

In Search of Excellence: A Conversation with Tom Peters

By JOHN THOMPSON

The best-selling book In Search of Excellence, by Thomas Peters and Bob Waterman, is having a strong impact on many of our professional lives. With this interview, Training and Development Journal sought insight into how the study applies to human resource development professionals. The interview does not provide a summary of the book but, rather, a snapshot of Peters' thoughts on: how the change process works; major HRD myths; why and how excellent companies are simultaneously "tough" and "soft"; whether or not managers can really be trained; the leadership theories supported by Peters' and Waterman's research; and what the HRD role should be in change directed toward excellence.

Thompson: Will you briefly describe how you selected the excellent companies?

Peters: There were basically two types of criteria for selection. One was financial: This involved both absolute criteria of returns on equity, profit, capital and so on, and a group of growth measures that have to do with asset growth and market-to-book value. The excellent companies perform well financially year in and year out, decade in and decade out.

I think considering the financial criteria is important for human resource professionals. I think all of us who have been involved in human resources have tended to ignore the bottom line and have pretended that we are

only marginally associated with it.

The other criteria began with the query, "Is there such a thing as a big American company that is innovative?" We were accustomed to thinking that anything that was big was good. If somebody from DuPont or General Motors said something, you printed it as gospel because they were big companies.

We got a group of nominations for excellent companies from industry experts, academics, consultants, securities analysts. They gave us 150 company names on a casual, qualitative basis.

Then we ran the 150 companies through a group of financial screens. That step removed most of them.

Finally, we ran them through this fairly systematic, qualitative screen: "Has this been a continuously innovative company?" Bang! The list of 150 was pared down to 43.

Thompson: One of the things that is most intriguing to me about your book is that you ap-

pear to have discovered some myths about the change process that are not substantiated by the excellent companies.

Peters: Yes, I believe we did find some myths. One non-myth though, is one that everybody in the human resource function who has good sense has said for years: that change has got to be top-down and bottom-up simultaneously. Having said that, we proceed to go to the bottom of the change routine without going through the terrifying, awful, extraordinary effort of really getting top senior commitment.

It is possible for the division manager and the functional manager to shape up their units and make them exciting high performers. But you are not going to get corporate change unless you have absolute commitment from the top.

I feel the same way about quality assurance programs. Everybody says quality has got to be top-down and bottom-up. Then they start paying attention

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to bottom-up stuff, and they do not get total commitment from the top. So I would reinforce the theme to which we have all paid lip service, but which I do not think we have really acted out.

One important issue that I would identify is similar to a battle that goes on in Washington. People periodically ask the question, "Why don't more cabinet secretaries resign when they disagree with the policy of the president?" I think human resource people face the exact same issue. There are too many people in human resources who have put on training programs when they know they have not obtained honest support from the top of the organization. They have gone ahead with the program just because they think it is a good idea. I have spent a third of my consulting career backing out of doing things because I knew very well that I was just blowing smoke.

The second issue, which I think is terribly important, is consistent with my belief about human resource people's need to pay attention to profit and loss. We found that the most exciting environments—that treated people very well—are also tough as nails. Two of my favorite companies on this list are Hewlett-Packard and 3M. They have fantastic records for treating people well. They have marvelous human relations from top to bottom in the organization. However, they have to be the toughest two environments that exist. There is no bureaucratic mumbo-jumbo. People are measured and paid very regularly on the basis of merit. Merit is determined principally in the marketplace, by the users and by whether the product works.

Another one of the traps we fall into is the simplistic version of Theory X/Theory Y: believing you have to be either an autocrat or a loving human being—nothing in between. In every respect, we have found the excellent companies provide two things simultaneously: tough environments and very supportive environments. In fact, I am convinced more and



more that the two go uniquely hand in glove.

