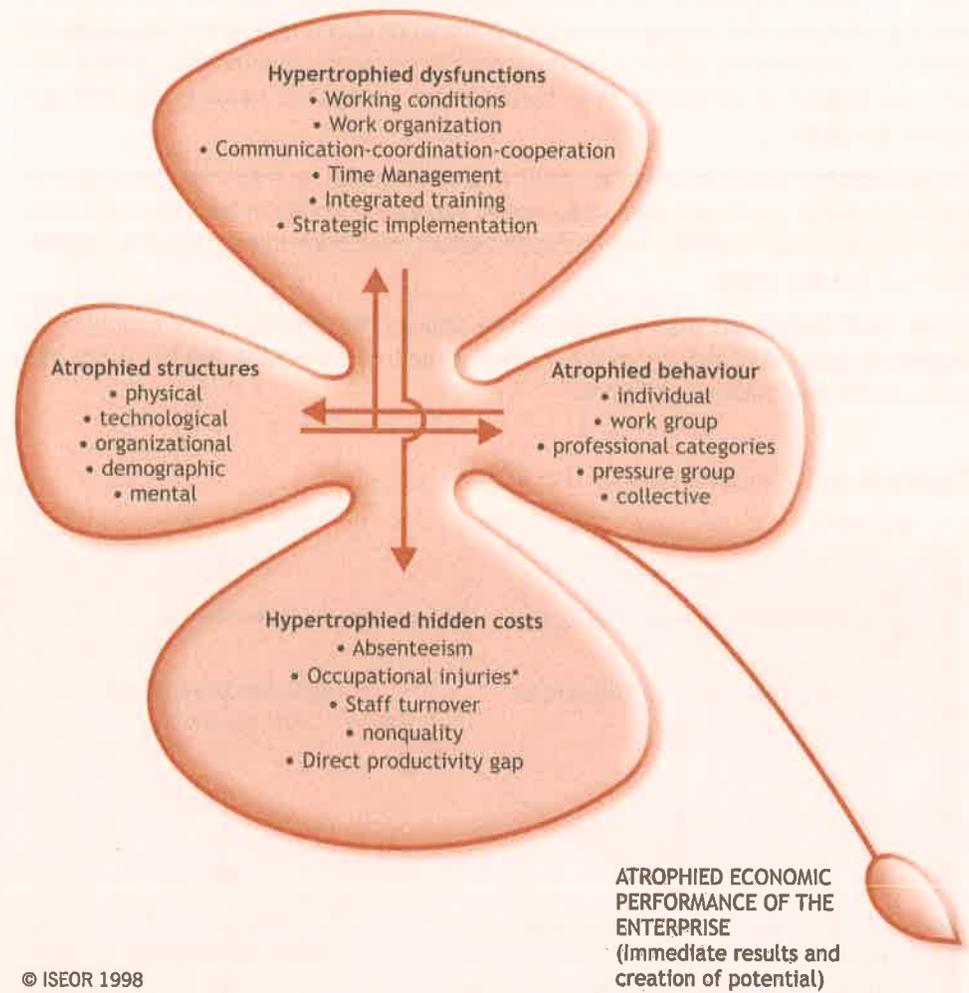


Figure A.1.2: Socio-economic diagnostic of organizations: the four-leaf clover



* and occupational diseases

In the eighties:

After bringing to light the key variables of socio-economic performance, the ISEOR team has developed the first phase of an inductive research scheme based on numerous full-scale experiments. The objective was to perfect a performance improvement method through a specific approach to change management.

This method was based on the following principles.

- The use of project economic balances showing the compatibility between improvements in quality of working life (QWL) norms and standards and economic performance.
- The involvement of each category of actors in the enterprise in identifying dysfunction costs in order to set up guidelines for the development improvement projects. The actors involved range from top management to executives down to technicians, employees and shop floor workers.
- The implementation of an intervention method consisting of simultaneous and complementary actions: a horizontal action («HORI») and a vertical one («VERT»). This method is referred to as the «HORIVERT» method.
 - **The horizontal action** consists of methodological assistance focused on top management team. This helps to deal with the general dysfunctions of the enterprise, such as communication-coordination-cooperation between the different departments or services.
 - **The vertical action** is aimed at each service or department within the enterprise. It helps to discover and implement actual solutions to prevent dysfunctions within those units.

In a second phase, ISEOR has designed and developed new management tools which help top management and executives shift from a centralizing management style to a more participative and negotiation oriented approach. Those socio-economic tools can be listed as follows:

- **Internal / External Strategic Action Plan** is crucial in making the external strategic objectives consistent with the internal targets, mainly in the fields of new products, new markets, and the development of technological know-how and human potential.
- **The Priority Action Plan (PAP)** consists of scheduling all the development actions to be implemented in the enterprise and in each department. The PAP closely connects strategic implementation with the projects aimed at reducing dysfunctions.
- **The Competency Grid** and the « integrated training manuals » help top management and executives increase their participation in training the people under their supervision. They prevent shifts in responsibilities and contribute to upgrading the organization and its actual and potential level of expertise. It also enhances job redesign.
- **Time Management** includes collaborative delegation tools with a view to transferring a certain number of tasks to people lower in the hierarchy while training them at the same time. The result is that it is possible for manage-

ment to devote more time to development tasks that have been ignored, such as the improvement of products or data research outside the firm.

