

Destructive Economy Management

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Introduction

Soon or later, management books will contain a specific chapter about Destructive Economy Management [1] which is the art of creating value destroying value.

We may argue that this would be better titled as Critical Emergency Management.

Unfortunately, it is not as long as it was existing a simpler and more convenient solution but which would have the drawback to admit the mistake or just avoiding it.

Then why does this happen? If we are not the brave ones who makes the mistake, then the mistake will find someone else to be being made.

Better than a mere theory, it could be useful to brings some examples.

All the following example are inspired by single real events but no one of these three following stories are related with any real company and any possible similitude is a matter of merely coincidence.

A remote vulnerable critical system

A huge company involved in delivering millions of devices connected by a mobile network discover that their system, in any previous version, has a lack of security in different key components for different reasons.

Their devices are remotely vulnerable and this will lead to a nightmare scenario in which the company should face many legal disputes by injured clients, replacing all the devices as fast as possible and face major reputation and shareholders damage.

Once the issues are discovered, someone knows and at any time the news could break into public.

How to handle this scenario and gain value?

- 1st, keeping busy anyone involved in artificial and urgent troubles.
- 2nd, negotiate a firewall options with mobile physical network companies.
- 3rd, play short on your own shares on the stock exchange by some controlled companies.
- 4th, organize a safe but emotional impacting incident about the remote vulnerability.
- 5th, orchestrate this on the media.
- 6th, let your stocks quote falls because investors are fearing the nightmare scenario while controlled companies will earn money on short stoke options.

- 7th, use the option bought to firewall the vulnerability and avoid to replace all the devices or forcing their firmware upgrade.
- 8th, claim on media that you solved the problem as indicated.
- 9th, earn money because investors return back with increased trust considering how well the incident was fixed.
- 10th, spread around, relocate and isolate, everybody in the initial team that knows the technical details.

An intellectual property issue

A huge company has a contractors negotiation policy set that is clearly vulnerable by a common contracting intellectual property attack.

The company got involved in a such kind of IP attack and their core business product IP is fundamentally jeopardized. All their major clients and partners would be strongly affected as well.

The nightmare scenario involves losing incoming payments, partnerships, credibility, market value and to force the top management to rewrite the supply contracting policies and renegotiate with all the contractors, all these eventualities at once.

How to handle this scenario and gain value?

- 1st, keeping bumaquillagesy anyone involved in artificial and urgent troubles.
- 2nd, choose a contractor involved which is easy to manipulate.
- 3rd, create with this specific contractor a set of rare but common events like company top management reorganization, operation splits and ownership change.
- 4th, pretend that the issue is related to this three rare but common events: it is a black swan because three rare events happened in a precise order and in limited time frame.
- 5th, hide the fact the whole supply contracting policy is vulnerable putting under pressure, like an internal investigation for bribery, the buying division.
- 6th, negotiate to sell the company to another foreign company which is unacceptable by your partners and let this will to breaks into the media;
- 7th, telling to the main clients and partners whom previously refused to buy the new incoming product because they are satisfied about the old one that what they bought have been exposed to an IP jeopardization due to a black swan event and this that could lead them to a nightmare scenario and offer them the new product at discounted price in order to avoid any litigation in future, remaining any damage at their side if they will not accept the discounted offer.
- 8th, raise the suspect among your partners that the IP issue and the buying offer by an hostile company are related and let them put in trouble that company.
- 9th, collect the order from your partners and leverage the debts and incoming payments delayed by internal investigation to close all the contracts.
- 10th, leverage the hostile company troubles to negotiate buying from them something you need at discounted price.
- 11th, renegotiate contractors under more favourable conditions strongly reducing the cost of the outsourcing.
- 12th, to drop the IP issue to someone who has no any negotiation power to leverage it.
- 13th, relocate and disband the team which knows enough information about the whole story.

A management set of mistakes

A huge manufacturing company was in trouble because the family management were not competitive any more in the global market.

They were facing two options: to sell to competitors or to hire external management. They choose this second option.

The new management get focusing on Lean/Kanban production approach. About five years later the illness hours due to incident on workplace are rocketing up.

Someone outside the company discover the reason: new managers fired the seniority among workforce in order to cut labour cost.

This is against the Lean/Kanban pillar rule which setting the need to have intelligence (which is not only data collection but also real-time processing in place) distributed on the production line. In order to decrease the average salary, they lost seniority but also the knowledge about how to work without incidents.

Moreover, the new production lines are going to decrease productivity due to their learning curve. Pushing on the gas pedal to reduce any productive step time combined with lack of seniority and new production lines, the incidents exponentially started to grow.

This scenario is different from the two above because it is not an issue between the company and the shareholders, it is between the management and the ownership.

How to handle this scenario and gain value?

- 1st, keeping busy anyone involved in artificial and urgent troubles.
- 2nd, call a company directory meeting in which will be presented the new operational options.
- 3rd, prepare a presentation in which all financial and economic KPI are improving since five years before; the illness hours due to incident are accounted in these KPI, so they are not presented but overlooked.
- 4th, prepare a graph in which the increase of productivity play a key role in the improved average marginality;
- 5th, prepare a graph comparing the last 5 years illness hours total cost accounted and a budget about working safety policies, ignoring that the incidents are growing up exponentially.
- 6th, during the board management and ownership meeting, claims the great achievements; show how much they impact over revenues; proposing to devolve a budget for productivity bonuses; proposing to devolve a budget for safety working conditions; propose to drop the certification as useless cost.

