EXCHANGE

SPRING 1996
THE J. WILLARD
AND ALICE S.
MARRIOTT SCHOOL
OF MANAGEMENT
BRIGHAM YOUNG
UNIVERSITY

PEOPLE WHO PILFER GENERALLY DO NOT
THINK OF THEMSELVES AS THIEVES.

Changes and Goals

For the past two years, the entire university has been involved in a comprehensive self-study. One result of the Marriott School's involvement in this self-study is the conclusion that we can better serve our students, the Church, the business community, and our own internal community of faculty, staff, and administrators if we make some fundamental changes in the school's structure and focus. After much debate and serious consideration of several options, we have agreed on a restructuring plan that we feel will help us achieve excellence in the quality of management education we provide and will better assist students in becoming effective managers and future leaders in their families, careers, communities, and Church responsibilities.

The new structure will group faculty into four administrative departments: Business Management, Organizational Leadership and Strategy, Public Management, and the School of Accountancy and Information Systems. These departments will then be divided into 10 faculty groups: finance and managerial economics, marketing, and operations under the Department of Business Management; management communication, OB/HR, and strategy under the Organizational Leadership and Strategy Department; public administration under the Institute of Public Management; and accounting, tax, and information systems under the SOAIS.

Each faculty member can choose membership in a primary group as well as affiliation in one or more secondary groups. Membership in a primary group requires a commitment of three to five years in scholarly work and service and gives the faculty member voting rights on decisions regarding hiring, promotion, curriculum, and so forth. Secondary affiliations indicate interest—which may involve teaching, research, or service activity—but is generally ad hoc or part-time and does not provide voting rights or require a specific time commitment.

Separate from departments and faculty groups, but able to draw upon their resources, are the academic programs. We will have undergraduate programs in business management and accounting. Graduate programs will include MBA, MPA, MOB, and MAcc. Academic programs are the school's main focus. Faculty groups, then, exist to serve the various programs, and departments are organized to serve faculty groups. Groups and programs, rather than departments, will determine course content and have responsibility for faculty and course development. Departments will represent faculty in overall MSM coordination and governance.

We are confident that this restructuring effort will strengthen academic programs to better serve target customers, increase faculty productivity, enhance cross-disciplinary opportunities, provide more effective and representative school governance, and position the MSM to be responsive to future management requirements. These structural changes in the Marriott School represent one of my major goals as dean. During the next three years, I would like to see several other things happen. The following list includes a few of the developments and changes I will be working toward with the help of my associate deans and other members of the faculty and staff.

- Create a strategic plan for implementing the Marriott School's mission statement, and specify ways in which we can measure the outcomes we desire to achieve.
- Recruit and hire faculty members who are recognized as experts in their respective fields to strengthen our curriculum and research efforts.
- Work more closely with individual faculty members to increase their development as teachers and researchers.
- Modify the reward structure for faculty members to recognize their efforts in teaching, course development, research, and community service.
- Implement a management field studies program to give students greater practical experience before graduation.
- Begin a distance-learning program to share the Marriott School's expertise with alumni and other leaders in the business world.
- Revise the undergraduate and graduate core curriculum to maintain relevance with the changing business environment.
- Acquire $30 million in endowment funds through the Leadership Alliance.

This is an exciting time to be involved with the Marriott School. Many changes are taking place, and many others will follow as we strive to fulfill our mission.

K. Fred Skousen
Dean, Marriott School of Management

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Controlling Pilfer

PHOTOS BY

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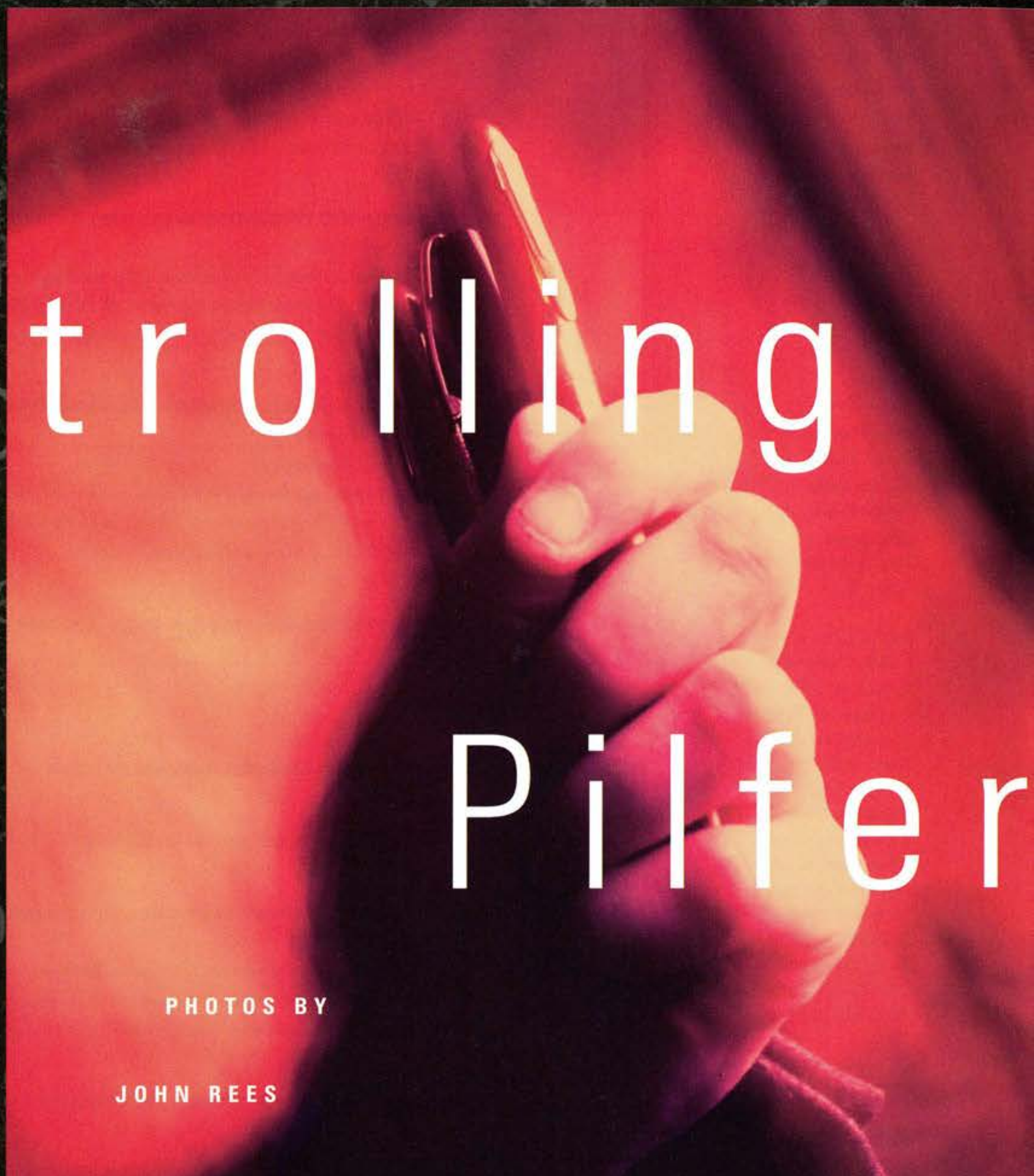

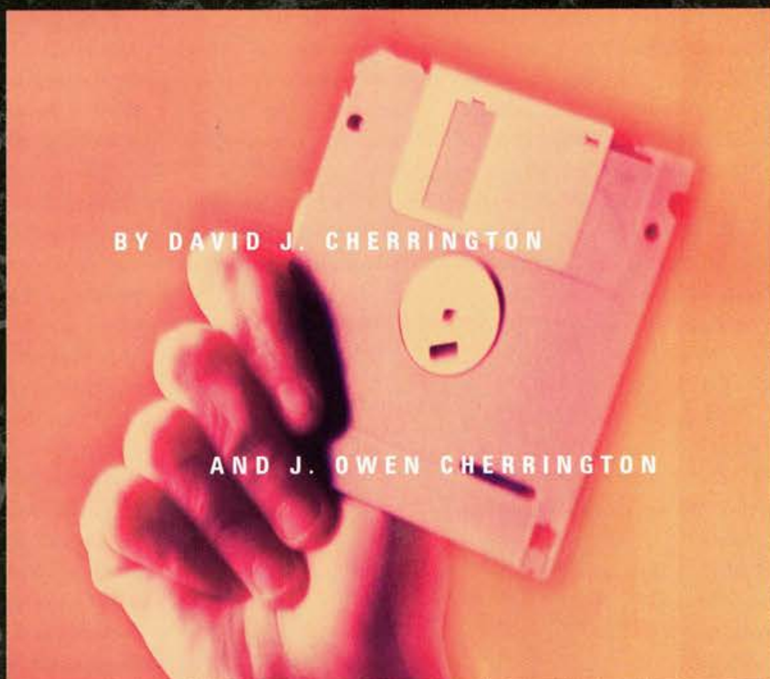

BY DAVID J. CHERRINGTON

AND J. OWEN CHERRINGTON

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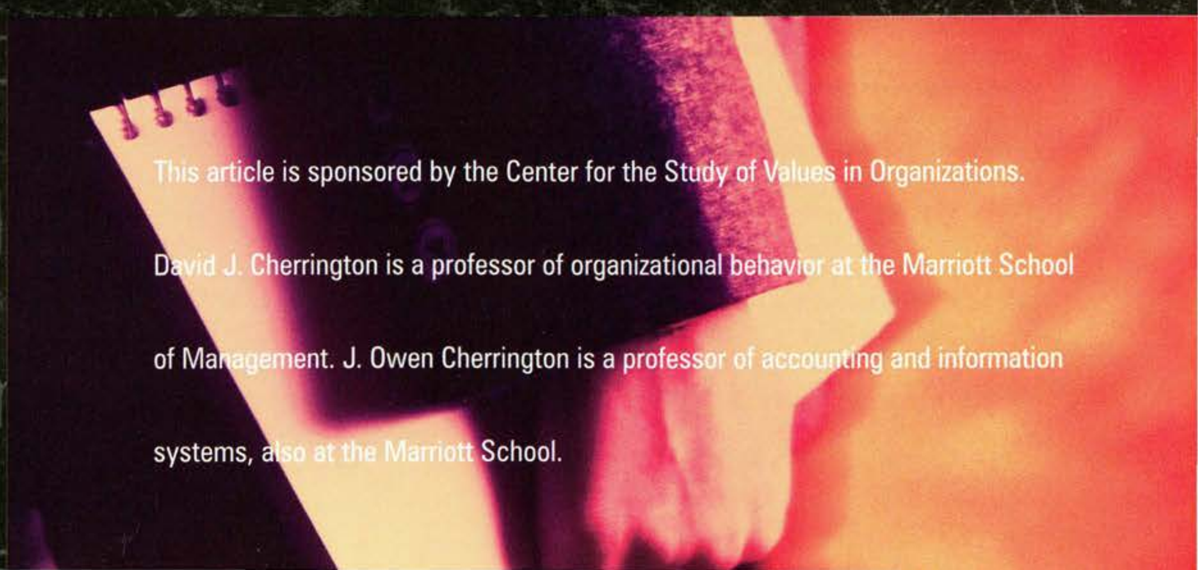

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David J. Cherrington is a professor of organizational behavior at the Marriott School of Management. J. Owen Cherrington is a professor of accounting and information systems, also at the Marriott School.

TABLE 1 GENERAL ATTITUDES ABOUT HONESTY	Percentages (N=33,337)			
	Strongly Disagree	Disagree	Agree	Strongly Agree
1. Most companies are not very concerned about honesty and do not care much about theft so long as the amounts are small.	82.2	16.0	.9	.9
2. In some situations there are good reasons why it is all right to cheat a company.	64.2	33.0	1.9	1.0
3. Most sales clerks deserve to steal a little now and then because they are so badly underpaid.	71.5	26.7	.9	.9

Is pilferage really something we need to worry about? Pilfering refers to taking small items that don't belong to you, usually on a repeated basis. People who pilfer generally do not think of themselves as thieves. Because the items are small, they are often considered insignificant.

Pilfering can take many forms, such as taking small amounts of office supplies, including pencils, pens, paper, envelopes, and postage. Many people do not think that making personal long-distance phone calls from a company phone is especially wrong. Nevertheless, when people do these things without company permission, they are taking things that do not belong to them, which is stealing. Pilferage costs a good deal of money, and it is against the law. Joseph Wells, a former FBI agent, estimates that employees pilfer as much as $200 million a day, almost $4 per employee.

A landmark survey in the early 1980s by Hollinger and Clark found that 80 percent of the 9,000 employees they surveyed admitted to noticeable amounts of pilfering from their employers.[1] Perhaps even more surprising was that many employers said there was nothing really wrong with it.

Many employees make a distinction between pilfering and outright theft. They see stealing as wrong, but pilfering as common and an accepted perk of employment. From an organizational perspective, however, the difference is not so great. Everyone agrees that taking $10 from the cash register is a dishonest act. But not everyone agrees that using $10 of company postage to process personal announcements through the company's postage meter is a dishonest act.

One of the most serious problems of pilfering is that it leads to a blurring of the ethical distinctions between right and wrong. Taking a pen home from the office is not wrong if the employer grants permission. Indeed, some employers invite employees to use office supplies at home or to use the office for personal business because it maximizes an employee's efficiency. There is strong evidence, however, that unapproved pilferage leads to theft of small items, and theft of small items leads to theft of larger items.

People who commit theft of any kind must rationalize their behavior to maintain their feelings of self-worth. Employees who pilfer soon develop the attitude that pilfering is not really wrong. In time, they develop other justifications for their pilfering, such as "the company owes it to me," "everybody is doing it," "managers do it," or "management knows about it, but does not do anything to stop it, so it must be all right." Such rationalizations frequently lead to theft on a larger scale.

Is Pilfering Dishonest?

Virtually everyone believes in being honest, but some people justify pilfering. For the past 15 years, we have been monitoring the responses of job applicants to an honesty test, called the Applicant Review. This honesty test measures the attitudes of job applicants about general honesty and specific acts of stealing. We have learned that some individuals make a distinction between dishonesty and pilfering. At an abstract level, even dishonest people still regard honesty as an important social virtue, but they do not condemn pilfering. Some people who think honesty is very important do not think pilfering is especially wrong.