- **The Strategic Piloting Logbook** includes indicators focused on the improvement immediate results and the creation of potential. Immediate results stem mainly from converting of hidden costs into value-added and from increasing sales and self-financing margins. Future results (creation of potential) stem from Internal / External Strategic Action Plan, such as the finalization of new products or the development of a new technology. Both kinds of indicator are also required for evaluating the periodically negotiable activity contracts.
- **The Periodically Negotiable Activity Contract** is a system designed to fix targets and negotiate ways to achieve them. This negotiating tool has to be used with the other socio-economic management tools previously presented. The **PNAC** allows management to negotiate the efforts required to implement the **PAP** successfully, as presented in figure 7.7. The PNAC establishes a direct dialogue on the reduction of dysfunctions and improvements actions to implement the strategy. All wage earners have their PNAC geared to a salary incentive (quality bonus) self-financed by the drop in hidden costs and the creation of potential. The PNAC includes a selection of objectives linked to the priority action plan over the same period. It is based on the fundamental notion of commitments made in advance by top management and each employee with regard to improvements in the enterprise or organization performance. The PNAC is thus the cornerstone of the socio-economic approach to management and enhances the individual career evolution of each employee.

In the nineties:

Since 1990, ISEOR experiments have focused on the concept of strategic management intervention engineering¹³. Two major concepts have been developed.

- Stimulating the will to change in order to avoid resistance to change. This method combines internal and external management interventions in order to create the dynamics for sustainable change. The method contains rules pertaining to the pace of change through the following techniques:
 - the « mirror-effect » and the « expert opinion » which are used in the diagnostic in the first stage of the intervention so that participants can better comprehend the need for sustainable change and its interest;
 - the implementation of an evaluation method which energizes the change process.
- Synchronizing three axes of the intervention to accelerate the pace of change within the enterprise. These three dimensions are the following.
 - The axis of the improvement process, which takes account of the dysfunctions experienced by participants in order to prepare improvement projects self-financed mainly through the conversion of hidden costs into value-added.

¹³ Savall, H. and Zardet, V., (1995, 2nd edition 2005), *Ingénierie stratégique du Roseau, souple et enracinée. [Strategic engineering of the reed, flexible and rooted]* Préface de Serge Pasquier, Economica

- The axis of management tools, which deals with enhancing the managerial dimension of the top management and executives role, so as to make it possible to refocus their activities on development actions.
 - The axis of policy and strategic decisions, which includes structures for improvement decisions and the definition of behavioural ethics to enhance a proactive socio-economic strategy as opposed to traditional strategies.
- **Integration of ISEOR research findings in educational curricula and creation of a new training program leading to University degrees.**

Creation of the University School of Innovative Management (EUGINOV) within the Institute of Business Administration (University Jean Moulin Lyon 3). It includes a coordinated training program leading to University degrees. This school proposes an original and differentiated offer in the field of management based on an interactive pedagogic approach, on the alternation of part-time periods of study and of industrial work, and on student diversity. This university undergraduates as well as managers and executives taking part in continuing education programs, participate together to those management courses whatever their previous academic training in social sciences or engineering sciences.

■ **Scientific and academic recognition**

In November 2001, the socio-economic theory of organizations was distinguished by the Academy of Moral and Political Sciences (Institut de France). Henri Savall and Véronique Zardet were awarded the famous Rossi Prize Medal for their joint work on the integration of social variables into business strategies.

Scientific program from the year 2000 onward

- **An original research program for society and companies: Tetranormalization and company strategy¹⁴.**

Citizens, consumers, producers and employees want norms and standards. Public and private institutions compete to ensure adoption of «their» norms and standards in the current economic and social environment. However, norms and standards are not only healthy rules of the game and a factor in fair trading. They have a hidden face because they can be used as barriers to prevent entry to public and private markets and can lead to the restriction of free trade and even to espionage. Tetranormalization designates the four main groups of norms and standards designed to regulate the most important areas – and which are often contradictory: trade (OMC...), social conditions (ILO...), accounting and financial security (IASB, IFRS...), quality and environment (ISO...).

¹⁴ See Savall, H., Zardet, V., (2005). *Tétranormalisation : défis et dynamiques. (Tetranormalization ; challenges and dynamics)*. Paris: Economica.

servatory now being set up, which will bring together 30 international Scientific Teams and over 200 researchers from different disciplines and from various and complementary research fields.

ISEOR continues to bring a new dimension to the improvement of economic and social life of national and international companies, organizations, institutions and the world of research which is more and more solicited by companies looking for effective and sustainable solutions for their mode of governance and management. This International Network is currently preparing a new book on Tetranormalization. It will ensure a better understanding of the challenges of researchers conducted on norms and standards and their proliferation with which companies and organizations are confronted.

■ **Intensification of the program “Socio-economic management of quality and innovation”.**

This program includes the medium-term evaluation of the effectiveness and efficiency of the change process integrating **quality management and strategic management of innovation**, as well as the life-span of their outcome, in view of the maintenance systems implemented by companies and organizations.

International cooperation

ISEOR has continued its long tradition of international collaboration, as it has trained and supervised numerous researchers who carried out socio-economic interventions within companies in their native countries (34 countries). Some of our joint projects are now experiencing rapid developments:

■ **Continuation of our collaboration with the International Labor office (ILO Geneva and Turino).**

It enabled ISEOR teacher-researchers to train people in charge of companies and organizations, attending the ILO World Training Center program in Turino (Italy) and acquaint them with the socio-economic concepts and tools of socio-economic analysis and management. The ILO in its work titled “Management Consulting: a guide for professionals” devoted 20 pages to the presentation of the socio-economic method and the ISEOR research center.