The only environment in which risks are taken on a regular basis is an environment with a big safety net, where people know they are secure. People do not step out and take risks because the chief executive officer or division general manager says, "Go be risky." They take risks because they know they can step out, try a little experiment, test something new. If, in fact, they have a failure—which is the normal state of nature statistically—they know they will bounce back up again.

Thompson: While on one hand there seems to be a competitive nature in the excellent companies, many of us have learned that competition can result in a win/lose situation. But you talk about a lot of win/win behavior. Are there any guidelines for people in human resource development to use in implementing "excellent" systems in their organizations?

Peters: It is sort of win/win behavior, but not quite. Take Tupperware, for example, which I think is a marvelous institution. Their profit-and-loss numbers suggest competition; but Tupperware is built on a model of incredible participation. They have marvelous social get-togethers, to the extreme degree that all their distributorships—100,000 people in 250-person groups—get together once a week. Score one for win/win.

The paradox happens in the middle of that process every week. They go through something called "Count-Up," where the salespersons march up on stage in the reverse order of their previous week's sales. Count-up literally means you start with \$100, and you count up until nobody is left. For example, I say, "\$100" and you jump up, and "\$300" and two other people jump up, and "\$500" and somebody jumps up, until we are at \$3,000 and nobody is left to jump up. Here's the paradox: Almost everybody, including the \$100 salesperson, gets a ribbon, which says, "way to go," "good week," "we know you're alive,"

"we are rewarding you for being alive."

On the other hand, even though it is peer-reinforced, it is a very tough experience. Who wants to be the first one to march up on stage 10 weeks in a row! That is the tough side of it and the soft side of it, simultaneously.

The thing I think we should not ignore is that part of social comparison, regular evaluation, is very tough. It is the toughest thing I know. It is tougher than a private meeting with your boss, in some respects. Many of these

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companies thrive on peer competition of that sort, not peer competition with name-calling and hooting. To the contrary, everybody gets a reward. But if you walk past the sign that posts the output of the last 10 days, and you are always last, you don't feel too good about it.

There is no sign which says that the last three names on the list need not apply for promotion this year. While there is a strong effort to make sure that virtually everybody who does a decent job gets positive feedback, there is still a very tough dimension to it.

Thompson: Are there any action guidelines for molding companies into excellent companies?

Peters: Well, I guess Bob and I only seriously considered one alternative title to the book. It is the term that we picked up at

Hewlett-Packard and, earlier than that, from United Airlines. That is "MBWA"—Management By Wandering Around—in regard to suppliers, customers, one's own people and one's own peers.

It seems to me that the most special piece of magic in excellent institutions is that, despite the organization's size, people stay in touch with each other and stay in touch with reality—via real people and real customers and real suppliers. I believe it is entirely possible to be tough as nails, tough as can be, and to work directly and straightforwardly on the issue: What patterns of interaction do we want to occur when people get things done?

Thompson: Do any specific examples come to mind?

Peters: Yes. I ran into a fellow from Rockwell recently who had the not particularly pleasant experience of being in charge of most of the tile construction of the space shuttle craft (not a resounding success). When he fixed it—after two years of messing around and swapping memos and swapping blame—he fixed it by taking his top 30 people from all around the country and bringing them into a room every Friday afternoon from 3 p.m. to 10 p.m. to figure out what they were going to do during the next seven days. It was tremendously expensive in terms of travel budget, but probably the cheapest thing Rockwell ever did.

So we find all of Tupperware getting together once a week. We find Hewlett-Packard divisions with 1,000 people getting together no less frequently than once every two weeks. We find Tandem people having their darn beer busts every Friday afternoon. We find divisions and departments that have *weekly* meetings and *weekly* picnics with *all* hands involved, even if it's 400, 500, 600 people, just to keep in touch.

I think the most significant characteristic about these institutions is that they never get out of touch with their people—with "people" broadly defined as suppliers, customers and people who

work in the institution. I believe strongly that it is possible for the human resource person, as a key staff person, to be a major actor and perhaps inculcate those kinds of managerial relationships.