The contrast between dishonesty and pilfering can be illustrated from the responses of 33,337 job applicants in 1995 who completed the Applicant Review as part of the application process. Items on this test measuring attitudes about general honesty suggest that almost 100 percent of the applicants agree that honesty is important. As shown in Table 1, the vast majority of people (98 percent) believe honesty is important to companies, and companies very much care about even small thefts. People do not believe it is acceptable to cheat companies: 97 percent say there are no good reasons that justify cheating a company. And even though sales clerks are some of the lowest paid workers in our society, 98 percent say that their low wages do not justify stealing from their employer.

TABLE 2 ATTITUDES ABOUT PILFERING		Percentages (N=33,337)			
		Strongly Disagree	Disagree	Agree	Strongly Agree
1. Sales representatives who pad their expense accounts should be fired even if they only add $10 or $15 per month.		5.5	17.1	43.1	34.3
2. When employees take pens, paper, and envelopes from the company for personal use, they are stealing.		1.2	9.1	60.9	28.8
3. If all the people who stole things at work were fired, 3/4 of the country would be out of work.		15.7	52.4	25.8	6.1
4. Making personal long-distance phone calls on your employer's phone without permission is stealing.		2.2	5.7	46.1	46.0
	Always	Frequently	Occasionally	Seldom	Never
5. If I stole little things from my employer, such as paper, pens, and envelopes, I would really feel guilty.	59.0	15.7	9.0	8.8	7.5

As a general rule, everyone thinks cheating and dishonesty are wrong and unacceptable. When job applicants are asked about specific acts of pilfering, however, they are not as emphatic in their condemnation. The five questions shown in Table 2 illustrate how some people think small acts of pilfering are not considered stealing.

While most people agree that sales representatives should be fired for overstating their expense accounts, only 34 percent strongly agree with this action. About a third of the people think stealing from employers is widespread: 32 percent either agree or strongly agree that three-fourths of the country would be unemployed if all employees who stole were fired. Only 46 percent strongly agree that making personal long-distance phone calls on an employer's phone without permission is stealing. Even more disturbing is the fact that 8 percent do not think this is stealing. Only 29 percent strongly agree that taking pens, paper, and envelopes from the company for one's personal use is stealing, while 10 percent say it is not stealing. And when asked how often they would feel guilty about stealing small items from an employer, only 59 percent answered always, while 16 percent said seldom or never.

Additional analyses of the data indicate that there are significant differences associated with age: younger workers are much more tolerant of pilfering than older workers, as shown in Table 3. The reasons why older workers condemn pilfering more emphatically than younger workers can perhaps be attributed to two explanations. First, older workers were probably taught more traditional values about honesty and what it means to be honest. This would suggest that as a society we are not teaching the value of honesty as effectively now as it was taught in earlier years. Second, along

with age come learning experiences and the opportunity to learn from them. Older workers have probably had more opportunities to see the consequences to companies and society of pilfering, and they recognize that it is wrong.

The data also suggest that small acts of pilfering are likely to lead to larger acts of theft and embezzlement. The Applicant Review asks how much money and merchandise applicants have stolen in the past three years. As shown in Table 4, those who admit they have stolen from their employers are more inclined to say that pilfering is acceptable. And, as the amount stolen increases, the acceptability of pilfering also increases.

TABLE 3 COMPARISON BETWEEN DIFFERENT AGE GROUPS IN ATTITUDES ABOUT PILFERING

	Means for Each Age Group (1=strongly disagree, 4=strongly agree)				
	16-19 n=5,119	20-29 n=5,330	30-39 n=1,099	40-49 n=588	Over 50 n=287
Sales representative who pad their expense accounts should be fired even if they only add $10 to $15 per month.[a]	3.07	3.14	3.13	3.16	3.23
If all the people who stole things at work were fired, 3/4 of the country would be out of work.[a]	2.28	2.16	2.12	2.06	2.08
When employees take pens, paper, and envelopes from the company for personal use, they are stealing.[a]	3.11	3.20	3.27	3.33	3.37
Making personal long-distance phone calls on your employer's phone without permission is stealing.[a]	3.36	3.41	3.47	3.48	3.52
If I stole little things from my employer, such as paper, pens, and envelopes, I would really feel guilty.[b]	1.87	1.82	1.69	1.53	1.45

a. 1 = Strongly Disagree, 4 = Strongly Agree b. 1 =Always, 5=Never

TABLE 4 CONTRASTS IN PILFERING ATTITUDES ACCORDING TO HOW MUCH CASH APPLICANTS ADMIT STEALING

	Means for Each Group					
	$0 n=29570	$0 - $20 n=2246	$20-$100 n=393	$100-$500 n=64	$500-$2000 n=17	over $2,000 n=7
Sales representative who pad their expense accounts should be fired even if they only add $10 to $15 per month.[a]	3.08	2.84	2.68	2.75	2.58	2.42
If all the people who stole things at work were fired, 3/4 of the country would be out of work.[a]	2.19	2.47	2.69	2.84	2.82	3.00
When employees take pens, paper, and envelopes from the company for personal use, they are stealing.[a]	3.19	2.97	2.92	2.93	2.76	2.85
Making personal long-distance phone calls on your employer's phone without permission is stealing.[a]	3.37	3.19	3.06	3.03	2.87	3.42
If I stole little things from my employer, such as paper, pens, and envelopes, I would really feel guilty.[b]	1.83	2.57	3.04	2.88	2.87	3.16

a. 1 = Strongly Disagree, 4 = Strongly Agree b. 1 = Always, 5 = Never

People Who Pilfer

To develop a wise approach to controlling pilferage, we need to identify the different types of pilferers and understand why they do it. Pilferers can be classified as occasional, chronic, and professional. Joseph Wells estimates that about one-third of these workers are occasional pilferers, half pilfer regularly, and about 20 percent are professionals who steal in volume.[2]

Occasional pilferers use a company envelope now and then to mail a personal letter or use the company phone once in a while to call long distance. Most companies consider this a cost of doing business, not criminal activity.

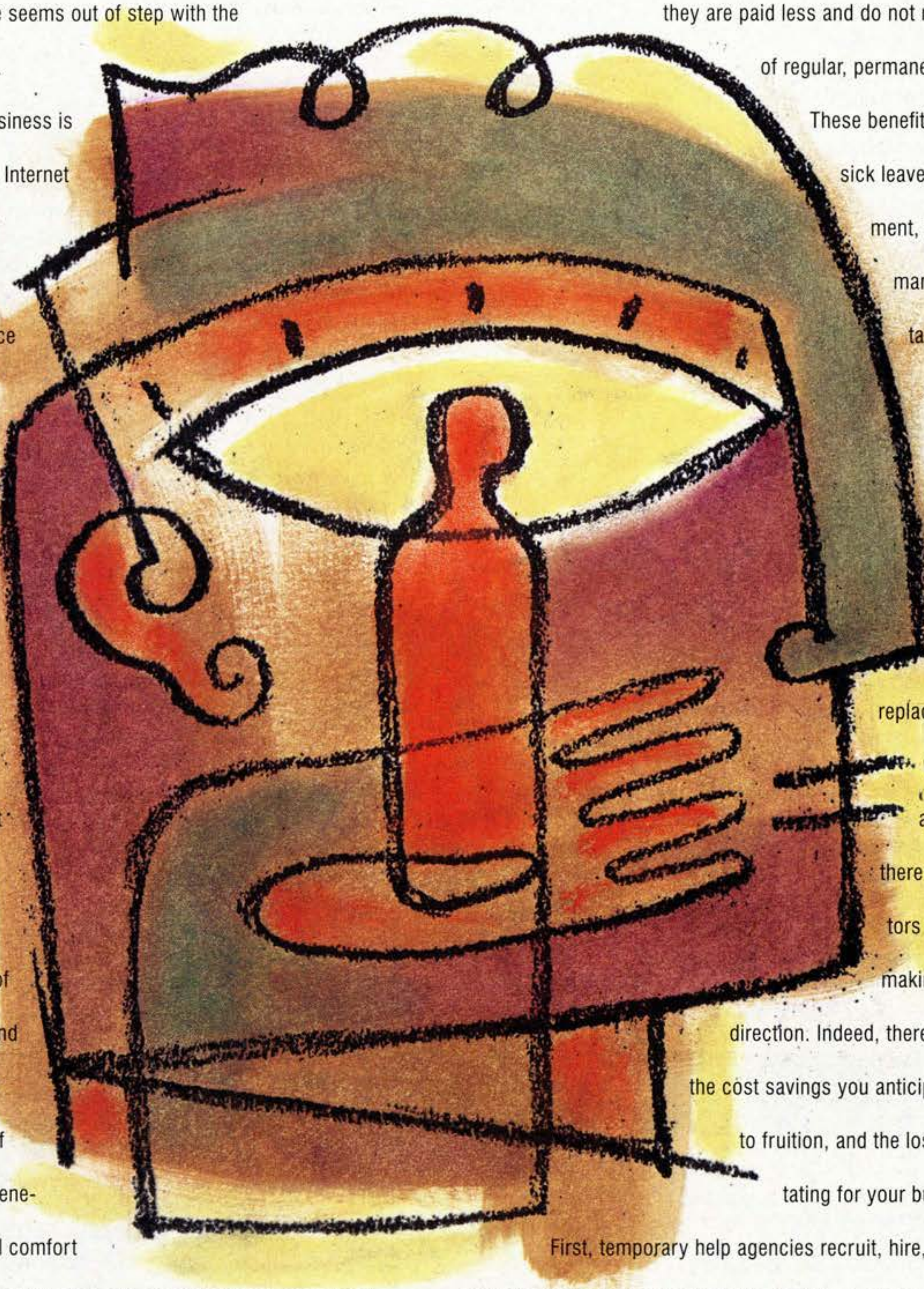
Chronic pilferers habitually take from their employer. Amounts on a daily basis may be small, but over an extended period of time they can be very large. Just because some workers are chronic pilferers does not mean they cannot be trusted with company assets. Many of these people are otherwise honest individuals in that they would not steal large pieces of equipment or take items of significant value. They have simply formed a habit of using company resources for personal activities.

The last type of pilferer is professional. In addition to taking the small

(continued on page 29)

Assume you are the owner of a successful business that has been operating profitably since 1970. You have noticed that for the last few years the gross income of your business has been increasing steadily, but net income has been dropping. Your business expenses all seem to be increasing, but only one seems out of step with the others—health benefits.

Wondering if your business is atypical, you search the Internet for information on other businesses. At the U.S. Department of Commerce Web site, you discover data on U.S. business expenses from 1970 to 1991. You compare these statistics with your own business expenses and, with some excitement, discover a perfect match. National statistics, adjusted for inflation, show an increase of 0.4 percent for wages and benefits during those 22 years, but an increase of 243 percent for health benefits. There is some small comfort in determining that other businesses are also experiencing declining incomes due to large increases in health coverage, but if this trend continues, you know your own business will soon be operating in the red.



What can you do to curb this increase in health benefits? Do you (a) hire temporary, uninsured workers, (b) trim health insurance benefits, (c) begin a wellness program, or (d) change your work environment to improve employee health? Let's explore each of these alternatives before you make your decision.

HIRING TEMPORARY WORKERS

Hiring temporary and contract workers may reduce expenses because they are paid less and do not receive the benefits of regular, permanent employees. These benefits—health insurance, sick leave, vacations, retirement, FICA, and other mandatory employment taxes—add about 30 percent to the wages of each permanent employee. In the short run it might appear to be cost-effective to replace your regular workers with an army of temps, but there are numerous factors to consider before making a move in that direction. Indeed, there is a possibility that the cost savings you anticipate may not come to fruition, and the losses may be devastating for your business.

First, temporary help agencies recruit, hire, and pay employment taxes on the people they hire, and these expenses are passed on to organizations that use these workers. This may add up to 50 percent to a worker's hourly wage. Second, wages are often higher for contingent workers than they are for regular workers in occupations requiring a high level of skills or education.

IMPROVING ORGANIZATIONAL & EMPLOYEE HEALTH

BY SHERI BISCHOFF

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Third, increased costs associated with training and managing a constantly changing workforce may offset any savings on benefits. Finally, decreases in productivity, quality, motivation, and commitment may result from hiring workers who not only don't share a corporate vision, but also regard themselves as disposable.

Trimming Health Insurance Benefits

The percentage of Americans with health insurance coverage has continued to decline since 1988. According to its Current Population Survey, the Census Bureau estimates that 39.4 million individuals younger than 65, or 17.3 percent of the population, had no health coverage for all or part of 1994. Employers have contributed to this decline. The Health Policy Center at the Urban Institute shows that the rate of employer-sponsored coverage fell from 67 percent to 61 percent between 1988 and 1993. And among those employers that do provide health insurance benefits, many have decreased the level of coverage offered to employees.

Does this help employers save money? Perhaps, but this cost savings may be illusory—additional expenses may occur because of an attempt to save money in the short term. No or limited health coverage for preventive or early healthcare may exacerbate some health conditions to the point of increasing medical care, worker's compensation, and disability expenses. Lower productivity and reduced morale may also result from employee perceptions that their employer has minimal concern for their health and well-being.

Companies may choose to let employees participate in reducing the cost of their health coverage and other benefits by permitting employees to select the types and amounts of benefits they prefer. Rather than assuming that a "one size fits all" benefits package will meet the needs of all employees, flexible, cafeteria-style benefits plans provide employees with choices and information about how much these benefits cost. Employees choosing more expensive benefit options may find they have to contribute to this level of coverage, while others choosing a less expensive package may receive a rebate.

Although this may seem like a panacea for the escalating cost of health benefits, there are other costs associated with this type of coverage. A company with a flex-benefits program generally experiences increased administrative costs associated with implementing and monitoring numerous benefit packages, and employees may choose to select and change their plans based on what they anticipate their needs will be for the coming year. An employee may choose to maximize utilization one year and receive a rebate the next.

Employers have also responded to double-digit annual percentage increases in health coverage by changing the type of coverage they offer to employees. Some studies indicate that soaring health benefits costs have been checked by employers more focused on restrictive, managed healthcare plans. Benefits consultant Foster Higgins claims that managed care covered 71 percent of American workers in 1995, up from 52 percent in 1993.