■ **Doctoral program in cotutelle with the Instituto Politécnico Nacional and the Universidad Autónoma Metropolitana of México.**

Thirteen professors from various Mexican universities obtained their doctorate in Management Sciences from ISEOR, seven being in cotutelle (French doctorate together with Mexican doctorate).



■ **Intensification of the “Lafayette 2010” research program in the United States.**

Comparative management analysis (European/American management); and joint research on the **contributions of socio-economic management to American management**, mainly measurement of medium and long-term economic performance, measurement of dysfunction costs linked to the informal power of actors, as well as on the high profitability of qualitative development in human potential intangible investment in public and private organizations)

■ **Competency transfer programs in Management Engineering.**

This program consists essentially in training intervener-researchers associated with the ISEOR, who subsequently intervene in enterprises in different countries, in order to derive some information on the modes of engineering transfer and the acclimation of socio-economic management concept to the national and sectoral context. This program presently concerns México, the United States, Belgium, Switzerland, Tunisia and Morocco. It helps carrying out joint researches between ISEOR and one University in those countries as well as institutional programs such as Ecos-Nord and European Union/Mexico.

Comparison with other management approaches

The SEAM method shares a certain number of concepts with other change management approaches but tries to be even more integrated thanks to its transdisciplinary approach. The SEAM is based on transformation intervention-researches which include observation and analysis of many successful interventions; it also studies difficulties encountered in enterprises. This deliberately transformative action-research, also referred to as « intervention research » enhances the part played by in-depth experiments in enterprises, as Lewin's (1951) approach, but it is more oriented to promoting organizational change and creating sustainable performance.

Benchmarking SEAM versus other change management approaches.

■ **Socio-economic diagnostic:**

The diagnostic rests on the principle of the mirror effect and the expert opinion which has similarities with Lewin's defreezing-refreezing approach. However, the SEAM places great importance on the calculation of hidden costs and performance as opposed to a purely psychological approach.

The analysis of the causes of dysfunctions is quite similar to a sociological analysis of the informal power of the participants in a given organization. However, the socio-economic diagnostic demonstrates how negative behaviour is linked to hidden costs and performance. It also shows why this hinders the development of the enterprise and demonstrates that it is possible to turn resistance into active participation to the change process.

■ Project

- The project allows participants to clarify their roles and expectations, as in organisational development practices. However, the SEAM insists on simultaneous action at all levels from top management to the most junior employees.
- The project also includes job redesign and creation of teams as in the socio technical approach to management; however socio-economic interventions also concern all the teams throughout the enterprise, the top-management team inclusively. Besides, the socio-economic project also integrates socio-economic management tools; this means calculating the visible and hidden profit and loss generated by each solution proposed.

■ Implementation of the project

- Since 1980, the socio-economic implementation of the project was involved in synchronizing many complementary solutions in the areas of communication, training, pay incentive systems and so on. This resembles the concept of the high involvement organization proposed by Lawler in 1998. However, the socio-economic method proposes concrete management tools such as the PAP which make implementation very consistent and effective. Moreover, implementation rests on the negotiation of objectives and means through the periodically negotiable activity contracts.
- Implementation of the project depends on precise scheduling of all the improvement actions, which involves many participants. It also requires steering the implementation through regular meetings where the project leaders play an active role. This method has similarities with other project management methods focused on intangible investments such as R & D. (research and development), but the socio-economic project is even more intangible because it focuses on the development of human potential. It therefore requires implementing strategic piloting indicators.

■ Evaluation of results

Assessing the results allows the enterprise to discover the reasons for improved performance which may be considered as an actual and potential source of knowledge as well as a means to apply the best practices. It shares common grounds with the organizational learning approach and with the KAIZEN method. However, it differs in that the socio economic evaluation of results is achieved in terms of immediate results and creation of potential and in that it integrate social performance.

Three main features of the SEAM express part of its originality

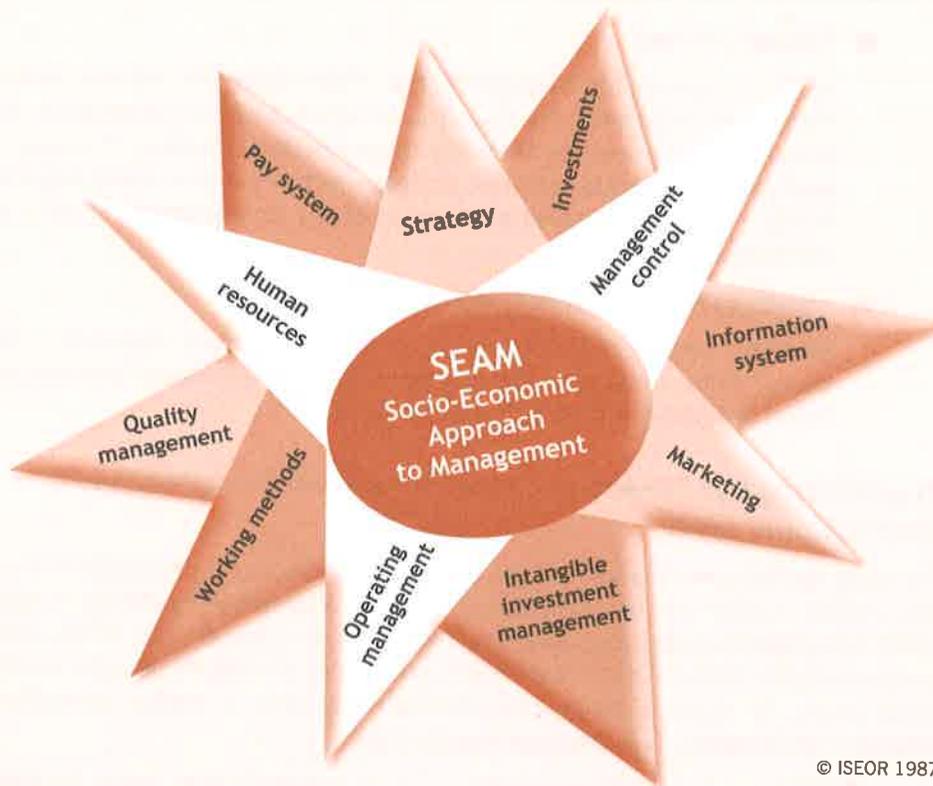
■ A comprehensive and integrative approach