I have seen several companies that are trying to get people to sign Alcoholics Anonymous-like pledges saying, "I will spend 30 percent of my time out of the office." And if you are in a Hewlett-Packard or a 3M, you do not think that is a very big deal. You do not understand how anybody could do it differently. But in a number of places I have been, it would be unusual to get out of your office 10 percent of the time.

When I talk to brand managers in package goods companies, for example, they tell me they could no more go out and spend a week riding around with a salesperson than fly to the moon. The company would not allow them to be away from their desk. That is really terrifying.

I think presenting the MBWA concept may be the major service that Bob and I have done for human resource people. By hiding it under the guise of a casual name like MBWA, we have not made it sound like a touchy-feely kind of thing. You would be absolutely shocked at the number of people who have come up to me and said, "I've always wandered around and know it is the way to go. But after 73 management development courses and my 17 weeks in the Harvard Advanced Management Program, I'm embarrassed to do it." They have said, "What you've given me is the license to do what I knew was right, and to stand up against those who keep telling me that's not the way to do it."

When Bob and I returned from our first eight or 10 weeks of interviewing, the principal thing we said to each other—and we said it almost simultaneously—was that "it feels different in these places." We have grown up as consultants in very big, stodgy, typically Eastern 100,000-person institutions, where when two people talk to each other it is a miracle.

But, here was the chairman of Dana Corporation talking to one of his buddies in the hall. Here were these "floating crap games" of people just sitting around chatting about business problems at 3M. It feels different! You can wander around. This possibility for regular, informal communication was very clearly the oddest thing that we had observed.

Of course, the tough issue for a general manager, human resource manager or anybody else who is trying to adopt the kind of behavior I'm suggesting is the

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fact that they are dealing with fundamental behavior which, after 20 years in the company, is as close to genetic as it can be.

Thompson: Some people are probably saying, "This is just too simple. It can't be right. The world is more complex."

Peters: You bet they are.

Thompson: And they're saying, "You are oversimplifying things. If it's that easy, everyone could do it!"

Peters: Yes, I have heard those comments.

Thompson: What you are saying, again and again, is "Keeping it simple, communicating in close networks, not letting divisions get too large," seem to be real ingredients for success.

Peters: Yes, and it is very pedestrian stuff. There is no question about that. The difficul-

ty is that the pedestrian stuff is probably the hardest to do. It is very easy to make big, strategic decisions that sound as though one is shifting the armies of the world around on a chessboard. But good customer relations have to do with talking to customers more, listening to them and asking them what they want. When they call in with a problem, you treat them with courtesy.

I have had fantastic experiences with my students who debate in microeconomic terms about barriers to entry in an industry. The answer is always, "a big plant or new technology." And I say, "What about the fact that McDonald's keeps its places clean and provides unbelievably reliable service? You get a smile and service in 27 seconds."

Their response is always the same. "Ah, anybody can do that." And I say, "Yeah, anybody *could*, but nobody else has." That must be the tough thing to do. Everybody can emulate McDonald's 300 variable-site selection model. That is the easy part to emulate. You can do your site selection as well as they do. You can even buy the same real estate. But the magic is in the pedestrian stuff called clean floors and a smile when you serve.

Thompson: You seem to be reinforcing the idea that management in many ways is a performing art. These companies seem to be excellent performers in that sense.

Peters: That is one hundred percent right. And they take pride in the art, as well. The comment was made by Tom Watson, Jr., of his father, Tom Watson, Sr., at IBM, that above all Mr. Watson was always on stage. He specifically used the term, perhaps anticipating that you and I would be reflecting on management as an art 70 years later! In fact, Watson, Jr., said his father was a "showman." They are still showing off, all \$30 billion and \$3.5 billion in after-tax profits.

Thompson: One of the dominant concepts throughout the book is leadership. Is there any evidence that people can really

train and develop managers so that they are better leaders?