Managed care is considered to be more cost-effective, since it focuses on preventive medical treatment, overseeing treatment, and refusing medical care it deems unnecessary. There has been a backlash, however, from employees who feel that these restrictions and changes compromise the quality of their medical care.

Implementing a Wellness Program

In the past two decades there has been a dramatic increase in employer-sponsored health, fitness, and wellness programs. As many as 50,000 private- and public-sector organizations, including Johnson & Johnson, Coors, Steelcase, Hershey Foods, and Ventura County, California, have taken a proactive approach to employee benefits costs by instituting employee wellness programs. These programs move beyond medical care and health protection to actively promoting healthy behaviors. An organization sponsoring such a program may claim that it represents a commitment to the physical and mental health of employees.

Employers have chosen to focus on health-promotion and wellness programs for a variety of reasons. These programs, for instance, may be used as a tool to improve employee decision-making regarding healthcare choices, especially when the organization is implementing a flexible health benefits program. Wellness programs may also improve worker health and reduce healthcare costs. Taking up healthy habits such as controlling weight, giving up smoking (including second-hand smoke from co-workers), and exercising may reduce healthcare utilization.

A study conducted by Health Promotion Services at Veritus Services, Inc., examined the relationship between participation in a healthcare program and healthcare costs. The study showed that participation was positively correlated with controlling medical care use and cost. It found that the average healthcare claim was only $576 for participants in a wellness program, compared with $1,747 for nonparticipants.[1]

Benefits of worksite-based health-promotion and wellness programs may also include higher employee morale, increased productivity, and decreased absenteeism, turnover, and tardiness. Employers may even choose to use a wellness program as a recruiting tool, claiming that having such a program demonstrates that the company cares about its employees. Other companies have touted the implementation of such programs as an indication of their innovativeness.

With these compelling arguments for implementing a wellness program, why aren't all organizations participating in one? Although many companies have adopted health and wellness programs, implementing these programs is sometimes difficult to justify using cost/benefit analysis. Obviously, these programs involve more than bottom-line results. For example, a healthy lifestyle may help to increase self-image and loyalty to a company sponsoring a program, but few companies will start or continue benefits programs that do not indicate positive economic results for the company. An intriguing sidenote to this is that CPAs are now being requested to analyze these programs to demonstrate the relationship between employee characteristics and healthcare expenses.[2]

The type of employee, industry, and organization may have a significant impact on the rationale for embarking on a wellness program. Some organizations accept high turnover as one of the costs of doing business in their industry. For example, some fast-food restaurants may have turnover in the 400-to-600 percent range and yet still remain highly profitable. Since one of the intents of a wellness program is to promote long-term, healthy behaviors and low medical care utilization, an organization that has an average tenure of three to six months for employees may find that there is minimal interest on the part of employees or managers for a wellness program. A proportionally large part-time workforce that is not eligible for healthcare benefits may also negate the value of such a program. In addition, there is a decreased tendency for small businesses to adopt these programs, although a number of small companies do provide wellness programs as a way to decrease healthcare costs.

The relationship between employees and the organization may also influence the effectiveness of a wellness program. Some employees may perceive that a health-promotion program sponsored by a business is intrusive, and an employer has no right to intrude in private issues such as personal health.

Issues of ethical conduct by the organization and lack of trust by employees can cause a health-promotion program to be far more costly than the initial costs of setting up the program. For example, in one organization that set up a health fair for employees as a "kick-off" for a new wellness program, the intended positive influence on employees backfired. Included in the health fair were some simple health assessments, such as a finger-stick blood cholesterol reading that was recorded on a small card and given to employees. Rumor spread throughout the organization that this assessment was being used to screen for drug usage. Although this rumor was completely unfounded, it created animosity for months between employees and managers.

In essence, if an organization has attempted to find every possible way to decrease expenses, this type of program will not be seen as a benefit by employees, especially if they have reason to suspect the motives of those sponsoring the program. Once again the needs of a business would have to be assessed before embarking on a wellness program. Although there is compelling evidence to suggest that investment in such a program may pay off in terms of decreased healthcare costs and healthier employees, other aspects of a particular business and its employees must be considered.

Changing Work Environment

Changes in the way work is performed extends beyond compliance with Occupational Health and Safety Administration (OSHA) and state regulations concerned with disease and accident prevention at the workplace. It starts with the premise that higher-stress jobs will be linked to poor health outcomes and decreased effectiveness at work, but it reaches beyond basic stress reduction programs.

Thousands of companies have spent millions of dollars on stress reduction programs for employees, but there is still not a definitive link between stressed employees and unhealthy organizations. Some individuals appear to thrive on stressful work, while other employees in the same jobs may seek disability claims for stress-induced physical and psychological illnesses.

Perhaps what is needed is a different definition of the various aspects of stressful work, focused more on causes than symptoms. Specific aspects of work, including the demands inherent in particular jobs and the latitude given to employees to meet these demands, may influence their health.

There is support for the contention that high-strain work, combining high job demands and limited opportunity for individual judgement and control, correlates with increased incidence of heart disease, elevated blood pressure, higher consumption of both prescription and nonprescription drugs, and increases in fat consumption and smoking.[3] This research proposes that individuals who have more control over how they perform their work, no matter how demanding the work is, exhibit healthier behavior and a lower incidence of disease.

What does this mean for your organization? Considerable attention has been focused on work teams and empowered workers; the benefits of these programs are usually linked to increases in productivity, profitability, and employee morale. It is an intriguing proposition that increased decision latitude at the employee and team level may be linked to both organizational *and* individual health.

An additional finding in this area that is interesting for employers is that education can be a strong moderator of health behaviors practiced by employees. Thus, combining health education in a wellness program with more worker control over how work is performed may be an optimal way of creating a high-performance workforce.

Conclusion

Which option did you choose? Each, or some combination of the four, may improve the economic health of your organization and the physical and psychological health of your employees. The goals and strategies of your business will determine the viability of each option.

The general reaction by U.S. businesses of cutting employees or their benefits may not be the most advantageous to the long-term health of your organization, especially when other options exist that organizations have used to control costs without alienating their workforce. Jeffrey Pfeffer has proposed that sound decisions about the people who make up the organization are pivotal in sustaining a competitive advantage in business today.[4] The drive to maintain business health by cutting costs must not override the preservation of a quality, motivated workforce. E

Notes

1. Mary Anne Papale and Grant D. Lawless, "The Impact of Lifestyle Health Risk on the Bottom Line: A Case Study," *Employee Benefits Journal*, September 1993, Vol. 19, No. 3, pp. 21-26.
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3. Robert Karasek and Töres Theorell, *Healthy Work: Stress, Productivity, and the Reconstruction of Working Life*, New York: Basic Books, 1990.
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INDIGENOUS MANAGEMENT

Microentrepreneurship in the Philippines

by Warner Woodworth

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While the U.S. Congress debates whether America should provide international development and humanitarian relief, other nations are forging new strategies to improve the plight of the poor. In Copenhagen in March 1995, the largest gathering of world leaders ever assembled spent several days in a conference proposing new action to assist the 1.3 billion "poorest of the poor." Ideas ranged from taxing speculative international currency transactions (supported by Nobel Prize winning economist James Tobin and French President Francois Mitterand) to Austria's pledge to write off $100 million in debt owed by several destitute nations.

In addition, the United Nations Fourth World Conference on Women, held in Beijing during September 1995, mobilized groups to press for relief to Third World women and children, reduction of death and disease, and higher rates of literacy and education to empower the oppressed.

While global institutions such as the World Bank and International Monetary Fund operate at the macro level, a small group loosely affiliated with Brigham Young University is trying to make a difference at the grassroots level. This effort began in 1989 with a needs analysis study by a team of MSM graduate students and myself. The initial goal was to assess the economic problems facing Latter-day Saints in the Philippines and then determine a possible course of action to improve their quality of life.

My interest in the Philippines began in Hawaii in 1987 when I worked with Filipino students at BYU-Hawaii to improve their economic well-being through creating producer cooperatives. With support from the Catholic Church and the Consul General of the Philippines in Honolulu, we achieved some success, and students began to encourage me to carry out similar work with their relatives in Manila.

Third World Poor

The primary findings of our research in the 1989 study of Filipino converts was that they were economically worse off than a decade earlier and that Church members tended to be poorer and suffer greater unemployment than non-Latter-day Saints. Further, they were not availing themselves of opportunities to receive employment training, entrepreneurship skills, and other services.

In contrast to LDS populations in the United States, where roughly 90 percent of Church members were self-reliant and only about 10 percent were extremely needy, in Manila the situation was reversed—only one-tenth were self-reliant and 90 percent were unemployed, underemployed, or needy.

The words of President Joseph F. Smith rang in my mind and heart: "It has always been a cardinal teaching with the Latter-day Saints that a religion which has not the power to save people temporally and make them prosperous and happy here, cannot be depended upon to save them spiritually, to exalt them in the life to come."[1]

Thus it was that with the support of Dean Paul Thompson we began to formulate a strategy for addressing the plight of the LDS poor, first in the Philippines, then in Latin America. Initial financial assistance beyond the MSM was offered by NAC member Menlo Smith, chairman of Sunmark Capital, and Steven Mann, an MSM alumnus and then senior vice-president of Zenger-Miller.

Ultimately, after eight months of analysis both in Manila and at BYU, the team held a summit in August 1989 attended by approximately 25 Filipino leaders, U.S. Church and BYU representatives, academics, business leaders, and LDS general authorities. After two days of reports, proposals, and strategy formulation, we agreed on the key elements for designing a nonprofit foundation.

Creating Enterprise Mentors

During the following months we established a charter, bylaws, and legal and financial specifications, and an organization, Enterprise Mentors, began to evolve. We obtained 501(c)(3) status so that donations would be tax deductible. We opened a U.S. office and hired a secretary and, eventually, an executive director, Chuck Cozzens. An American board of directors was formed, consisting of a Filipino, former mission presidents to Third World nations, business leaders, an M.D., several educators, consultants, and a former U.S. A.I.D. official. Eventually, after his release as a member of the First Quorum of the Seventy, Elder Marion D. Hanks joined as chairman of the board.

Meanwhile, in the Philippines a board was also created with Manila business leaders, Church officials, and development experts. The board hired an executive director, a consultant, and a secretary and opened its office in Makati, Metro Manila. This indigenous organization was launched as the Philippine Enterprise Development Foundation (PEDF), and today its able executive director is Elo Lopez, a previous board member with a decade of experience in international development. Elo and her team of trainers and consultants began to work, but they faced numerous difficulties.

Still, as some 300,000 Latter-day Saint Filipinos have struggled against catastrophes and tremendous problems, PEDF has quietly begun to make a difference. Since the rise of "people power," the democratic revolution that overthrew dictator Ferdinand Marcos and his cronies, the Filipinos have had to cope with enormous barriers to a better life.

Reestablishing democracy under newly elected President Corazon Aquino met with formidable challenges—from attempted military coups on the right to leftist insurgency movements such as the New People's Army. Earthquakes destroyed thousands of homes in the north. Hurricanes killed more than 6,000 people in 1990. A year later Mt. Pinatubo erupted, engulfing whole villages in lava and causing more than 3,000 deaths while falling ash essentially shut down the nation of the Philippines.

The economic challenges from political instability and natural disasters became even worse when the U.S. began closing its military bases in 1992, resulting in the loss of billions of dollars and tens of thousands of jobs.

Most impressive to me has been the resiliency of the Filipino people in the face of such stress and strain. We in the U.S. cannot even imagine the challenges that people face trying to squeeze out a living in the midst of such hardships. Sure, the typical American entrepreneur knows what it means to work long hours launching a business or how hard it is to obtain one's first bank loan for start-up capital. But imagine trying to do those things in the midst of armed struggles or to not even be allowed in a bank because you look "too poor." What would we do if our new enterprise were forced to close because eight inches of ash halted all business activity, shut down the government, and closed the nation's airports?

The Informal Economy

These are just a few of the horrendous battles faced by Filipino entrepreneurs and other poor people around the globe. A large percentage survive by living hand-to-mouth, never receiving a paycheck, having no unemployment benefits, often suffering a lack of not just food but literacy, the only way out of poverty. For many such individuals and their families, the informal or "black market" economy is the only means to survive. Want-ads, factory interviews, showing a good resumé—all are irrelevant because street vending and cottage industries are the only vehicles to obtain rice for the next meal.

Enterprise Mentors was established to address these realities. In today's vernacular, it is a nongovernmental organization (NGO) that operates at the grassroots. In contrast to the United Nations and World Bank, which approach economic development at the macro or national level, NGOs work face-to-face with the world's poorest citizens. Some NGOs provide medical services, others literacy, appropriate technology transfers, and so forth.

PEDF consultant Tony San Gabriel (left) advising Nelson De Los Santos, owner of Mormon Electronics Shop.

Enterprise Mentors is engaged in microenterprise creation and finance. Its mission focuses on building "self-reliance" through "a hand-up, not a hand-out." The U.S. foundation raises funds through private donations, not government monies. Its board establishes policies and objectives, provides training and support for overseas operations, and coordinates overall efforts.

PEDF in Manila develops its own budget, local strategies, and practices. It networks with other NGOs, hires its own staff, and engages in on-going assessment of its programs. The bulk of PEDF's work centers on training for would-be microentrepreneurs, in-depth consulting services to clients with high potential for success, and it renders assistance to worker cooperatives.

During the past several years PEDF has created a microlending program, a significant step beyond simply referring clients to other sources of credit. Other tools and methods that support the creation of employment include walk-in services, formulating business plans, business environment analysis, start-up technical assistance, and referral services. Together these services lead to job creation, growth, productivity, profitability, and quality.

Sister foundations to PEDF were organized as the need occurred and additional funding evolved. In late 1991, the Visayas Enterprise Foundation (VEF) was launched in central Philippines. A successful entrepreneur, Ed Siady, was hired as executive director to run the program centered in Cebu. Far south in the city of Davao, the Mindanao Enterprise Development Foundation (MEDF) was created in 1993. An attorney and CPA, Thelma Caparas, operates the nonprofit center.