The SEAM may be considered as a global and « holistic » approach: it allows the use of different management tools in a more coherent whole. For example, it may be necessary in some cases to synchronize team building and job

redesign. The SEAM therefore helps design a structure and an « architecture » for the intervention in a given context.

The result of the SEAM is to develop a set of practices which integrates the different areas of management into a coherent and interactive whole. In the past 35 years, the different specialized disciplines of management such as marketing, strategy or cost control, have made significant advances pertaining to their own logic, which has been helpful for each department of the enterprise. But at the same time, this process has made them drift further apart, which creates tensions particularly at the top of the enterprise. For example, the marketing department wants new products, whereas the human resource department cannot provide the necessary skills. It is thus necessary to provide new tools in order to strengthen the orchestration center of the « star » of integrative management as seen in figure A.1.3.

Figure A.1.3: Strategic SEAM star



■ **The SEAM is based on the transformation of both structures and behaviours**

Most Management methods focus on behaviour (e.g. personal development, inter-group mirroring, coaching, etc.) or on structures (e.g. reengineering, re-training, etc.). Both approaches are used simultaneously in the SEAM in order to increase synergy.

■ **The economic evaluation of organisational phenomena**

The SEAM implements the management tool « Strategic Piloting Logbook » which measure untapped potential and the hidden costs and performance of a firm from a financial perspective. It measures the improvement in employee relations, both in the short- and in the long-terms (immediate results and creation of potential gains).

Training employers and managers in socio-economic leadership

Two main types of intervention have been used by ISEOR to train employers and managers in socio-economic leadership.

■ **Training seminars**

At these seminars, top management teams learn to identify and analyse the dysfunctions of an enterprise, to calculate hidden costs and performance and to define and implement internal and external strategic planning. These seminars present the socio-economic strategy which is based on developing the human potential considered as the origin of any lasting creation of value in the enterprise.

■ **Assistance to top and middle managers**

Managers acquire new skills through the socio-economic intervention and through implementing the management tools. The intervention therefore requires integrated training in leadership skills.

Transferring the SEAM from enterprise level to national and international level

The same socio-economic approach can be applied to the creation of wealth in a nation. Indeed, a nation can be considered as a kind of organization consisting of many actors and governance structures including enterprises. A nation also has hidden costs and performance linked to the characteristics and quality of relations between institutional actors. For example, enterprises produce many kinds of hidden externalized costs and performance. Two examples may be noted:

- Hidden externalized performance, e.g. an enterprise hires young unskilled workers, trains them and provides them with a healthy working environment. This may result in lower costs for the State and may also enrich the nation.
- Hidden externalized costs, e.g. when an enterprise makes older workers redundant, with little chance of finding another job because the enterprise did



not provide even literacy training for unskilled labourers. The huge hidden expense of such retraining falls upon the State and reduces the wealth of the nation. The cost is much higher than the prevention policies that would have avoided unemployment among unskilled workers. Socio-economic studies have also demonstrated that a lack of respect for social standards, as in the case of child labour, often starts a chain of economic side effects. These eventually result in hidden expenses for the State which are much higher than the cost of an appropriate education policy.

No taxation policy takes sufficient account of externalized hidden performance, nor does it penalize the externalized hidden costs heavily enough. One of the reasons invoked is the difficulty of measuring the hidden impacts, but ISEOR believes that it is really due to the lack of training in socio-economic analysis. As a result of this, enterprises with high externalized hidden costs are unwittingly favoured and those with high externalized hidden performance are penalized.

The system promotes unfairness and encourages a low level of social responsibility and corporate citizenship. For example, certain countries are beginning to implement new tax systems which are more responsive to the costs incurred by companies which lack concern for industrial injuries and air pollution. This, however, only accounts for a very small percentage of externalized expenses. This is why it is essential to put in place an accurate system of externalized hidden costs and performance assessment. All civil servants, decision makers and politicians should be trained to analyse these externalized hidden costs and performance, since their field of expertise only extends to micro and macro-economics and not to this new « infra-micro » economic assessment method. To date, the socio-economic system proposed by ISEOR has been partly tested in only a few countries.

To take all the issues into account, a rigid international legislative approach would not be entirely appropriate in addressing the cultural and economic factors relevant to each country. Nevertheless, this possibility has to be more thoroughly examined in a future research. The socio-economic research scheme should therefore envisage the international level and consider the externalized hidden costs and performance between nations, so as to improve the socio-economic rules of the game in a globalizing economy. Nonetheless, it has to be experimented more extensively in the research scheme for 2000 onward presented above.