This certification is the one that exposes to the public the statistics about incidents and related illness hours, supporting this last decision with unrelated amenities.

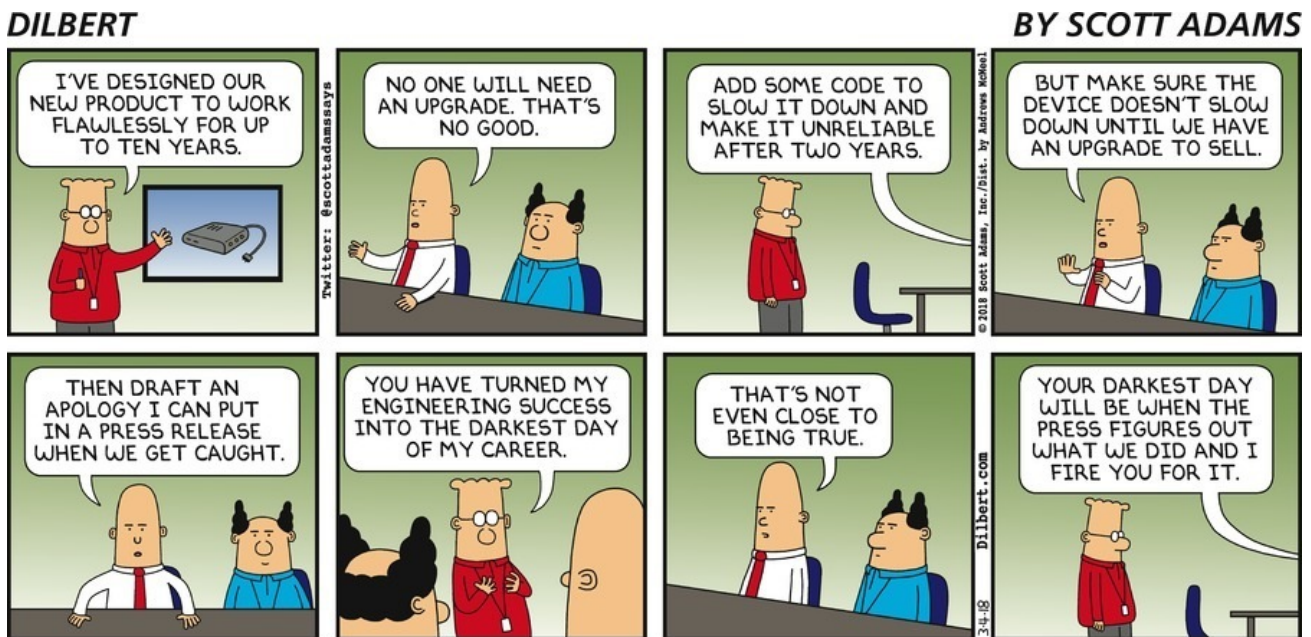
- 7th, to sell back at the current added value the shareholders option to the ownership in exchange of a management one-time bonus and/or salary increases.
- 8th, bargain with the ownership to reduce the budget about safety working conditions and move the difference into the productive working forces bonuses in order to move the moral responsibility of this approach to the ownership instead of the management.
- 9th, pass among the workforce a informative circular about productivity bonuses for the closing year and for the next year, increasing the expecting productivity levels in such a way fewer will get the bonus.
- 10th, pass among the workforce an informative circular about the improved personal safety norms. 10th, the two directives are written in the way that workforce clearly realise that those will comply with the safety norms, they will not match the productivity requested.

- 11th, for any future incident blame the workforce for not adopting personal security norms and compensate with bonus saving the lost of productivity among those kept them safe.
- 12th, with an increased salary/bonuses, quietly looking for a new job in a bigger company.
- 13th, kept in shadow any externals that knows the facts.

Conclusion

The common point is just one: bury the facts and those known which in the best case could be valuable competitors in offering a solution. Keeping confidentiality is another matter of question and it implies to have a long term retain policy and a strongly loyal oriented approach which is rare, nowadays.

I give you a picture



–Source: [Dilbert](#), 2018-03-04

Note

[1] [Joseph Alois Schumpeter](#) (German: [ˈʃʊmpɛːtɐ]; 8 February 1883 – 8 January 1950) was an Austrian-born American political economist. He briefly served as Finance Minister of Austria in 1919. In 1932 he became a professor at Harvard University where he remained until the end of his career. One of the most influential economists of the 20th century, Schumpeter popularized the term "creative destruction" in economics. [...] [Creative destruction](#) (German: schöpferische Zerstörung), sometimes known as Schumpeter's gale, is a concept in economics which since the 1950s has become most readily identified with the Austrian-American economist Joseph Schumpeter who derived it from the work of Karl Marx and popularized it as a theory of economic innovation and the business cycle. According to Schumpeter, the "*gale of creative destruction*" describes the "*process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one*". In Marxian economic theory the concept refers more broadly to the linked processes of the accumulation and annihilation of wealth under capitalism.