With the three foundations experiencing a remarkable rate of success, Enterprise Mentors is now applying its energy and resources to begin projects elsewhere. In Guatemala City, Mentores Empresariales has been organized to provide microenterprise training and consulting for Central America. And most recently, a board has been organized in Mexico City to serve initially in that huge metropolis under the name Fundacion de Dignidad. For Brazil, funds are being raised to assist LDS students in getting adequate vocational training or a college degree, so they can more readily enter Brazil's growing economy, where jobs are plentiful but skills are lacking.

Case Illustrations

Perhaps the best way to convey the accomplishments of the past six years is to briefly illustrate how jobs have been generated, enterprises have been launched, and training has led to new skills, principles, and values. The result is improved livelihoods, a higher standard of well-being, self-respect, and a greater entrepreneurial spirit.

Lito de la Cuesta: Beginning with only one employee, Lito set up a construction business to repair, repaint, and remodel business properties in Cebu. After four months he became a client of VEF, and a consultant helped him create an accounting system, obtain short-term credit, and expand his business. Within a year the business grew from two to 35 employees, improving the livelihood of others as well as Lito's own family.

Anita Bernales: A resident of Davao City in the large southern island of Mindanao, Mrs. Bernales worked for other employers most of her life. But eventually she concluded she could do better being her own boss rather than laboring at the behest of an employer. With the consulting advice of MEDF staff, she hired several experienced shoemakers, bought equipment, and began production from a covered patio at her home. She expanded her repertoire of skills further through MEDF seminars in marketing and bookkeeping and eventually registered her business with the government.

ProSkills Cooperative: When San Miguel Corporation was preparing to lay off several hundred employees, it sought PEDF's small business training to help individuals who wanted to become microentrepreneurs progress toward that goal. While many became PEDF clients individually, a group of 16 united and incorporated as an independent firm to redistribute glass products. With capital pooled from their severance pay, they began to contract out services formerly done as San Miguel employees. Known as ProSkills Cooperative, the business expanded from 16 to 40 and then to 57. Thanks to PEDF training and consulting, today approximately a hundred worker-owner jobs exist, along with people's self-sufficiency and personal dignity.

Hugo Zepeda: When Guatemalan Hugo Zepeda sought to gain an education by attending school, it meant having to leave work a bit before the shift ended. His boss would not allow that, so Hugo decided to quit and start a small carpentry shop in a backyard, so he could support his family and attend school also. He engaged the services of Mentores Empresariales, attended training courses and received consulting assistance. He currently has six employees and is planning to expand.

Numerous other cases abound, including some personal favorites:

- Mormon Electronics, a repair shop run by Nelson de los Santos, a Latter-day Saint and PEDF client.
- The Gomez Dog School in Cebu, started by two brothers who have since hired five people to operate their dog obedience training program.
- The Aggripo family business in Davao, which sews bags and does upholstery work.
- Liahona Enterprises, a table linens business started by a former bishop and his wife.
- Mariano Bacar's piggery, consisting of three sows and sixteen piglets.
- DVS Enterprises, a picture frame making business owned by Stake President Danilo Soleta.

The efforts of Enterprise Mentors and its partners is being increasingly recognized by development organizations as effective models for change. PEDF recently enjoyed being featured in the Rotary International's magazine. In late 1995 it was awarded a contract by the prestigious International Labor Organization of the U.N., a contract to train extension workers for several major governmental and private organizations in the Philippines.

At about the same time, VEF helped organize and stage a major event in the Philippines, National Family Unity Week. With the government's proclamation, many civic groups (such as the Jaycees and Rotary clubs), churches, and businesses celebrated the family unit. VEF proposed President David O. McKay's classic statement "No other success can compensate for failure in the home" as the unity week's theme. The slogan was printed on posters, streamers, and banners throughout major cities. Hundreds of tire jackets were produced by a VEF client, with the slogan printed in large letters, to cover spare tires on the backs of Jeeps and trucks.

Virginia Saberon's "sari-sari" store (neighborhood grocery store).

As Enterprise Mentors expands, BYU will continue to play a global role. Just over a year ago, an MSM graduate student spent four months in the Philippines interviewing microenterprise clients, giving feedback to foundation staff, and evaluating the overall strategy of development. Officials from the LDS Church's Humanitarian Services organization have done several analyses of our Filipino foundations' strengths and weaknesses, offering helpful suggestions.

The MSM's current entrepreneur-in-residence, Steve Gibson, learned about EM at a BYU business founders conference in 1994. He was enthused about

EM's work generating jobs and spreading free-market ideas in the Third World. He traveled to the Philippines at his own expense, met with center directors, made a significant financial donation to strengthen their work, and has since joined EM's U.S. board of directors.

Essentially, BYU and the MSM serve as intellectual resources to Enterprise Mentors for Third-World development theory and strategy. The LDS Church offers moral principles and ethical energy to EM as well. By pooling those forces and generating private financial support, EM channels all these resources to its partners in Asia, Latin America, and other regions where it will expand in the years to come.

These microentrepreneurial and microfinance efforts can be replicated around the globe. The net increase of more than 2,000 jobs in the Philippines alone has benefitted some 10,000 individuals. Its true impact, however, is at the personal level of a single family. It might be the fish-selling business of Sister Gomez, single mother of two, or Bishop and Sister Cabrera and their five children who collectively produce a sweet coconut food product.

With small business training and hands-on consulting assistance, these families can become more self-reliant. Their children benefit from better nutrition because they can afford to buy more meat, fruit, and vegetables, instead of mostly rice. When any of the family becomes ill, there is a savings account with which to purchase necessary medicines. As the youngsters grow, they will have further opportunities for education because the cost of tuition, books, and transportation can be met through microenterprise revenues. In this way, the work of Enterprise Mentors and its partners is having a subtle, quiet, but significant impact in building a better world.

If you would like to become involved in this needed and meaningful work, please contact Warner Woodworth at (801) 378-6834 or the Enterprise Mentors office at (314) 453-0006. E

Notes

1. Joseph F. Smith, "The Truth About Mormonism," *Out West*, vol. 23, 1905, p. 242.

It's Not Business As Usual at the Marriott School

by Roger Terry

During winter semester, a few dozen graduate students at the Marriott School have expanded their education through a couple of nontraditional "business" courses. Warner Woodworth's OB 660 course, "The United Order and the Modern World," and Don Adolphson's MBA 690, "Creativity in Business," are experiments in looking beyond the current business paradigm and its entrenched values for solutions to society's ills.

Woodworth's course is designed to explore the historic and contemporary views of LDS economic teachings—the view of the prophets on the nature of society, leadership, organizations, and economics. At one level, the focus is on relationships between business and the larger community. What ought to be the role of business in modern society?

On another more individual level, a secondary area of inquiry emphasizes the need to move beyond the issue of efficiency to the problems of justice and personal ethics. How can one maintain his or her personal integrity in corporate life? Is there a way in the business world to be a true Latter-day Saint, given the power of today's organizational imperatives? How can the individual deal with constraints and forces against doing the right thing?

These are not comfortable questions, but they are questions Latter-day Saints must grapple with if they wish to experience harmony between their religious values and their business dealings.

The course uses as its text a book written by Woodworth and coauthor James W. Lucas, *Why Can We Not So Live? Working Toward the United Order in the Modern World*, soon to be published by Brigham Young University. The book and the course cover a range of themes, including:

- historical capitalism—parallels between the rise of Mormonism and the Industrial Revolution;
- economic trends from Adam Smith to Michael Milken;
- searching for 19th-century utopia—Christian socialism, communal and religious efforts to build the proverbial good society;
- the United Order systems of Joseph Smith and Brigham Young;
- structure and management in the economics of Zion;
- 20th-century cooperative successes: ESOPs, co-ops, kibbutzim, and the Mondragon system;
- applying United Order concepts to today's corporate world;
- transforming the corporate mission: competition versus caring; and
- the cultural meaning of money, materialism, and Mormonism.

The central question Woodworth tries to answer in both the book and the course is: How do we get there (the United Order) from here (modern free-market capitalism)? He offers not just one answer, but several intriguing possibilities.

Don Adolphson's "Creativity in Business," by contrast, is an attempt to nurture creativity at the personal, interpersonal, organizational, and societal level. This course, originally created by Adolphson and Heikki Rinne in 1990, is the result of a shared feeling that much of the knowledge and techniques learned in an MBA program have limited applicability and that it is more important for students to learn *how* to learn and to enjoy learning.

Adolphson accepts that creativity cannot be taught, but he does believe that creativity can be stimulated and nurtured, on both an individual and organizational level. The arts play an important role in the class, and it has become a tradition that class members dine, dance, and sing together during the semester. The curriculum is based on the notion that creativity is holistic, that it involves connecting business to the larger social and physical environment. The course stresses integration of the spiritual and secular, interrogation of the arts and sciences and business, and integration of business into an ethic of stewardship and service.

Part of their evaluation in the course requires students to develop a personal contract that includes intellectual stimulation, an increasing appreciation of the arts and the natural world, care of the body, the creation of something tangible, and a performance.

Q & A

The following is an edited excerpt from Warren Buffett's question-and-answer session with MSM graduate students on January 19, 1996. Mr. Buffett is chairman of Berkshire Hathaway Inc.

My main credential is that I'm from Nebraska, and if you've watched our football team, you'll know that on their helmets they have a big, red N. In Nebraska we know that stands for knowledge. We understand things there.

One thing I believe in is working with people I like. Working with people who cause your stomach to churn, who may be making compromises on your behalf or misrepresenting you, is like marrying for money. It's probably a bad idea under any circumstances, but it's absolutely nuts if you're already rich. Fortunately, throughout the whole Berkshire Hathaway organization, I have the ultimate luxury—every day of the year I get to work with people I like, admire, and trust.

Now, let's talk about what's on your mind. Feel free to throw 95 miles an hour. I may not hit them, but throw your fastest pitches, and I'll take a swing.

Q: I understand you invest in companies with high name recognition, like Coca-Cola and Gillette. What are your reasons for choosing those companies?

A: Brand recognition can't be built in a year, can't be built in ten years; it takes millions of experiences between individuals and the company. We like businesses that have an almost unassailable position in the customer's mind. You want an economic castle, the larger the better, and you want a big moat around it. That moat can be based on price; it can be based on service; it can be based on patents or trademarks; it can be based on a lot of things. But every day in a business, that moat is widening or narrowing.

At See's Candy, for instance, every time people walk into the store and buy a pound of candy or a lollipop, they are having an experience which either takes away a grain of sand from that moat or adds a grain of sand.

It's vital in a business to want to work for the biggest castle you can, but in the end what is most important is widening the moat a little every year. You can't do it all at once; you can't just bring in a dredge and clear it all out. It doesn't work that way.

The classic case is Gillette. In 1939, Gillette had 10 percent of the blade market in the United States. Blades were sold on price. Then Gillette got a chance to buy all broadcast rights to the 1939 World Series for $100,000. It was a big decision—their total budget for the year was $700,000—but they went out and bought the rights. They thought they got cheated because it was a four-game series, but with that move they started becoming the companion of

Warren Buffett visits with students after question-and-answer session.

every young American male as he entered manhood. Every time the young American male listened to his heroes running for touchdowns or hitting home runs, he also got the message that Gillette was the one that was taking him to that park. And 15 years later, they had a 60 percent market share, up from 10 percent, without changing the blade in any material way.

Overwhelmingly, young American males bonded with Gillette, and the company was their best friend as they grew into adulthood. You can't do anything about that later on. If you're Schick, for instance, and you come along and say, "I'm going to spend $100 million on television," it's like dropping a pebble in the ocean. Those are the kinds of businesses we like.

Q: What's your rationale behind not splitting your stock?

A: We have a theory on that. We want to obtain shareholders who are close to us in their expectations, in their time horizons, in every way possible. There's nothing worse than a partnership where people have different expectations—maybe they want to make a killing in six months and I've got a ten-year time horizon, or they think we should be earning 40 percent a year and I regard 15 percent as satisfactory. So we look for people who are on our wavelength.

It's a lot like running a restaurant. You can run a French restaurant or a Greek restaurant or a Chinese restaurant, and you will get a clientele that joins you over time as you do a decent job, and you'll be satisfied with each other. But if you change the cuisine daily or weekly, you end up with a lot of confused customers and, eventually, no customers.

At Berkshire Hathaway we try to be very consistent about the message we're giving. Anybody can buy our stock. We can't say, "We've got membership requirements," but by our policies and by our communications we can let people know what sort of a place we're running. We are trying to say at Berkshire that this is a business we want you to join for life. I do not want people who are buying our stock because they think next year's earnings are going to go up or because we're going to increase the dividend.

We want investors who are looking at Berkshire as a business—and our decision to not split the stock is not an enormous part of that equation, but it is a contributing part. It attracts a certain type of investor.

Among the top 50 companies on the New York Stock Exchange, we have less than one-fifth the turnover in our stock that the next lowest company has. I like that. The New York Stock Exchange doesn't like it, but when I listed on the New York Stock Exchange, I said to our specialist, "I will consider this a success if the stock never trades, because that means I've got a bunch of people who are satisfied being in business with me."

If I ran a church, would I measure my success by how many people left the organization every week and how many new ones I had to get? No, so I'm not going to measure myself based on turnover in the stock. I want people who really want to belong to this organization. Not splitting the stock is a relatively small part of my philosophy, but it's consistent with the message I'm trying to deliver to would-be owners.

Q: Berkshire Hathaway spends many resources to find values in today's market. For someone like me who doesn't have these resources, am I going to be able to beat you at your game, or should I just invest in an index?

A: That's a good question, and the answer depends to some extent on your own interest and talents, but interest accounts for a lot of it, because if you spend the time on it, you'll beat me. You won't beat me at exactly my own game, but you've got a better game.

Berkshire's net worth is now $17 billion, and the market value is, by my calculations, about $38 billion. To have an impact on $38 billion, we have to do some very big things. We can't afford to look for an investment in which we can make $100,000 or $1 million or $5 million. Our universe of potential opportunities has shrunk dramatically over time as we've gotten larger. But you've still got the big universe, unless you're a lot richer than you look at the moment. You have a hundred times the choices that I have.

If you limited yourself solely to stocks with a market value cap of $10 billion or more, maybe I could beat you at that game and maybe I couldn't, but we would both be on the same field. You've got this terrific advantage, because you can play on a field I can't get on; so I would say, if you're interested in the subject, you've got far more opportunity than I've got. And I had far more opportunity 40 years ago than I have now. So I will guarantee you, if you work 40 hours a week at finding investment opportunities, and you're interested in the subject, you will come out with a better result than I will.

