Second, follow all the rules

One of the more popular business books during the dot.com bubble instructs us in its title to *First, Break All the Rules*. As Americans watched business executives being led away in handcuffs on the nightly news, breaking the rules suddenly seemed like a bad idea. Grand schemes built on imaginative financial shenanigans melted profits and ruined business careers. Americans now celebrate quietly that playing by the rules is back in style. Honesty and hard work have worked well in the past and a return to those simpler times strikes a responsive chord among Americans today. Business heroes of the future may resemble France's Edouard Michelin rather than Tyco's Dennis Kozlowski. The former maintains a single focus (manufacturing the best tires in the world) and a disciplined lifestyle, whereas the latter mimicked the lifestyle of a decadent Caesar and had more subsidiaries than Rome had tributaries. Not surprisingly, Michelin investors and workers find themselves better off than their Tyco counterparts.

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The saying goes that an economy is in a recession when your neighbor is out of work and in a depression when you are unemployed. Private-sector employment has declined by approximately 1.5 million jobs over the past 12 months. Current employment reports tell us that the number of US workers unemployed for more than six months is the highest since 1994 and involuntary part-time work has grown to 4%. Unemployment among professionals and managers is about 3%, the highest since the early 1990s. Unemployment is hitting the better educated especially hard. Twenty-five percent of the unemployed are college educated. Graduates from the best US business schools face a stiff labor market with 20% of the graduates unemployed six months after graduation. Parents are surprised to see their once-employed sons and daughters showing up on their doorsteps, MBA diploma in hand, looking for a warm bed and three meals a day. These parents are convinced that an economic depression is at hand.

Instead of productivity fueling an upsurge in hiring, the decline in business demand has meant that the current workforce, utilizing advances in technology, can meet production quotas handily without the help of new hires. Any further declines in demand are quickly matched with reductions in the workforce. Notices of those reductions are front-page headlines. The 6% increase in productivity and a drop of 2.5% in unit labor costs last quarter should have heartened the most cynical observers. The current jobless recovery, however, has the unemployed viewing productivity growth as the villain that robs workers of their livelihood. "If only workers produced less," they say, "then more workers would be needed." This is perhaps a myopic condemnation of productivity, but long-term unemployment leaves workers with few charitable thoughts. Still analysts are optimistic that the rise in productivity from 1.5% (1980–1995) to 2.5% (1995–2002) is a sure sign of a better future. A 4.7% increase in productivity over the last 12 months (the best performance since 1983) is further evidence that tech-savvy employees continue to contribute to the bottom line. When demand rebounds, higher employment should follow, allowing productivity's gentler side to show through.

"If it ain't broke, don't fix it." This generally sound advice is not substantiated by the productivity story behind the retail sector. Two explanations have been offered for the strong productivity figures in retail. One explanation tells us that large retailers, such as Wal-Mart, are increasingly forcing "mom-and-pop" stores out of business. With Wal-Mart being a more efficient operator, the demise of smaller retailers is a common occurrence. The lower productivity figures of self-employed retailers, therefore, no longer bring down the productivity levels of the retail sector generally. Another study shows that building retail stores from the ground up with the latest technologies is preferable to refurbishing and modernizing existing stores. Newly built stores are said to be responsible for almost all of the productivity growth in the retail sector since the mid-1990s. Perfectly good but slightly dated retail outlets could face demolition for failing to match the productivity of their newly constructed counterparts.

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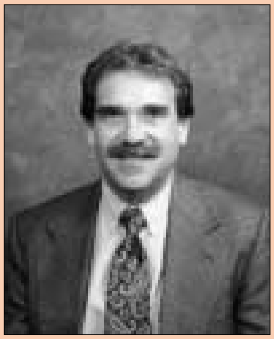
"Trust me" no longer carries the day for business executives. Surveys on trust are now the fad and there are no surprises in the results. The response of 13,000 US workers in one survey revealed that only 40 percent trust their senior executives. Certainly today's accounting jargon reflects the tenor of the times. See if you have heard these phrases in your workplace as defined by Ross Baker, *Boston Globe* writer:

- The Cookie Jar –– Keeping cash in various accounts to boost revenues.
- Smoothing –– Using cash set aside earlier to improve financial results.
- Stuffing the Channel –– Booking revenues from unsold goods sent to distributors.
- Round Trip Trades –– Swapping goods or services to give the appearance of sales.
- Boomerang –– Manipulating joint ventures to exaggerate sales.
- Spring-loading –– Minimizing assets of an acquisition to boost value to purchaser.

..... by Michael Manson



"Break the rules" business executives have embraced the book *Atlas Shrugged* by Ayn Rand which extols the virtue of self-interest. Selfishness is not only good for the individual, but is also economically smart and morally correct because it benefits all of society. It is fascinating to note that Web hits doubled on two Rand-related sites and sales of the book jumped into Amazon's top 100 list as the recent flurry of business scandals hit the front pages. Many business leaders reportedly say that *Atlas Shrugged* was the one book that most influenced them. One survey ranked the book second (behind the Bible) in influencing Americans' thinking. Recently knighted Alan Greenspan is a proponent of Rand's, but I doubt that he extended Rand's objectivist philosophy to include betraying one's fiduciary duty. For those more willing to follow the rules, another book may be of interest. *Business: The Ultimate Resource* summarizes 70 of the most-read business books of all time and includes 100 biographical sketches of influential business leaders. It also provides the reader with 140 "how-to" essays and more than 100 guidelines for managers, as well as a world business almanac. With all that reading, there would be little time left to break the rules.

Michael Manson had a long and close association with the APO when he was the Assistant Director of the East-West Center's Institute of Economic Development and Politics in Honolulu. He helped to initiate a number of collaboration programs between the APO and the East-West Center. Manson also served in the Asian Development Bank, and was Director of Communications with the State of Hawaii's Department of Business, Economic Development and Tourism. He is presently an educator, and a regular contributor to this column.