The bibliography features in **appendix 1**; a new version completed with numerous publications by ISEOR can be consulted on our Internet site **www.iseor.com**

Appendix 2 PRESENTATION OF ISEOR

ISEOR is a research centre whose vocation is to develop the Socio-Economic theory of organizations and operational method of socio-economic management based on transformative intervention-researches, accompanying the enterprise metamorphosis which provides a theoretical body of information concerning the socio-economic approach to management. ISEOR has carried out over 1,200 experiments in various kinds of enterprise in 34 countries since its creation in 1975:

- Industrial companies: steel, mechanical, engineering, food...
- Service companies: transport, banks, insurance...
- Public sector: hospitals, universities and schools, administrations...

Interventions have been made in large and small enterprises, ranging from a one-man business to a 300,000 employee corporation. This have been made in many countries:

- Africa: Algeria, Angola, Benin, Burkina Faso, Ghana, Ivory Cost, Madagascar, Morocco, Togo, Tunisia
- America: Brazil, Canada, Colombia, Mexico, Venezuela, United States
- Asia: Cambodia, China, Lebanon, Syria, Vietnam
- Europe: Belgium, Germany, France, Portugal, Romania, Slovenia, Spain, and Switzerland

The continuous accumulation of research data (over 1,000,000 pages of case studies and archives) allows ISEOR researchers to progressively identify the socio-economic factors which which do not change This makes it possible to formulate scientific rules which are transferred through university teaching from undergraduate level to doctoral programmes. The ISEOR research centre is now associated with the University Jean Moulin Lyon 3. It offers a number of executive education and graduate degrees, including a doctoral programme in management science and management consulting

These courses are designed to allow participants, students, professional consultants or managers to experiment with management tools and consulting methods through hands-on experience. The programmes range in duration from eight-day seminars to four-year courses. So far, some 500 senior and junior researchers in management have been trained at the ISEOR centre. So far over, 1,600 management consultants have been trained at the ISEOR center. At present, the research centre involves 125 senior and junior researchers and doctoral students, each of them carrying out intervention-researches in companies and organizations. Research training aimed at transforming the enterprise is the basis of the doctoral programme which is based on transformative action research, also referred to as "scientific consulting".

Participants are required to formalize the results of their experiments and to compare them with other approaches and existing academic literature. Among doctoral students, professional consultants reflect on their own hypotheses, models and practices, which facilitates the improvement of their professional skills. About ten theses are defended each year. The age of the participants varies from 27 to 69. They come from different countries and ISEOR boasts several exchange agreements at Ph.D level with the



Autonomous Metropolitan University and the Mexico National Polytechnical and HEC Montreal, Canada.

Founded and managed by Professor Henri Savall, assisted by Professor Véronique Zardet and Professor Marc Bonnet, ISEOR is a unique pilot research centre for these training programmes. Its experience, innovative management tools (the SEAM), and theoretical body of information on management technology and consulting engineering, are available to participants and international collaborators.

In its international action with a view to coordinating and disseminating scientific and technical research ISEOR works and publishes in the three major international languages: French, English and Spanish. The numerous colloquia and conferences organized by the ISEOR are simultaneously translated in those three language. This active trilingual approach made it possible for numerous Spanish-speaking and French-speaking academics to intervene in the scientific conferences with the ease conferred by resorting to one's own native language.

Appendix 3 EXAMPLES OF CREATION OF POTENTIAL

Figure A 3.1: Examples of creation of potential linked to the implementation of strategy

Type of investments	Tangible investments	Intangible investments	Return on investment per year
Investment in product development e.g. a new kind of paste produced by a chemical company	New equipment aimed at developing new product or at increasing production capacity Costs: 100,000 euros	<ul style="list-style-type: none"> • Time spent in the enterprise to develop the product • Training time for employees who will use the machines Costs: 20,000 euros	500,000 euros
Investment in market e.g. a bakery wanted to enter the frozen pastry market in certain chain stores	Investment in a floor of refrigerated trucks to transport the products and keep them frozen Costs: 1,000,000 euros	Time spent by management and employees especially in the logistics department to organize delivery of the products Costs: 800,000 euros	100,000 euros
Investment in technologies e.g. the development of precision casting for an aerospace company	New equipment and machines Costs: 500,000 euros	Assistance by a specialist during a three-month period. <ul style="list-style-type: none"> • Patent protection. • Non-production and quality defects during the first year because of the learning process Costs: 2,700,000 euros	100,000 euros
Investment in human potential e.g. in a bank, re-orientation of administration employees towards commercial activities	Investment in lap top computers to calculate repayments Costs: 400,000 euros	Retraining sessions for employees in commercial negotiation Time spent by managers to back up employees during their first negotiations Costs: 300,000 euros	400,000 euros

Figure A.3.2: Examples of creation of potential stemming from the prevention of dysfunctions