There are plenty of opportunities. The temptation is to try to do too much. I've often said that you might do better if you were limited to a card with 20 punches on it, and every time you made an investment decision, they punched it once. When you got through with the card, you were through investing. You would make very big decisions, and you would be very certain about them. The temptation in the investment world is overstimulation, because you get this idea and that idea and you've got to sort it out. If you get one good idea a year, that's terrific. I'm just praying I get a good idea in 1996. Nobody's betting on it, either.

You do not need a lot of great investment ideas; you just need to avoid big mistakes. Then you have to do a few relatively simple things over time, but you can't do it in a year or three years or five years; it does take time. If you try to make 100 percent a year, you're going to get in trouble. If you try to make 50 percent a year, you're probably going to get in trouble. So I would say that if you've got a long time horizon and you're young and you've got a little capital, you're going to get there.

Q: Many of the new tax-reform proposals are designed to encourage investment and savings. What are your impressions of these proposals?

A: I believe in a consumption tax, essentially. I believe in taxing people based on the resources they use up, rather than the resources that are at their command and are producing goods for other people. In other words, if Henry Ford owned all of Ford Motor and was turning out two million cars a year, and he used one of them, then somebody else has to use the other two million minus one. I do not believe in taking a lot away from him at that point, as long as he keeps turning them out for other people.

When he starts producing them for himself, however, then I think that he should pay a high rate; I also believe it should be steeply progressive, because this economy is unbelievably bountiful. It treats all of us so well, compared to the rest of the world, that we ought to have some conscience about what's heaped upon us.

The market system turns out the goods and services people want. There is nothing better than the market system at satisfying people's demands and turning out goods in increasing quantities. The talents required to do that are distributed very unevenly throughout society. I happen to have a particular quirk of an ability that enables me to get all kinds of claim checks on other people's goods and services, which, essentially, is what money is.

Mike Tyson has a particular talent, which means that he can earn incredible sums because people want to see some guy pound another guy into the canvas. I am not saying that people shouldn't watch Mike Tyson, or they shouldn't employ me, but because we have these peculiar skills, we get paid enormously well in the market system. And people who are equally good citizens, maybe better citizens, who do just as much for their country, may not have that particular market skill. They may be good teachers, but teachers don't make a lot of money.

I think the tax system should not try to direct what is supplied in this great market system, but once people earn large amounts because they are in tune with that market system and have talents that are particularly in sync, I think they ought to pay a lot of the common cost compared to the person who isn't in sync. In fact, for people who really don't have skills that are particularly marketable in this system, I think those people ought to be taken care of by the rest of us. So, a very steeply progressive consumption tax is what I believe in.

A steeply progressive consumption tax would also encourage savings, and I think increasing savings is good, because that is what causes the overall standard of living to increase. Stick me down in the middle of Bangladesh or Peru, and what am I worth? Not much at all. So I am getting enormous benefits from this society. My benefits and my talents don't exist independent of a society like the one we have.

Just because I'm born with talents the market rewards and some other guy is a marvelous teacher or a great researcher, I don't think you should put shackles on me. But once the market has rewarded me or Mike Tyson inordinately, I think we should pick up a larger share of the common cost. And we should contribute something toward the person who doesn't fit in quite as well in the system. E

Update

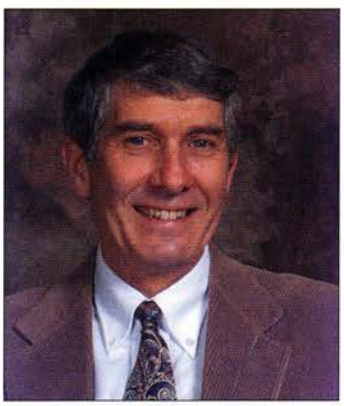
Waters and Woodfield Honored

Max L. Waters and Leon W. Woodfield were honored at the MSM Faculty Awards Dinner on February 20, with the 1996 Distinguished Service Award (see story on page 18). Waters is a professor of management communication, and Woodfield is a professor of accounting.

MSM Teaching Excellence Awards Presented

At the Faculty Awards Dinner, Donald L. Adolphson, Robert L. Gardner, and Michael J. Swenson received the 1996 MSM Teaching Excellence Awards, sponsored by the Times Mirror Higher Education Group.

Adolphson came to the Marriott School of Management in 1981, after 11 years on the faculty at the University of Washington. He has a BA in mathematics from the University of California, Berkeley, and an MS and PhD in computer science from the University of Wisconsin, Madison. He currently



Donald L. Adolphson

teaches a popular manager's toolkit course dealing with spreadsheet modeling. He has also developed an experimental course called "Creativity in Business" that explores and nurtures creativity at a personal, interpersonal, organizational, and societal level.

Robert L. Gardner, a professor in the School of Accountancy and Information Systems, came to BYU in 1979. He received a BA from BYU, a BS and MBA from the University of Utah, and his PhD from the University of Texas at Austin. He teaches in the graduate tax area and is the author or coauthor of two books and various articles. Gardner's

Robert L. Gardner

career at BYU has been especially enjoyable because of the association with his students and colleagues.

Michael J. Swenson, an associate professor of marketing, received his PhD from the University of Oregon in 1989 and joined the BYU faculty that same year. His industry experience includes five years in sales and sales management with Xerox and Digital Equipment Corporation. He is currently

Michael J. Swenson

a senior consultant/researcher for the Professional Selling Research Group in the MSM. His research interests include sales force effectiveness and marketing strategy. He currently serves as associate editor for *The Journal of Personal Selling and Sales Management*.

MSM Restructuring

As mentioned in the Dean's Message inside the front cover, the Marriott School is undertaking a significant restructuring effort. Leadership of the various departments, groups, programs, and centers is outlined below.

Department Chairs

Business Management	Ned Hill
Org. Leadership and Strategy	Paul Timm
Public Management	Larry Walters
SOAIS	Steve Albrecht

Faculty Group Heads

Accounting	Jim Stice
Finance	Mike Pinegar
Info. Systems	Owen Cherrington
Mgt. Comm.	Michael Thompson
Marketing	Michael Swenson
OB/HR	David Cherrington
Operations	Bill Giauque
Public Admin.	Robert Parsons
Strategy	Lee Perry
Tax	Dave Stewart

Program Directors

Accounting	Robert Gardner
Bus. Mgt.	Terry Lee
MAcc	Steve Albrecht
MBA	Gary McKinnon
MOB	Gibb Dyer
MPA	Larry Walters

Center Directors

Entrepreneurship	Don Livingstone
International	Lee Radebaugh
Values	David Whetton

Streuling Honored With Tax Educator Award

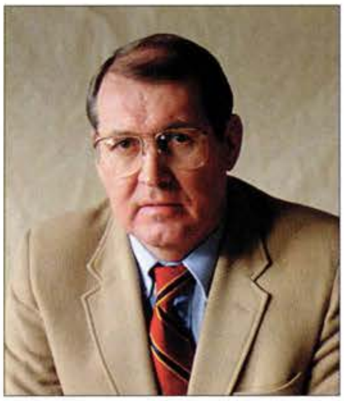
G. Fred Streuling, a professor in the School of Accountancy and Information Systems, was awarded the Ray M. Sommerfield Outstanding Tax Educator Award at the American Accounting Association 1995 annual meeting. The award is sponsored jointly by the American Taxation Association and Ernst & Young.

The award is named after Ray M. Sommerfield, the first recipient, who was a pioneer of tax education and provided a lifetime of service to students, colleagues, and the taxation profession.

The selection is based on contributions to accounting and tax education in the U.S., including curriculum development, superior teaching, and participation in student and professional activities.

As a young boy in Nazi Germany,

Streuling, along with his mother and sister, fled west from advancing Soviet troops during the night on two bicycles. They found safety on the island of Sylt in the North Sea, where they settled and later joined the LDS Church. Following the war the family emigrated to Salt Lake City.



G. Fred Streuling

Streuling enrolled as a student at BYU in 1960. He claims that his initial deficiencies in speaking English forced him to major in accounting because numbers are the same in English and German.

In 1976 Streuling joined the BYU faculty, where he helped, as both a professor and as SOAIS director, to propel BYU's accounting program to its current ranking of third in the nation. He has earned numerous teaching awards and in 1994 was named by the Utah Society of CPAs as recipient of their Outstanding Educator Award.

In addition to his teaching, Streuling has a strong research record and has served as a coauthor of a number of textbooks and monographs.

With the award, BYU received a $5,000 stipend to be used to fund student scholarships.

Recruiter Ski Day

On February 14, 1996, 55 students, 11 company recruiters, and several faculty members spent the day at the Snowbird ski resort for an unconventional recruiting activity. Companies represented included Arby's, Assist International, Bank One, Bell & Howell, Brock & Associates, EDS, FMV Opinions, Novations, NuSkin/IDN, Snowbird, and Zions Capital. Participants skied, raced the NASTAR course, dined, and made valuable contacts.

Each company was able to introduce its operations and available opportunities. The activity resulted in job interviews for several students. On February 20, all participants were invited for a tram ride and tour of the Snowbird runs by Dick Bass, owner of Snowbird.

If you are interested in having your company involved in next year's ski day, please contact the Career Services Office at (801) 378-4859

Albrecht Receives Two Honors

Steve Albrecht, director of the School of Accountancy and Information Systems, recently received two honors. First, he was recognized as one of 131 distinguished Utahns as part of the Utah/United Kingdom Centennial Festival;

Steve Albrecht

and, second, he was recently asked to run unopposed to be president of the American Accounting Association, a group of approximately 12,000 accounting professors in the U.S. and Canada. Albrecht is also serving as president of the Accounting Administrators Program Group, the association of accounting department chairs in the U.S.

Jenkins Named Student Entrepreneur of the Year

This year's search for BYU's Student Entrepreneur of the Year was unusually productive, with 16 quality applications submitted to the Center for Entrepreneurship for review. Entries ranged from low-tech businesses such as window washing and lawn services to sophisticated high-tech concepts, including Internet consulting and contract programming using Russian technologists who worked in military labs before the fall of the USSR.

The 1995 Student Entrepreneur of the Year award went to Stephen J. Jenkins, a second-year MBA who had the foresight to register the Internet home page "www.windows95.com" under his company name before Microsoft Corporation did. He has received as many as a million "hits" a day at his Web site.

Microsoft and Stephen are now in serious discussions on how Microsoft might obtain the legal ownership of his home page. Don't tell Bill Gates, but Stephen has also registered Windows 96.

Stephen has also built a solid consulting business, with customers like Times Mirror and Novell. He is in the process of setting up his own Internet server.

O'Brien Honored by President Bateman

Kathy O'Brien, administrative assistant in the SOAIS, was one of 12 administrative and staff employees honored with the annual President's Appreciation Award, which recognizes outstanding performance, creativity, personal traits, and commitment to the university.

Kathy O'Brien

Praised by her supervisors as an exceptional employee, O'Brien is responsible for advising graduate students majoring in accounting and information systems. She has supervised the creation of a database that provides faculty with a picture and background of each student in the department. Her organization of the department and its materials was recently noted and appreciated by a visiting accreditation team. E

1996 Distinguished Service Awards

At the Marriott School Faculty Awards Dinner on February 20, 1996, **Max L. Waters** and **Leon W. Woodfield** were honored as recipients of the 1996 Distinguished Service Award. Together, they have given more than 70 years of service to the university community.

Max L. Waters was born on a farm in Burley, Idaho, on September 24, 1932, to J. LeRoy and Mildred Greene Waters. He married Jacqueline Anne Myers on May 31, 1956, and they are the parents of five children.

Max received his AB degree from BYU, his MEd degree in 1960 from BYU, and his EdD degree in 1963 from Colorado State College. He has been a professor of management communication at BYU since 1958. He also chaired the Business Education Department from 1964 to 1970 and has been a guest lecturer at the University of Wyoming and the University of North Dakota.

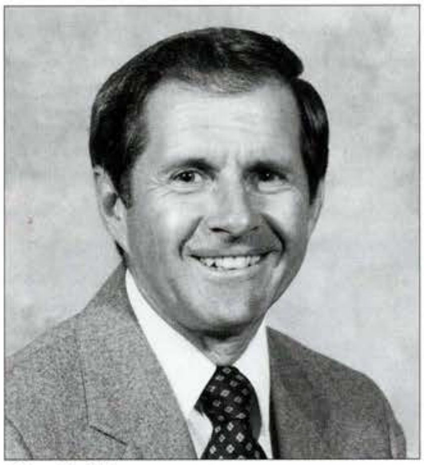
Over the years, Max has been in great demand as a consultant and lecturer. He has consulted with such organizations as American Resource Management Corporation, Controller Services, Personalized Computer Products, Intermountain Health Care, Utah Valley Regional Medical Center, and the LDS Church Welfare Services. He has presented more than 1,900 professional seminars and lectures in business and continuing education.

Max has authored two books, *Successful Leadership* and *We Can Become Perfect*, and coauthored one monograph, "Teaching Business Communications." In addition, he has written 15 instructional and lab manuals and more than 30 professional journal articles. In 1977 he received the Brigham Young University Karl G. Maeser Distinguished Teaching Award.

Max has served in numerous Church callings throughout his life, including bishop of a student ward, Scoutmaster, high councilor, stake clerk, counselor in a stake presidency, and counselor in a stake Young Men's presidency. He currently has an assignment in the Provo Temple.

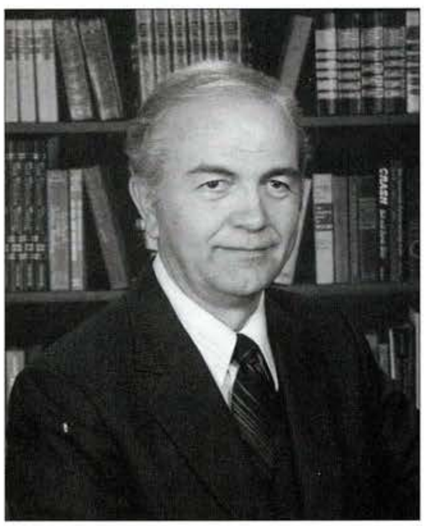
His work with youth and young adults has always been a very important part of his life. He has taught seminary and institute and served for years in the Scouting program.