Peters: The evidence is "yes" and "no." My own experience is becoming clearer on this, but not particularly more optimistic. In the sense that we talked about a few minutes ago—legitimizing people doing sensible things they have known are sensible—at our very best we can go a long way toward not screwing up the natural instincts of good people. Arguably, we have done a lot of that in the past 25 years.

I really do believe, in terms of the general management task, that you have to be in touch. You have to be in touch with your people and with your customers. You have to want to be in touch.

The good news is, I think we can legitimize wanting to be in touch. I think we can show the new manager the degree to which that is important. The really good news of the book is that this kind of management is a lot more fun than the management we have had for a long time. The tough part of it is that if you really do not like talking to people; if you really are an extreme introvert and you do not get any fun out of talking to somebody who is on the line pushing 3,000 pounds of stuff in the course of every hour of his or her day; if you don't get any fun calling on a customer and asking why he or she does or does not like your product. . . If that kind of gut-tangible, people-to-people reaction does not do anything for you, I am not sure you should become a general manager, and I am not sure we can do much for that person. I think we can train those who really want the managerial role. But there probably are some people who should not be general managers, and for those people, I don't think there are any magic panaceas.

In essence, it's what I tell my MBA students: If you do not like to talk to people, then be a professional analytic staff person. Please do not mess the world up or mess yourself up by trying to become a general manager.

Thompson: Would you say that organizations could do more for

Characteristics of the Excellent Companies

This . . .

Action, Execution
Close to the Customer/Distributor
Productivity Through People
Autonomy/Entrepreneurship
Simple Form, Lean Staff
Stick to Their Knitting
Hands-On, Value-Driven
Simultaneous Loose-Tight Properties

. . . Not This

"Analyze It," "Complicate It,"
"Debate It"
Frills, Statue of Liberty Plays
Cost Control By Overcontrol
"Be Creative"
Matrixing, Layering
Apples + Oranges = Synergy
Driven by Remote Control
Unbridled "Actualizing" OR
Unbending Controls

From Peters, T.J. & Waterman, R.H., Jr. *In search of excellence*. New York: Harper & Row, 1982.

management excellence by selecting people more carefully?

Peters: Absolutely. I think we can spend a lot more time on selection. The first step is getting ourselves clear on criteria. It is fascinating to me that Hewlett-Packard explicitly uses, as their number-one criterion for promotion within the managerial ranks, the ability to create excitement among your people. Only after you have been doing that for five years, do you know what that means. I suspect you cannot write up something that will make a lawyer or chief executive officer pleased with your analytical description of when excitement appears. It is hard to quantify. But the important point is, it is possible to have "creating excitement" as an objective.

I remember when I was a young naval officer, everybody was ranked on how they promoted morale, but it was a throwaway item. What we are saying now is that creating excitement can be the key activity for which somebody gets rewarded. We can do something about selection and promotion based on some of the more qualitative dimensions—if we believe they are important. If we believe they are important, we will find a way to define them.

This means people really have to buy into hard work for the selection process. The Digitals,

the Tandems, the Hewlett-Packards, the 3Ms spend six, seven, eight interviews on the original selection and spend hours and hours on the most mundane promotions. You do not merely say, "This is excitement, herein after designated as the #1 criterion."

I talked to a fellow at IBM about somebody who had been put into a quality assurance job. (It is the usual case of the rich getting richer; they do it reasonably well already.) Well, he spent two or three months trying to figure out what quality was. As an example of how bright he was, he decided he could not figure it out. So he went around and talked to people. He took every function and every job, and he asked questions such as, "Well, what things happen of superb quality in the receptionist area?"

Thompson: So, knowing what "good" looks like is something learned.

Peters: Yes, exactly. . . through hunting for "goods" and finding them and rejecting them and so on. If you are willing to put the time in, you will figure it out.