Dysfunctions which are prevented	Tangible investments	Intangible investments	Return on investments per year
Working conditions Heavy loads in a food company resulting in backaches which increased absenteeism	Trolleys were bought and a cable system installed Costs: 100,000 euros	Training sessions to improve posture (keeping a straight back, bending knees) Costs: 20,000 euros	Cut in hidden costs: 90,000 euros per year (3,000 euros per employee per year)
Work organization New organization in a maintenance company to avoid running out of spare parts	New software bought to implement a better flow of spare parts Costs: 7,000 euros	Time spent by executives and employees in participative group to define new procedures with the assistance of a management consultant Costs: 16,000 euros	Cut in hidden costs : 28,000 euros per year (4,000 euros per employee per year)
Communication-coordination-cooperation Weekly top management team meeting in a clothing firm to avoid delays in launching new articles	Meeting room equipped with overhead projector, flip figures, air conditioning, groupware technology Costs: 8,000 euros	Time spent by management to prepare weekly meeting and time spent at meetings Costs: 75,000 euros	100,000 euros increase in profit margin (2,000 euros per employee per year)
Time management Delegating calls to allow managers to spend more time working on the development actions (reduction of the shifts in functions).	Investment in a direct access telephone system Costs: 3,000 euros	<ul style="list-style-type: none"> • Time spent by an assistant in training. • Assistance by a management consultant to train managers to delegate Costs: 7,000 euros	24,000 euros increase in margin (2,000 euros per employee per year)
Integrated training Training accountants to avoid mistakes and shifts in function in a figureered accountancy office	Subscriptions to journals and periodicals and purchasing documentation for each group of employees Cost : 1,000 euros	Time spent by figureered accountants explaining fiscal rules to employees to develop autonom Cost: 8,000 euros	Increased margin of 20,000 euros per year and better service to customers (2,000 euros per person, per year)
Strategic implementation Monthly meetings focused on piloting of the strategy in a chain-store	Complementary wages given to employees according to objectives reached 11,000 euros per year as bonuses	<ul style="list-style-type: none"> • Time spent in monthly meeting by employees and supervisors. • Time spent in team meetings 4,000 euros per year	Improved satisfaction and new contract development resulting in 60,000 euros per year (2,500 euros per person, per year)

Appendix 4 DYSFUNCTIONS ANALYSIS

Figure A.4.1: Dysfunction analysis

Hidden costs	Frequency	Possible reasons for the dysfunctions	Confirmed economic impacts (components)
<ul style="list-style-type: none"> ● Absenteeism ● Staff Turnover (e.g. departure) ● Occupational injuries and diseases ● Nonquality (e.g. return of products by customers) ● Direct productivity gaps (e.g. work overlap) 		<ul style="list-style-type: none"> Working conditions Work organization Communication-coordination-cooperation Time management Integrated training Strategic implementation 	<ul style="list-style-type: none"> ● Excess salary ● Overtime ● Overconsumption ● Non-production ● Non-creation of potential ● Risks

Appendix 5 CALCULATION EXERCISES OF HIDDEN COSTS AND PERFORMANCE IN ONE'S OWN ENTERPRISE

Figure A.5.1: Exercise 1: Analysis of a dysfunction cost (form to be filled in)

Dysfunction costs observed	Frequency	Possible reasons for the dysfunction	Confirmed economic impacts (components of the financial consequences)	Impacts on economic performance (components of hidden costs)

**Figure A.5.2: Exercise 2 to pinpoint excess salary
(form to be filled in)**

Types of excess salary	Type of regulation	Example to be found	Annual excess salary
Excess salary due to absenteeism			
Excess salary due to lack of personnel			
Excess salary due to overactivity			
Excess salary due to error			
Others			
Total			

Figure A.5.3: Exercise 3 to pinpoint overtime
(form to be filled in)

Types of overtime	Type of regulation	Example to be found	Annual overtime
Overtime due to quality defects			
Error correction			
Useless work			
Search for information			
Lost document			
Distraction			
Unsuitable machinery			
Others			
Total			

Figure A.5.4: Exercise 4 to pinpoint overconsumption
(form to be filled in)

Types of overconsumption	Type of regulation	Example to be found	Annual overconsumption
Squandering of raw material			
Energy overconsumption			
Overconsumption due to error corrections			
Others			
Total			

Figure A.5.5: Exercise 5 to pinpoint nonproduction
(form to be filled in)

Types of nonproduction	Type of regulation	Example to be found	Annual nonproduction
Idle period			
Slowdown of the production line			
Disruption to the production process			
Stoppage of the production process			
Others			
Total			

**Figure A.5.6: Exercise 6 to pinpoint noncreation of potential
(form to be filled in)**

Types of noncreation of potential	Type of regulation	Example to be found	Annual noncreation of potential
Noncreation of potential due to false savings			
Loss of market share			
Loss of know-how			
Estimated future costs			
Others			
Total			

Figure A.5.7: Exercise 7 to pinpoint risks
(form to be filled in)

Types of risks	Type of regulation	Example to be found	Quantitative or financial estimate of risks
Risks due to absenteeism			
Risks due to staff turnover			
Risks due to occupational injuries and diseases			
Quality defects			
Risks due to noncreation of potential			
Others			
Total			

Figure A.5.8: Exercise 8: Intangible investment stemming from strategic implementation (form to be filled in)

Type of investment	Tangible investment	Intangible investment
Investment in product development		
Investment in market development		
Investment in technologies		
Investment in human potential		
Total		

Figure a.5.9: Exercise 9: Intangible investments focused on the prevention of dysfunctions (form to be filled in)

Types of dysfunctions	Tangible investments	Intangible investments
Working conditions		
Work organization		
Communication-coordination-cooperation		
Time management		
Integrated training		
Strategic implementation		
Total		

Appendix 6 GLOSSARY

Communication-coordination-cooperation (3C)

The 3 C's refer to three different levels of information exchange within the organization. Communication concerns all kinds of data, professional or not. Coordination is restricted to work relations and discussions on a given activity. Conciliation means that the actors have agreed to achieve a goal in a synchronized way and have drawn up a schedule.