Max is a popular speaker in the Know Your Religion lecture series, and he and his wife have also spent years as tour directors for the BYU Travel Study Program, becoming experts on Israel, Mexico, and South America.



Max L. Waters

Certainly, Max Waters exemplifies distinguished service in all areas of his life—service to family, to church, to his profession, to the university, and to the Marriott School of Management.



Leon W. Woodfield

Leon W. Woodfield, professor in the School of Accountancy and Information Systems, began teaching at BYU in 1960. He served as department chair from 1970 to 1975, coordinator of graduate studies from 1967 to 1970, vice president of Beta Alpha Psi from 1967 to 1970, and coordinator of the SOAIS junior core from 1993 to 1995.

After receiving his associate of science degree from Weber State College, Leon earned a bachelor's degree and MBA from the University of Utah. He then started his professional accounting career in 1957 as an auditor with Arthur Young & Company in Los Angeles. After three years he joined the BYU accounting faculty. Three years later Leon moved his family to East Lansing, Michigan, where he completed work on his doctorate in business administration.

Leon has received the SOAIS Outstanding Teaching Award, has served as president and secretary of the southern chapter of the Utah Association of Certified Public Accountants, and has authored several articles and monographs and a history of the School of Accountancy and Information Systems from 1876 to 1990.

Family has always been important to Leon. He married Janet Cragun, his childhood sweetheart, and they have five children, all of whom have graduated from BYU.

Leon is a committed and valiant Church member, serving in a number of callings, including bishop, high councilor, and counselor in a stake presidency.

According to Steve Albrecht, director of the SOAIS, "Leon has given more to the SOAIS than almost anyone, ever. He always accepts assignments cheerfully, is willing to work tirelessly behind the scenes, is a wonderful teacher to students and mentor to young faculty members, and is totally dedicated to BYU and the Church. Leon is one of those rare individuals who always carries more than his fair share of the load and does so without complaining. When Leon retires, his commitment, his enthusiasm, and his advocacy for the students will be missed. Leon has often been heard to say, 'There has never been one morning in my entire teaching career that I haven't been excited to come to work.' He loves BYU and loves being a professor, and his actions always show his wholehearted commitment to the sacred mission of BYU." E

Spotlight on . . .

Norm Nemrow

by Douglas Deru, *Daily Universe* Staff Writer

Norm Nemrow fantasizes about being a stand-up comedian. He has an aversion to math. He singles out winning BYU's three-on-three basketball tournament as his crowning accomplishment while attending college. He was once offered $6,000 for one of his paintings. Yes, Norm Nemrow is . . . an accountant?

Norm teaches two accounting classes each semester at BYU: "The challenge is to make a subject that is perceived as boring into something interesting. It's not really that math-oriented. I hate math, and I am no good at it. I can't help my kids with math."

Born in Burbank, California, Norm converted to the LDS faith as a high-school senior and served a mission in Korea from 1973 to 1975. After graduating with a master's degree in accounting, he went on to work for Arthur Andersen & Company in California. At the same time he began teaching part-time at Pepperdine University, where he discovered his love for teaching.

Several very good investments made during the first few years of his accounting career opened up the possibility of pursuing a teaching job at BYU in 1991. Norm successfully begged BYU to let him teach. Since joining BYU's faculty as a volunteer instructor, he has served as president of the Marriott School's alumni board, organized the first Marriott School management conference, and helped initiate a mentoring program for students.

His teaching style isn't what one normally associates with accounting classes. He is a self-described "loose cannon," who has "a tendency to say whatever comes into my mind."

After earning his master's degree, Norm took three years of art classes at Saddleback Community College in Orange County. The results hang on the walls of the Nemrow home. A friend once offered $6,000 for a Norm original.

"I think art helps us observe the world more carefully," he says. This statement parallels his feelings about the true purpose of education: "Education is to give you a more rounded perspective. Be exposed to different things."

Nemrow takes his responsibility as a teacher seriously. "BYU is entirely different from other universities," he says. "I really do see the opportunity to teach at BYU as a sacred stewardship."

Eric Schulz

When The Coca-Cola Company went looking for a unique marketing talent to direct its Worldwide Olympic Marketing campaign, the name that kept coming up was Eric Schulz, a Marriott School MBA graduate. Eric is now the strategic and creative catalyst of Coca-Cola's new approach of "activation marketing" with the 1996 Olympic games. His primary responsibility is to provide assistance to company marketing managers in more than 150 countries to develop volume-driving initiatives that leverage the Olympic property.

Eric joined Coca-Cola in July 1994 after repositioning and creating rapid growth for Disney Home Video's children's cartoons. He spent five years at Procter & Gamble, where he was partner in the "Invention Team" within the Food & Beverage Division. His responsibility was inventing new products, and a list of his successful ideas is quite impressive: the "spout" for juice cartons, Folgers Coffee Singles, Duncan Hines "Duncan Cups" microwave product, Hawaiian Punch "Colors."

As an independent consultant, Eric invented Citibank's photo Visa cards and Hostess Brownie Bites.

A die-hard sports fan, Eric attends more than 150 sporting events each year. Mixing business with pleasure, he has also been general manager of the California Angels' "A" affiliate, marketing director of the Seattle Mariners' "AAA" affiliate, and promotions director for the Utah Jazz.

Eric earned his bachelor's degree from BYU in political science in 1981 and his MBA from the Marriott School in 1987. Finishing the MBA proved somewhat problematic, but Eric's ingenuity came to the rescue. One final exam, a case discussion in which a passing grade depended on participation, conflicted with an interview Eric had scheduled in Cincinnati with Procter & Gamble. This was the only day P&G could do the interview, and the professor wouldn't let him take the final early, so Eric improvised. He videotaped himself discussing part of the case, then had classmates play the tape at the appropriate point in the case discussion—while he was in Cincinnati. Needless to say, he passed the course. E

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CM
CLINICAL MEDICINE
IN THE AGE OF
QM
QUALITY MANAGEMENT

BY DOUGLAS I. THOMPSON AND ROBERT J. PARSONS

Douglas I. Thompson, vice president at APACHE Medical Systems, Inc., of McLean, Virginia, is an alumnus of the Marriott School of Management. Robert J. Parsons is a professor of public management at the Marriott School.

THANKS TO A REVOLUTION IN MEASUREMENT AND MANAGEMENT TECHNIQUES, OUR EXPECTATIONS ABOUT THE QUALITY OF THE PRODUCTS WE USE HAVE BEEN DRAMATICALLY RAISED. TOTAL QUALITY MANAGEMENT (TQM) AND CONTINUOUS QUALITY IMPROVEMENT (CQI) ARE THE MOST POPULAR OF SEVERAL APPROACHES TO MANAGING FOR QUALITY.

While these approaches differ in many ways, their common principles include:

- a focus on continuous improvement in processes;
- the use of structured problem-solving methods, including statistics;
- the empowerment of cross-functional teams to change processes; and
- a focus on meeting the needs of customers.

For the purposes of this article, we will refer to these principles and their use as quality management (QM).

Quality Management in Healthcare

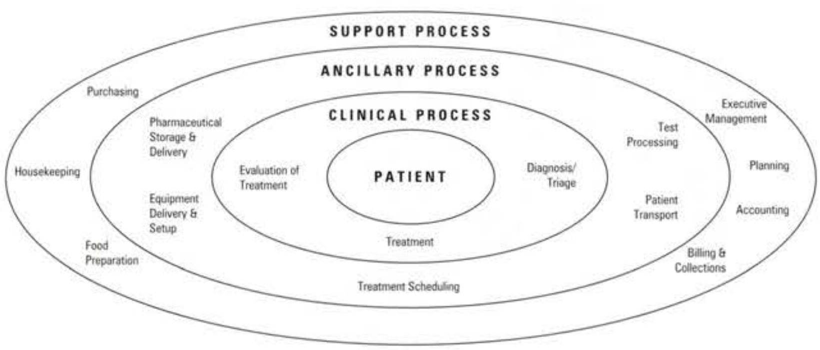
Hospitals were initially slow to adopt QM. Many hospital administrators and clinicians felt that its principles didn't apply to healthcare and wouldn't work in hospitals. The QM literature makes almost no mention of healthcare applications prior to 1987, when the National Demonstration Project on Quality Improvement in Healthcare was organized by 21 hospitals and HMOs. These early pioneers borrowed concepts and coaches from manufacturing companies, universities, and consulting firms and adapted them to healthcare processes. Their successes led to a second national project in 1988 and gave many hospital executives and clinicians their first exposure to QM.

Another early leader in healthcare QM was the Quality Research Group at the Hospital Corporation of America (HCA). Founded in 1986 by Paul Bataldan, a disciple of quality guru W. Edwards Deming, the group began working with HCA and outside hospitals to implement QM. Since that time, the use of QM in hospitals has grown dramatically. A 1993 survey of 3,300 U.S. hospitals found that almost 70 percent had a formal QM effort in place, although three-quarters of these efforts were less than two years old.[1]

Most hospitals have focused their QM efforts on support and ancillary processes. Support processes, as shown in Figure 1, are not part of caring for patients, but are related to the business of running a hospital. They include billing, accounting, materials management, and housekeeping. Ancillary processes are related to clinical medicine, but are not themselves part of patient care. They include laboratory test processing, patient transport, and treatment scheduling.

FIGURE 1 HOSPITAL PROCESS HIERARCHY

LESS THAN 30% OF US HOSPITALS HAVE APPLIED QM METHODS TO CLINICAL PROCESSES



Source: The Quality Letter, April, 1994

APACHE

The core clinical processes include diagnosis, treatment (via surgical procedures or medical therapies), and the evaluation of treatment. These processes are the fundamental business of hospitals. However, most hospitals have not applied QM to these processes. A recent study of 61 hospitals with active QM efforts found that less than 30 percent had worked on clinical processes.[2] In many cases, these efforts focused on clinician education and the organization of QM efforts, and many had not yet produced conclusive results. So, while QM in hospitals is in its childhood, its use in clinical medicine is still in its infancy.

Quality Management Challenges in Clinical Medicine

The quality-management approach faces several unique challenges in clinical medicine related to the unique characteristics of clinical processes.

1. Clinical processes are *complex*, with many tasks, participants, and components, and they take place over extended periods of time. Physicians must sort through volumes of clinical data in order to make treatment decisions. Dr. Alan Morris of LDS Hospital in Salt Lake City relates an example of a patient with acute respiratory distress syndrome whose physicians had to consider 236 different clinical variables.[3] This did *not* include physical examination, X-ray, consulting-physician notes, operating-room notes, anesthesia notes, and pathologist reports.

Because human beings are unable to process this volume of data, physicians use heuristics, or mental shortcuts, to find meaning in the data.[4] These shortcuts involve overemphasis of recent or memorable experiences or key indicators that have proven useful in the past, and they may cause the physician to be overcautious or to overlook information important to the case at hand.

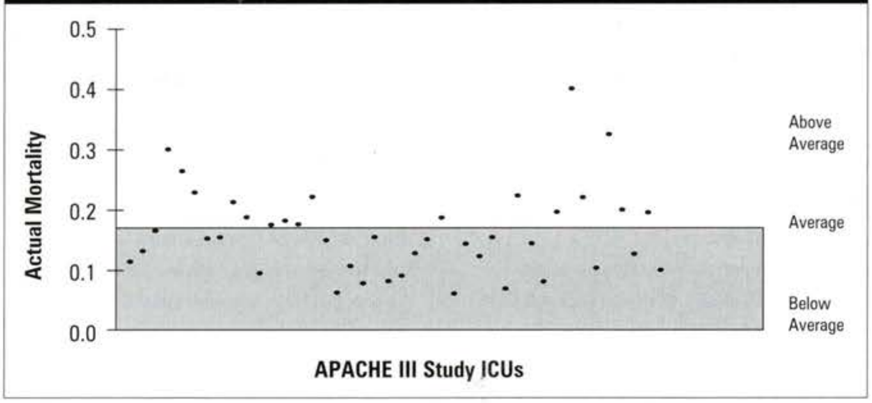
2. Clinical processes are *variable*. While the differences in care between regions of the country are well-documented, the process of caring for a particular type of patient also differs from hospital to hospital within the same community, from operating room to operating room within the same hospital, and from physician to physician within the same physician group.

3. Clinical processes are *poorly documented*. Often there is no written description of the care process. This lack of documentation makes it difficult for clinicians to learn from each other and to identify and share "best practices" in an organized manner.

4. Clinical-process analysis is complicated by *patient variation*. In other industries the analysis of process results is the most powerful tool for diagnosing process problems. An automobile manufacturer monitors defect rates and adjusts the production and assembly processes to eliminate those defects. Without information about process results, it's difficult to improve those results.

In clinical medicine, the patient's own characteristics often drive process results, or outcomes. In other words, sicker patients have worse outcomes, no matter how good the process. For example, a national study of hospital inten-

FIGURE 2: APACHE III ICU STUDY RESULTS, HOSPITAL MORTALITY RATES



sive-care-unit mortality showed a high of 40 percent and a low of 6 percent, with an average of 17 percent[5] (see Figure 2). In other words, there was more than 600 percent variation in mortality rates for these hospitals' sickest patients.

Adjusted for individual patient severity on expected outcomes, these same 42 ICUs would be judged very differently (Figure 3).

After adjusting for the impact of patient severity on outcomes, variation in mortality was only 100 percent instead of 600 percent. Without adjusting for individual patient risk, some truly high-quality ICUs would have been mistaken for poor-quality units, some units with worse-than-expected mortality might have been used as models, and the best-performing units would not have been identified.

5. Clinical processes are not managed well under *traditional hospital organizational structures.* The typical hospital organization (see figure 4) assigns responsibility for various aspects of clinical processes to different departments or even different executives. Physicians are not integrated into the organization, but act as independent contractors. This organizational structure does not promote cooperation among teams of caregivers with different backgrounds.

6. Clinical process improvement efforts involving nonclinical team members have met with *resistance from physicians.* For thousand of years, physicians have been the sole "owners" of clinical processes; only over the past 10 to 20 years have nurses, therapists, and quality-assurance staff become involved with physicians in the design of the clinical process. Many physicians are still uncomfortable with including information systems and finance professionals in clinical QM activities, even though these individuals have information and know-how that is vital to achieving real and lasting change.