You cannot do it with a system which has to do with quarterly increases in revenue or profitability. You can institute that kind of system next month and be 100 percent sure that you are selecting correctly, based on that

particular criteria. But no way can you quickly implement a system based on quality and excitement. Three years from the time you start, you will still be making mistakes, but you will be getting closer. Five years later, you will probably have a 95 percent correlation among the people involved.

Thompson: You are saying an organization does not achieve excellence by one well-designed, systematic program or one well-designed performance appraisal system or human resource plan or strategic plan. It is an incremental process.

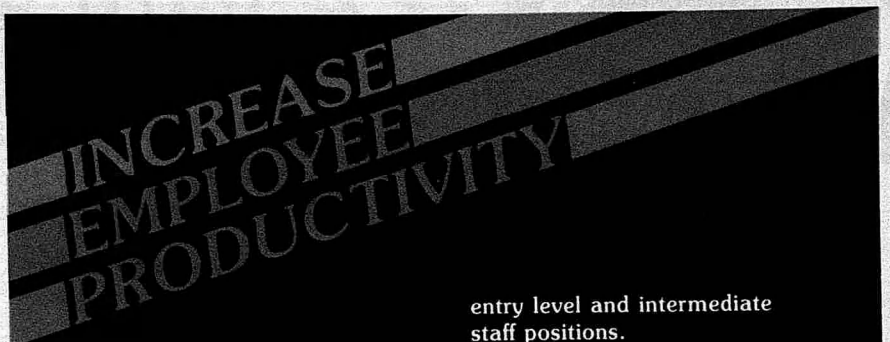
Peters: Absolutely! The magic of Caterpillar, IBM, McDonald's and Disney alike is a thousand things done a teeny bit better. There are no dramatic strategic differences between the winner and the loser in any business category. It is more like "three yards and a cloud of dust."

Thompson: Many of us use existing leadership theories in our work. I am wondering if your research indicates support for any well-known theories of leadership.

Peters: Well, if James McGregor Burns' "transforming leadership" fits into the well-known category, I would say that the study supports that framework. The study supports Burns' concept of leader-follower symbiosis, where leaders and followers actively engage each other, strengthening each other and rising together to higher levels of motivation and conduct.

But let me tell you what is not supported. I have become much less a fan of situational and contingent models of leadership. I believe that the world is a very complex place, and situationality and contingency are, in fact, true. But paying attention to the customer in a million little ways... that strikes me as an absolute, unalterable fundamental.

I am saying that a complex world is contingent, but I do not buy some of the more common contingency models. I do not buy Vic Vroom's model of expectancy theory, which suggests a specific behavior modification approach to motivation: The organization



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rewards those who engage in the desired behavior and withholds rewards from those who do not. I don't have a lot of patience with those theories, and one of the reasons is that we found leaders in the excellent companies to be paradoxes.

For example, in the IBM open-door system, the employee almost always won, and the manager almost always lost. Tom Watson, Sr., is said to have had an unbelievable soft spot in his heart for people who did "real" work. Another example is Rene McPherson at Dana Corporation, who hated his middle managers. I have seen him go into a rage talking about middle managers. He *loved* the people that did hourly work, so how would you describe him? He was Theory X with his middle managers and Theory Y with his low-level managers. But he always maintained an obsessive attention to

treating people with respect, saying, "Look, this business exists for our customers and the people who do things for our customers. The people who do things for our customers are principally our sales force, the people on the loading dock, the receptionist, the people on the production line. They are the real heroes."

Thompson: I'd like to get your reaction to an analogy I learned from Fred Droege at The Williams Companies. He said it's better for an HRD person to be "7 and 0"—like a winning baseball team—than "21 and 6." This seems similar to what your book says about doing a few things very, very well. We simply cannot afford the six losses.

Peters: Sure. Every manager and human resource person has approximately 1,000 legitimate things to do in the course of the day. There are hundreds of individual people issues; there are