Competency grid

This a grid which maps all the existing skills in an enterprise and within its departments. It gives a comprehensive picture of all existing skills, the extent to which each employee is multi-skilled, and the weaknesses in terms of proficiency for each task or activity. The competency grid allows for a better match between employee skills and training as well as teamwork. In the SEAM, skills are defined as all the know-how that a person has acquired through training and experience. These skills are efficient only if they are used and developed in a professional context through improved work organization restructuring.

Creation of potential

The creation of potential gains refers to action which will have a positive impact on the future economic results of the enterprise and not on the immediate results. This involves both tangible and intangible investments (e.g. time spent on development actions to implement a strategy or prevent dysfunctions).

Dysfunctions

These are the differences between planned and actual functions. The socio-economic approach to management demonstrates that there is always a difference between the situation expected by the actors (employees, managers, customers, shareholders) and the actual situation. This gap stems from the interaction between the enterprise structures and human behaviour. There are six types of dysfunction: working conditions, work organization, communication-coordination-cooperation, time management, integrated training and strategic implementation.

Excess salary

This component of the dysfunction costs is due to wages differentials. It occurs when an activity is performed by an employee who is better paid than another employee who could have done the work (e.g. in the case of a shift in function).

Hidden costs and performance

They represent costs and performance which are partly or completely left out of financial statements of companies and organizations such as balance sheets, profit and loss accounts, budgets and other logbook indicators. Hidden costs include overcharges and opportunity costs. There are five categories of hidden costs: absenteeism, industrial injuries and occupational diseases, staff turnover, nonquality and direct productivity gaps. Each indicator can be measured with reference to six components: excess salary, overtime, overconsumption, nonproduction, noncreation de potential and risks. A reduction of hidden costs frequently consists in a creation of potential such as intangible investments which were not evaluated or totally planned for.

HORIVERT intervention

This consists of two simultaneous actions: an horizontal action (HORI) aimed at top management and executives and a vertical action (VERT) focused on lower level services and departments.

Internal/External Strategic Actions Plan

This management tool consists of all the strategic targets for the next three to five years both external (aimed at customers or suppliers) and internal (aimed at personnel including management, workers, etc.). It is updated each year to take account of changes in the environment and progress in the achievement of objectives through the priority action plan (PAP).

Mirror-effect

The mirror effect is a stage in the diagnostic where the consultant presents the information gathered from interviews to all those concerned. The presentation illustrates the dysfunctions through the actual words used by interviewees. There are two consequences of the mirror effect:

- Management and employees are made more aware of the importance of the dysfunctions and hidden costs and therefore have a more positive attitude towards change.
- Managers are more inclined to accept the assistance of the consultant who has pointed out to all the members of the enterprise the main problems and stakes.

Nonproduction

This is a component of the hidden costs which represents a loss in earnings due to low productivity or production stoppages caused by breakdowns or absenteeism. The cost of non-production can be calculated on the basis of the hourly contribution to value-added (or margin) on variable costs. Given that the enterprise still has to pay the fixed costs (facilities, equipment and idle work-time), there is a lack of output.

Overconsumption

This component of the dysfunction costs represents the waste of products or services, evaluated on the basis of the supply cost. For example, a defective product which is thrown away means a waste of raw materials and spare parts.

Overtime

This is the cost of time spent correcting dysfunctions. For example, time is lost when a quality defect has to be corrected. This cost is assessed on the basis of the margin on variable cost (as in the case of non-production).

Periodically Negotiable Activity Contract

This management tool consists of negotiating the objectives defined in the priority action plan, and the means to achieve them. It is implemented through half-yearly meetings between superiors and their subordinates. The PNAC includes a set of objectives divided into collective, team and individual targets. The objectives may concern both immediate results and the creation of potential gains. The PNAC is linked to a pay reward system consisting of incentives which are self-financed by the reduction of hidden costs.

Priority Action Plan

This is an inventory of all the development actions which have to be implemented in a given half-year, based on priorities and feasibility. The development actions concern implementation of the strategy and prevention of dysfunctions. The PAP is a list of actions which are accurately scheduled, budgeted in terms of time required, coordinated and assessed with the different participants, particularly with those in charge.

Regulation of the dysfunctions

This term is used in the sense of correcting the dysfunctions. An example of regulation of a dysfunction is the case of a manager who is informed of the absence of a subordinate. The manager may take on a temporary worker or grant overtime to other workers. These choices represent two kinds of regulation of the absence. The cost of the dysfunction will depend on the kind of regulation chosen by the management.

Risks

The risks are calculated according to the probability of a cost occurring. For example, there is a 50 percent risk that a dissatisfied customer will not return, in which case the non-creation of potential gains is significant. It is therefore possible to calculate the cost of a risk by multiplying the cost of non-creation of potential gains by its probability.

Shift in functions

This refers to tasks which should be delegated to subordinates or eliminated altogether so that there is more time available to implement higher value added tasks.

Socio-Economic Approach to Management (SEAM)

The SEAM was created in order to accelerate the transformation of an enterprise in a competitive environment. The basic assumption is that employees exercise their informal power either to slow down or to speed up the pace of change. Their behaviour results in hidden costs and performance. The SEAM is characterized by greater involvement in the change process and by the development of leadership skills. The benefits of increased economic efficiency are shared among different stakeholders such as customers, personnel and stockholders. In the case of public services and non-profit organizations, better economic performance may result in lower expenses or lower taxes while the social objectives are achieved more efficiently. The SEAM mobilizes human potential as a whole by synchronized decentralization and concerted delegation, and by making the social and economic targets more compatible.