FIGURE 3: APACHE III STUDY RESULTS, RISK-ADJUSTED HOSPITAL MORTALITY RATES

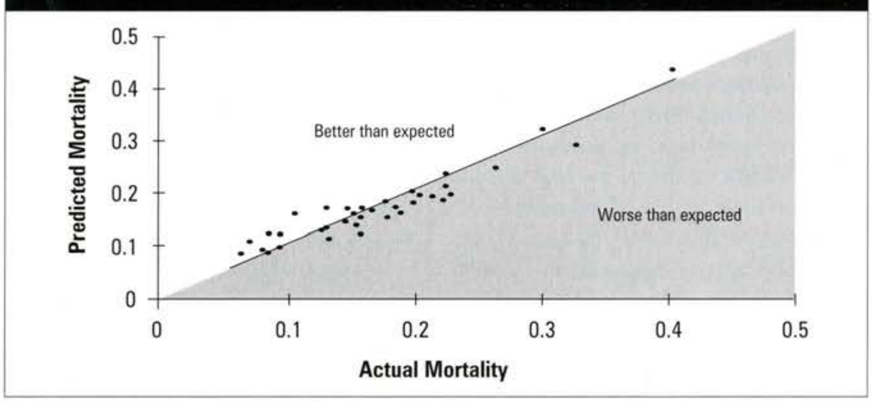
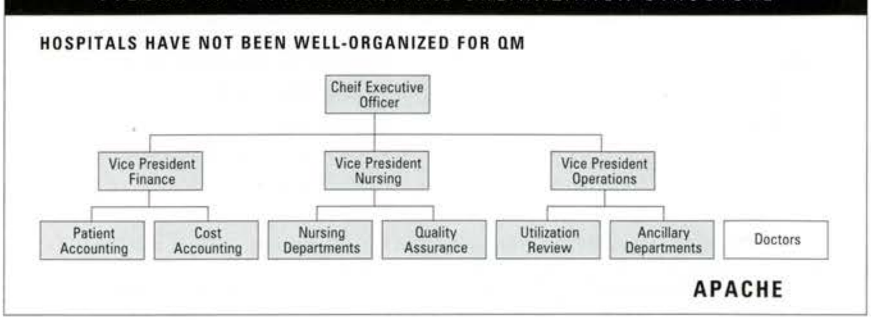


FIGURE 4: TYPICAL HOSPITAL ORGANIZATION STRUCTURE



Pioneers in Clinical Quality Management

Pioneering clinical QM initiatives have focused on overcoming these obstacles. These efforts generally fall into three categories:

- Organization, education, and training;
- Process documentation and standardization; and
- Patient measurement.

Although a short list of clinical QM pioneers will omit much that is worthwhile, several of the better-known efforts in each category are described below.

Organization, Education, and Training

Hospitals with proven approaches to the organization of QM efforts include **The University of Michigan Medical Center** in Ann Arbor, Michigan, one of the original participants in the National Demonstration Project. The hospital has experimented with several QM strategies including Deming's 14 points, Juran's team model, FOCUS-PDCA, and General Electric's Town Meeting model. They have learned that quick action is important and that a few productive QM teams are better than a large number of teams.

Providence Medical Center in Portland, Oregon, became involved in QM in late 1990 and has experienced dramatic reductions in the length of hospital stays for many patients by standardizing and improving their care processes. Their successful approach includes appointing a "quality council" of top executives to set QM priorities, establishing measurable success criteria for each QM team, analyzing customer needs and expectations, and establishing the QM effort's scope (i.e., complete redesign vs. incremental improvement) before committing resources.

A radical new approach to patient education has been developed at **Dartmouth College**. A team of clinicians, outcomes researchers, and technologists there has developed patient education materials for medical conditions for which patient treatment preferences are important. Information about a patient is entered into a computer linked to an interactive video, and each person sees a customized video presentation of the potential benefits and risks of various treatment options. Use of these videos has resulted in dramatic changes in patients' choices of various treatments.

Process Documentation and Standardization

Intermountain Healthcare in Salt Lake City is a leader in clinical process analysis and physician behavior modification, documenting each process in the finest detail, understanding the variation in the process, researching which variant produces the best results, and then feeding this information back to physicians in a timely manner using the HELP System, originally developed by IHC and now owned and marketed by **3M Corporation.**

The Center for Case Management, headquartered in Boston, was founded by the developers of the widely used CareMaps documentation format. CareMaps are detailed tables showing recommended diagnostic and therapeutic activities for a particular type of patient, as well as standards for evaluating the patient's progress. CareMaps can be used to help standardize the process of care and provide a means of documenting variations in the process for individual patients.

Milliman and Robertson, an actuarial consulting firm, has created the world's largest library of clinical guidelines. While CareMaps derive from nursing documentation and are still most widely used by nurses, clinical guidelines are more commonly used by physicians. Milliman and Robertson's guidelines are brief written descriptions of the care process, often a single paragraph. They tell how long a typical patient with a certain condition should stay in the hospital and what kinds of care they should receive. Milliman and Robertson's guidelines are very aggressive, and are often used by managed care organizations to guide hospital utilization control efforts.

Patient Outcomes Measurement and Risk Adjustment

Several approaches to measuring patient outcomes and the factors that contribute to them have been used. Clinical Information Systems, sold by **Hewlett-Packard, EMTEK, HBO & Company**, and others collect, display, and report detailed clinical data electronically, allowing easy bedside viewing by physicians and nurses and supporting more rapid and effective analysis of the care process.

APACHE Medical Systems, Inc., of McLean, Virginia, has used the research of Dr. William Knaus and his colleagues at The George Washington University to develop computer systems that predict outcomes for individual patients. These systems are used by doctors on a daily basis to support clinical decisions, and the aggregated data from groups of patients helps them understand and modify the clinical process.

Summit Medical Systems has developed computer systems to collect and analyze clinical data for cardiovascular patients. For patients with open heart surgery, Summit's system predicts the likelihood of hospital mortality. The Summit predictions are widely used as a benchmark in QM activities and are sanctioned by the Society of Thoracic Surgeons.

Together, these hospitals, associations, and manufacturers have made substantial progress toward solving the challenges of clinical QM.

What Quality Management Means to the Healthcare Consumer

In many ways the results of quality management in clinical processes will mirror those seen in manufacturing.

First and most importantly, this means an improvement in clinical outcomes. As more clinicians become aware of and adopt best practices, mortality and morbidity rates will fall, and overall health status related to treatment will improve. Healthcare outcomes will also become more consistent: the wide variations in use rates, procedures, techniques, and outcomes will be "smoothed."

Adoption of clinical quality management will be accompanied, as it has been in other industries, by the wide availability of objective performance information, which will shift the balance of power from doctors and hospitals to consumers. Widely available, risk-adjusted outcomes data for individual hospitals and physician groups, or even for individual physicians, will guide consumers and employers in their selection of providers. This will offer providers a powerful incentive to seek out and adopt best practices.

In addition, the wide availability of easily understood, risk-adjusted outcomes data for medical therapies and surgical procedures will allow consumers and their physicians to make better-informed decisions about treatment. This will reduce the amount of ineffective care delivered. The use of relatively expensive therapies will decline in favor of more efficient ones, and an increase in use of some expensive therapies with superior results will be justified by an improvement in clinical outcomes.

Costs will decline overall, and the trend to outpatient treatment will continue. Hospitals will shrink, and only the sickest patients will remain hospitalized. In general, lower-intensity treatment options, such as subacute and rehab hospitals, will care for sicker patients, and more patients will be treated in their own homes or in nursing homes. E

Notes

1. S. M. Shortell, et al. "The Quality March: National Survey Profiles Quality Improvement Activities," *Hospitals and Health Networks*, December 5, 1993, pp. 52-53.
2. S. M. Shortell, J. L. O'Brien, et al., "Assessing the Progress of TQM in US Hospitals: Findings From Two Studies," *The Quality Letter for Healthcare Leaders*, vol. 6, no. 3, April, 1994.
3. C. Watts, MD. Unpublished personal interview, March, 1994.
4. J. S. Schwartz, MD, and S. J. Cohen, EdD. "Changing Physician Behavior," *AHCPR Conference Proceedings*, September, 1990, p. 45.
5. W. A. Knaus, et al. "Variations in Hospital Mortality and Length of Stay for Intensive Care," *Annals of Internal Medicine*, 118 (1993): 753.

Marriott School of Management Annual Management Conference

Successful Leadership

IN ORGANIZATIONS, COMMUNITIES, AND FAMILIES

The second annual Marriott School Management Conference will take place June 20-22, 1996. If you would like to attend this year's conference, it's not too late to register. The management conference is an opportunity for you not only to learn from top business and government leaders, but also to rub shoulders and network with LDS business professionals from around the world.

The general sessions will feature the following notable speakers:

- **Kim B. Clark**, newly appointed dean of Harvard Business School.
- **Roger G. Clarke**, director of investment securities, The Church of Jesus Christ of Latter-day Saints.
- **Robert J. Frankenberg**, chairman, president, and CEO of Novell, Inc.
- **Elder Neal A. Maxwell**, member of the Quorum of the Twelve Apostles.
- **Dale B. Murphy**, former professional baseball player with the Atlanta Braves.
- **Mike Murray**, vice president of human resources and administration at Microsoft Corporation.
- **W. Mitt Romney**, managing general partner of Bain Capital.
- **K. Fred Skousen**, dean of the Marriott School of Management.
- **Mark H. Willes**, president and CEO of Times Mirror, Inc.

In addition to the general sessions, there will be nearly 40 breakout sessions focusing on the following interest areas:

- Accounting and Business Issues
- Computer and Information Systems
- Entrepreneurship
- Ethics and Social Responsibility
- Global Management
- Healthcare Issues
- Organizations for the 21st Century
- Personal and Family Management
- Public Management

Presenters in the breakout sessions include business leaders and MSM faculty members who specialize in the various interest areas. A random sampling of session topics includes: *Socially Responsible Business: Oxymoron or Self-Evident Truth; Global Leaders: Developing the Next Generation; Entrepreneurs Are Made—How to Get Into Your Own Business; Detecting and Dealing With Employee Fraud; New Values and New Organizations for the 21st Century: Examples From the United Order; Married for Time and Eternity, or Until Debt Do Us Part;* and *How Can You Enhance Your Business by Using the Internet?*

This year's format will be slightly different from last year's, in that food will be provided only at the continental breakfast each day and at the juice breaks. Conference attendees will be responsible for their own lunches and dinners. This change not only offers more flexibility, but also enables us to reduce the registration fees. For those who register prior to May 1, the fee will be $150 for individuals, $135 per person for couples, and $130 per person for larger groups. After May 1, those fees increase to $170 for individuals, $150 per person for couples, and $140 per person for groups.

In keeping with the BYU tradition of strengthening the family, the conference will feature activities for all age groups. Teens (13 to 18 years) will enjoy listening to excellent youth speakers as well as participating in afternoon activities at Seven Peaks Water Park and 49th Street Galleria. Preteens (6 to 12 years) will participate in afternoon activities with the older youth, but their mornings will feature the "Come Fly With Me" activity and will include the building of model rockets and airplanes. Cost for the youth program is $115 if paid prior to May 1 and $125 after May 1. This price includes meals, Friday dinner activities, an optional Thursday activity during the Dale Murphy fireside, and refreshment breaks.

Nursery-age children (18 months to 5 years) will stay on campus under the supervision of BYU's excellent early childhood development faculty and staff. Cost per child is $75 by May 1 and $85 after May 1. This price includes all meals. The nursery will be open Thursday and Friday from 8:00 a.m. to 9:00 p.m.

On Saturday you may also participate in a scramble golf tournament at the Homestead Resort course located in nearby Midway (approximately 30 minutes from Provo). The tournament will feature prizes, a closest-to-the-pin contest, and a longest-drive competition. Registration is limited to the first 144 players. The $70 per person registration fee includes green fees, cart, and luncheon.

Conference dress will be business casual except for the Friday evening reception and fireside with Elder Neal A. Maxwell, for which business dress is recommended.

To register for or receive more information about the Marriott School of Management's Second Annual Management Conference, call (801) 378-4853. E

Economic Renaissance Through Education Reform

by Stanley C. Gault

Mr. Gault, chairman and CEO of The Goodyear Tire & Rubber Company, is the 1995 recipient of the Marriott School's International Executive of the Year Award. This is an edited version of his acceptance speech, delivered November 17, 1995.

I am most grateful to the Marriott School of Management for this prestigious recognition. It is an exhilarating yet humbling experience to join the company of your distinguished past recipients. The enduring emphasis that Brigham Young University has placed on high moral values and ethical standards places it at the center of a deep national need. Your commitment to basic values demonstrates your desire to help others see the merit of honesty, integrity, respect, and responsibility in their daily lives. At a time in our country when the subject of ethics seems to be skirted more often than studied, it is reassuring to see a respected center of higher education focus its energies and attention on the values that form the foundation for our society.

Visiting the campus of this outstanding institution reminds me of the academic preeminence held by American colleges and universities. This level of superiority cannot continue indefinitely, however, if the public education system that supplies the students remains uncompetitive.

Economic Influence

Forty-six years ago George Orwell wrote a political satire entitled *1984*. And in it, you will recall, he saw the world divided into giant warring political segments. Today, Orwell's *1984* is becoming a reality—fortunately not as warring political segments, but instead as competing economic areas, combinations of national economies. A fact of life is: the largest and most influential group sets the trading rules by which all nations abide. That is one reason our country was so successful in the past. We were the biggest, the most efficient, the best educated, and we had a major impact on the rules of the game.

While the economic map has changed dramatically in recent years, so have the businesses that have the capability and commitment to compete. One need only look at the tire and rubber industry to see the tradition-shattering impact of global competition. Less than 10 years ago a total of 11 different independently owned tire companies existed and competed primarily in the U.S. market. Then came the tidal wave of globalization, and because North America was the largest tire market in the world, every major company wanted a sizeable share of the action—and they wanted it immediately.

What occurred was a foreign buy-up of the U.S. tire industry, to the point that Goodyear is now the only major international American-owned tire company. In almost the bat of an eye, Goodyear's prime competitors were no longer crosstown rivals such as Firestone, Goodrich, and General. They suddenly were cross-world rivals: Michelin, Bridgestone, and Continental.