Strategic implementation

This refers to concrete actions designed to realise the strategic targets of the enterprise. The company objectives are taken into account and actions are distributed vertically and horizontally in a synchronized and efficient manner. It requires the formulation and formalization of a coherent strategic plan, as well as ensuring that all the necessary means (especially time) are available to put it into effect.

Strategic Piloting Logbook (or Strategic Piloting Indicators)

These make up a set of qualitative, quantitative and financial indicators which concern both the day-to-day running of the organization and implementation of the strategy. Some indicators relate to immediate results while others focus on the creation of potential gains. These indicators are necessary for guiding activity, taking decisions and assessing the results of the actions.

Work organization

This is defined by all the tasks, activities and processes actually performed in an organization. It also includes the division of work and job descriptions as well as the procedures which define the jobs.

Working conditions

These include physical working conditions (facilities and equipment, environment), work schedules, work atmosphere and the degree of stress.

Appendix 7 ABSTRACT

The socio-economic approach to management (SEAM) is aimed at making the social and economic targets of the enterprise more compatible. This rests on the calculation of hidden costs and performance linked to social factors leading to sound workplace relations, or the opposite. The social factors are defined according to six main domains: working conditions, work organization, communication-coordination-cooperation, integrated training, time management and strategic implementation.

ISEOR's experiments carried out in many companies worldwide on the metamorphosis of the organizations and of their sustainable performance demonstrate that dysfunctions in these social areas lead to substantial hidden costs such as those linked with absenteeism, occupational injuries and diseases, staff turnover, nonquality and direct productivity gaps. These hidden costs may be calculated through financial components such as excess salary, overtime, overconsumptions, nonproduction, noncreation of potential and risks.

Such costs often exceed the payroll of the enterprise and represent a very high percentage of the overheads of the company or organization. They are therefore regarded as an unsuspected financial reserve which could be reallocated to favour the further development of the enterprise, in the context of a competitive environment.

Simultaneously, hidden performance is often not taken into consideration within enterprises. This consists mainly of hidden creation of potential such as intangible investments made to implement the strategy (e.g. time spent perfecting new products or services) and to prevent dysfunctions (e.g. time spent by management to avoid organizational problems and for personnel training).

The SEAM methodology proposes three simultaneous steps to improve the socio-economic efficiency:

- Diagnosing the hidden costs and performance, thus revealing to management the financial impacts of dysfunctions and low value added tasks. Diagnostic is followed by a project designed to prevent the dysfunctions and implement the strategy more effectively to help the enterprise shift from low value added activities to high ones. This requires concerted delegation, upgrading skills through integrated training manuals, and developing teamwork.

This project is implemented and evaluated through visible and hidden performance indicators. This improvement process enhances and reinforces the continuous learning of the enterprise in the context of an increasingly demanding environment due to intense competition and increased pressure on behalf of customers stockholders and tax-payers.

- Collaborative or integrated training of management teams to use new tools such as Internal/External Strategic Action Plan Priority Action Plan, Competency Grid, Time Management, Strategic Piloting Logbook and Periodically Negotiable Activity Contracts. These tools help management balance the immediate results and the creation of potential so as to ensure sustainable eco-

conomic performance. They lead to a more interactive style of management. Indeed, they are based on collaborative delegation and negotiation in the workplace when they take into account the informal power of employees, which is revealed by the hidden costs and performance.

- Indeed, the improvement process as well as the new management tools question top managers on the urgent need to make political and strategic decisions, mainly as regards improvement of the enterprise structures as well as rules of the game and human behaviour. Such decisions might result in a pro-active socio-economic strategy which is simultaneously beneficial to employees and manager, stockholder and customer as well as to the major stakeholders.

Implementing socio-economic management requires high involvement of the top management team during the intervention process along with the assistance of professional consultants who have previously received on-depth training in the socio-economic intervention methodology. The reason for it is that Management's commitment in the intervention process may be considered as a learning experience. Managers learn step by step new leadership management methods, resulting in outcomes which are profitable both for themselves and for the rest of the personnel.

Let us recall the high economic profitability of intangible investments applied to human potential development i.e. between 200% and 4,500% according to the enterprise considered. (cf. 5.3.3.)¹.

¹ Cf. Savall, H., Zardet, V., (2008). Le concept de coût-valeur des activités. Contribution de la théorie socio-économique des organisations. [The activity cost-value concept. Contribution of the socio-economic theory of organizations]. *Revue Sciences de Gestion – Management Sciences – Ciencias de Gestión*.

Figure A.7.10: Outstandingly high profitability and self-financing (endogenous) of intangible investments in human potential development (endogenous investment and strategy)

Enterprises							
Profitability rate of intangible investments	Number	% of the sample	% cumulated	Intangible investment pay-back period	Number	% of the sample	% cumulated
210% to 980%	15	37.5%	37.5%	Less than 1 month	21	50%	50%
1000% to 1980%	16	40%	77.5%	Between 1 and 2 months	12	30%	80%
2000% to 3000%	6	15%	92.5%	Between 2 and 3 months	2	5%	85%
3000% to 4014%	3	7,5%	100%	Between 4 and 6 months	5	15%	100%
TOTAL	40	100%	100%	TOTAL	40	100%	100%

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