The tire and rubber industry is not unique. Globalization has occurred in virtually every core industry: steel, automotive, appliance, electronics. Every industry that once competed *intra*nationally for customers now competes *inter*nationally. Ten years ago, less than 5 percent of U.S. manufacturers considered a single foreign company among their five primary competitors for the U.S. market. Today, 30 percent will tell you that three of their top five competitors are foreign companies, and 70 percent of goods produced in the U.S. compete directly with goods produced in other countries.

Coincidental or not, all of this activity has occurred simultaneously with the collapse of communism and the Iron Curtain. The emerging global economic blocs being formed around the world can be a step in the right direction only if they result in removing the nationalistic trade walls or economic iron curtains within their regions. The economic walls and the unfair trading practices must be removed, and they must not by permitted to rise again. Like the removal of the Berlin Wall, the demolition will not be initiated by governments, but rather by the insistence and efforts of people.

Erosion of the Middle Class

We cannot successfully address the many problems facing our nation without stable, sustained economic growth. And we cannot enjoy a stable and growing economy without strong and successful businesses to provide the jobs and revenues to fund our many critical national needs. A major factor in our lingering economic problems is the erosion of our nation's buying base, specifically the erosion of the middle class or, perhaps more accurately, the manufacturing class.

In 1969, 71 percent of our population was considered middle class, with the bulk of their wages coming from manufacturing jobs. These were the people who bought new cars, new houses, new appliances, took vacations, and had the time to get involved in the education of their children. They were the engine that drove our economy, and they were the framework of our society. In 1990, only 63 percent fit that classification, and the trend has continued downward. During the decade of the '80s, the U.S. industrial sector lost almost two million jobs as the economy shifted more to services, and an additional 1.25 million jobs have disappeared so far in the '90s.

Coinciding with the decline in manufacturing jobs has been the deplorable increase in our trade deficit. In 1992 it jumped 31 percent to $96 billion; in 1993 it increased another 21 percent to $116 billion; in 1994 it rose more than 30 percent to $150 billion; and the estimate for 1995 is yet another hike of 13 percent to nearly $171 billion.

What is this imbalance really costing us? Each billion dollars in export sales creates an estimated 25,000 jobs in the United States. So multiply 171 billion by 25,000. The result is that more than four million Americans are not working, not earning paychecks, not paying taxes, and not buying products and services. For the most part, these are the high-wage, high-skill manufacturing jobs that are the centerpiece of our middle class. The loss of these jobs is widening the gap between the haves and the have-nots in our society.

We are experiencing weak manufacturing-job creation largely because serious problems have become embedded in the structure of our economy. These problems reflect both some excesses of the 1980s as well as some new challenges. Complicating the picture is intense global competition from foreign-based companies that do not face the profit-stealing impact of certain U.S. mandates and regulations that drive our costs upward. Furthermore, selling-price increases are difficult to pass through and frequently result in a loss of business and market share to off-shore competitors. Instead, cost increases are shifted backward in the form of less hiring or actual layoffs, and all of this further erodes our nation's important middle class.

A National Education Program

There is no single solution for reversing the trend, but the mistakes of the past must be corrected, and we must start with the development of a true and comprehensive economic plan, a plan that also includes a national education program. If we and our families hope to enjoy life in the years ahead, everyone in this room and everyone across America has a role to play in this necessary revitalization, in meeting the challenge of change.

If we do not take an active role, then our cherished standard of living will decline, and we will not reach our nation's objectives that we mutually are striving to attain. Like the turnaround of businesses, the turnaround of our nation requires a return to the basics.

Historically, nations have prospered because of a combination of four factors: natural resources, capital, technology, and a skilled and educated workforce. Our nation's rise rested primarily on two of these factors. The first was natural resources. We had more natural resources than any other nation on earth. And, second, we combined this wealth with a unique American invention: a public school system that made education compulsory.

Universal mass education didn't materialize in the rest of the world until about World War II. As a result, we had an educated workforce that no other nation could match. We could take our natural resources and put them together with technologies that much of the rest of the world already knew about, but we could do it better because we had a more skilled and better-educated workforce. As a result, the United States became the world's richest and most prosperous nation.

The rest of the industrial world—much of which had to be rebuilt after World War II—discarded the old ways and rebuilt with modern concepts. Many took our traditional strengths, including emphasis on primary and secondary education, and lifted them to a new plateau.

Our nation, fortunately, is awakening. We are changing, and we are becoming increasingly competitive—but one area where we continue to lag is in primary and secondary education. We all know the value of education, yet our nation keeps sweeping under the rug the fact that our basic education system is, in general, not globally competitive. Despite the rhetoric and action in some areas, young people continue to leave our educational system without such basics as reading, writing, comprehension, and some mathematical and scientific knowledge.

This breakdown in our educational system has contributed to the loss of jobs in the U.S. industrial sector as the economy shifted more to services. Nearly 85 percent of our trade deficit is now in capital goods and high-tech products, the same products that were once the mainstay of our trade performance. And we must not let the unemployment statistics mislead us. They only document the unemployed—they do not report the millions of temporary or underemployed workers.

The millions of manufacturing jobs lost in the last 15 years have, in many cases, been replaced with service-sector jobs, so these workers are shown as being employed. Most service jobs, however, pay significantly less than manufacturing jobs, and this change has had an enormous economic impact on those people who, in the past, were very active in the supply-and-demand cycle. But with lower-paying jobs, that has changed, and the downward economic spiral continues.

The Joy of Learning

The breakdown of our education system has reinforced this downward spiral because we are failing to adapt to change; we are dreaming and not taking positive action. According to the 1990 census, 10 percent of the nearly 160 million Americans age 25 and over have less than a ninth grade education. That's nearly 25 percent of our potential working population who have not graduated from high school.

Among the 16 to 19 age group, more than 11 percent are not even enrolled in a high school. Literally thousands of students graduate and can't even read their own diplomas. Companies are forced to teach basic skills to their new hires. Business is more than willing to train its workers in specific skills, but all of this remedial education increases product cost to the point at which they often are not competitive with comparable foreign-made products.

Our educational system is failing to deliver qualified applicants at a time when the equipment we use and the products we manufacture are more complex and more technologically advanced than ever before. Our primary and secondary education system, once the world benchmark, has not adjusted to global competition. And we're all part of the breakdown because we have forgotten, as a society, that skills are only a part of what education is about.

An education system driven only by the need for ever-increasing specialization, which teaches us more and more about less and less, is inherently lopsided and defective. I ask: What has happened to the joy of learning that encourages rather than inhibits a fascination with questions, processes, ideas, and imagination?

This question poses an enormous problem for those who have to worry about how we are going to staff our businesses in the coming decades. The jobs the changing economy is creating are badly mismatched with the qualifications of people.

Education, like American industry before it, must undergo major change, major reform, major pain in a process that will eventually lead to a rewarding level of education for our youngsters.

We must demonstrate a national commitment to revitalize our entire educational and training process. Pouring more and more money into schools, however, does not necessarily improve them. In fact, the contrary has occurred to the point that our educational system is one of the most bureaucratic institutions in our society. For example, in a 25-year period the number of students in U. S. public schools was stable. But in that same time frame the number of teachers rose 57 percent, the number of principals and supervisors grew by 79 percent, and the number of other staffers grew by 500 percent.

A Four-Point Plan

Common sense alone suggests initial reform action in four key areas:

The first is *organization.* All the evidence suggests that operating control of the system needs to be removed from a bloated supervisory bureaucracy and replaced by synergy at the community level. Parents, teachers, businesses, social service agencies, and clergy all must play crucial roles in redirecting the educational focus.

The second area of reform should be in the *school curriculum*. To balance local operating control, we need tough, globally competitive standards in math, science, computer literacy, and language skills. It is disgraceful that we are the only major sophisticated country without national education standards. We must insist that more time be spent on core subjects, and we must expand the curriculum to permit inclusion of more noncore subjects that stimulate students' interests in the arts and communication skills.

We may have to increase the length of the school year and the school day to accommodate these needed changes. Children in other nations are not basically or inherently smarter than ours—they just receive more and better schooling. Korean youngsters attend school 250 days a year, and German students go 236 days, while our children attend school for approximately 180 days a year.

Third on the "must change" list is *teacher qualifications*. It's easy to blame teachers for the decline of our schools, but it isn't completely fair. To educate students for tomorrow's needs, teachers must be trained in more flexible, interactive methods and new perspectives—hands-on learning, team solutions, more emphasis on imagination and creativity, more writing in all subjects, a greater focus on the interconnection of subjects, and a multicultural viewpoint.

And, finally, there must be changes in *school funding*. A strong body of opinion recommends that parents have freedom of choice in selecting a school and that state and federal funds should go to the schools that attract the most students through performance and reputation. Although I may share that view philosophically, before we can fairly adopt it everybody should begin the race from the same starting line. We must adopt an equitable funding formula to eliminate disparities in facilities and equipment.

Government and Personal Involvement

Well, those are just four openers—four starting points, if you will. Ahead lies a massive and complex task, and reform in any of these four areas is likely to have substantial ramifications throughout the system. But there's no point in changing the curriculum or lengthening the school year if the same old teaching methods are used; and there's no point in giving local control of schools to parents and teachers if they are constantly harassed by the bureaucracy to conform to outdated standards and programs.

The real heart of the problem is finding solutions that address all the issues more or less simultaneously. We have some enormous problems, and they will not be solved with anything less than the active leadership of our president and the congress and the dedication and diligence of every sector of American society.

Government at the local, state, and federal levels must do everything possible to promote America's ability to compete. Our elected representatives must be continually reminded to make the connection between the cost of legislation they are considering and its effect on improving America's competitive position. Every action they take should be put to the litmus test: Will it help or will it hinder our ability to compete?

And from our side, we must do our best to make our companies more efficient and more productive. With the support of concerned citizens around the country, we must continue the fight to get rid of the fiscal, regulatory, and educational problems that are strangling our economy and putting our collective future in doubt.

If we are successful in our efforts to remove the obstacles, we can experience, on a national basis, the kind of turnaround that Goodyear has experienced. There can be a rebuilding—a renaissance, if you will—within our great nation that will result in a growing economy, increased jobs, and an improving standard of living. We can create a strong beginning for what could be the new "American Century." By working effectively together, I am confident we can make it happen. E

PILFERAGE *(Continued from page 5)*

items normally associated with pilferage, these people steal major items (e.g., inventory, equipment, cash, and securities) that they convert to cash or other assets to enhance their lifestyle. As you might suspect, these people account for most of a company's losses.

Why People Pilfer and Steal

Fraud research has identified three variables that are significant in determining whether a person will be dishonest: (a) moral character, (b) situational pressures, and (c) opportunities. Moral character refers to a person's commitment to do and say what is right. People with high moral character don't take things that don't belong to them; they are dependable and trustworthy; they always tell the truth; and they keep their promises even when it is not convenient. Situational pressures refer to the specific problems a person might face at a particular time, especially a need for money. Opportunities refer to the ease with which a person can take something and not be detected. Opportunities are enhanced when detection, prosecution, and punishment are unlikely.

Finding a Solution

The big question is: What can a company do to minimize pilferage? In developing an approach to controlling pilferage, the company needs to balance the cost of administering the program with the benefits received and the impact on employee honesty, morale, and productivity. A $50,000 program that saves the company $20,000 in supplies and miscellaneous expenses and creates hostility among employees is not a wise business decision.

A pilferage program ought to be targeted at occasional and chronic pilferers. Such a program will be relevant to approximately 80 percent of the employees. People classified as professional pilferers present an entirely different set of problems.

Occasional and chronic pilferers are people we normally consider as having average to above-average levels of moral character, but they have not developed a clear definition of property ownership or internalized a commitment to never take that which does not belong to them. Typically, these people do not pilfer because of situational pressures. Most of them have adequate resources to buy the things they pilfer. Also, because the items they take are small, readily available, and insignificant in value, physical controls will generally cost more than they will save and will generally be greeted with hostility among employees. In fact, when a company questions its employees' integrity over these small items, institutes physical controls over distribution, and

requires employees to account for each item, employees frequently become more dishonest as a form of retaliation. We offer the following suggestions to help companies control pilferage:

- *Talk with employees, preferably in small groups, about the problem of pilferage.* Employees need to understand that pilferage costs the company a good deal of money—perhaps not individually, but in total. Employees should also understand that taking anything without permission, even if the value is small, should be considered stealing.
- *Establish clear policies about what the company considers to be acceptable.* Employees should be informed about the resources they will receive, and they should also to be reminded that these resources belong to the company and should generally be used for company purposes. Exceptions should be specified and discussed. Keep in mind that employees need to learn how to balance company resources and personal resources. This is particularly important as people begin to do more of their work at home, as illustrated by the following comment:

"Occasionally I serve as a consultant for various organizations. Just yesterday I used my employer's computer (my employer is a university) to type a one-page report for a client and my employer's fax machine to send it to the client. Since the client is local, there was no long-distance phone charge for the fax, and the report was developed on my own time. But, technically speaking, the use of the computer, the fax machine, and the paper would all be considered pilferage. However, last week I spent several hours on my home computer developing course materials for the university and printed several pages on my own paper. Since there is no convenient way to be reimbursed for my own computer time or paper, my employer will come out ahead on this exchange. The time and difficulty to keep track of the exact resources and always make appropriate reimbursement is not practical, and the end result will not be any different as long as I do a good job of balancing company resources with my personal resources."

- *Instill trust in your employees.* Let your employees know that you trust them. Most people will be more honest if they are put in a position of trust than if their honesty is questioned or they are threatened with punishment for small infractions. Positive reinforcement is generally better than negative reinforcement for controlling pilferage among casual and chronic pilferers.
- *Set a good example.* There is strong evidence that middle and upper managers pilfer as much as lower-level employees. Setting a good example should start at the top. Top management should set the example for middle management, and both should be role models for other employees. Employees who hear one story but see inconsistent behavior will be confused by the policy and will generally follow the bad example. E

Notes

1. Richard Hollinger and John Clark, *Theft by Employees* (Lexington, Mass.: Lexington Books, 1983).
2. Joseph Wells, "The Billion Dollar Paper Clip: How to Prevent Employee Pilferage," *Internal Auditor*, October 1994, p. 32

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