

Why is the Economy interested in Improvisation?

by

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Some things are decided upon by elimination. My intention when I was fifteen years old was that of studying sociology. People and their behaviour fascinated me. Their interaction, the dynamics within groups, their cultures, their mores, their values. But there was no sociology course at the University of Malta at that time, and I hadn't so strong intentions that made me seek opportunities of studying abroad. I had to look for another subject which focuses on people and their behaviour, and this is where economics came in.

Economics is not a science, it is an art. Please always take this into consideration. One cannot establish a deterministic approach in the way decisions are taken, consumers and business behave. There are no theories in economics, but hypothesis, which in different circumstances, in different times they are always proven to be wrong. I joined the economics course at that time because it made part of the humanities side of the University, and because it was a new, outward looking course, with a majority of foreign lecturers, coming from different Universities in Europe and the United States. Different schools of thought as well, Socialist thinking dominated. Economic planning was a fad, development economics was interesting. University was fun.

And economics and sociology had to move hand in hand. The economy is made up of decision takers that decide to behave in particular ways and patterns in a physical and time space that we call the market. These decisions are complex, and so is their behaviour. We love to say that there is predictability, but this is not always so.

So let's focus on the two main protagonists on the stage. The consumer who has his own goals and motivation. The Marginalists state that he is seeking to maximize his satisfaction, or utility from each and every value unit he spends. Is this always the case? On the other hand, you have the firm, the business, with its own goal, that of maximising profits. We are making so many assumptions here! Do all companies decide with profit maximisation in mind? What about gaining market share? What about the pressures of competition or retaining leadership in the market? It is when these two main actors, the consumer and the firm, meet at the market place, that an invisible hand converts this selfish attitude of these people into a point of agreement, and consensus, the products are sold at a particular price at a particular time, and the actors shake hands. Adam Smith's invisible hand theory shows how selfishness, and extreme behaviour to improve one's own life can change into the harmony of the market.

Does this mean that people always organise themselves elegantly and orderly as a means of survival?

Five people set out to wash a pile of dishes. Would they fight their way to get to the sink together, or do they wait their turn to do their fair share? The chances are that they will

divide the work in different tasks, and go on doing their work in an orderly, harmonious fashion.

What could at the start be predicted to end in chaos and confusion, will always end in a state of order. Consumers and firms do not come up in arms at the market, or five fairly decent friends just finishing an enjoyable dinner, do not fight their way at the kitchen sink. People decide to interact with others. They find this more feasible. Marginalists will describe this as the power to converge at a point of Equilibrium.

Do organisms always exist at the edge of chaos, finding order only when they are at the cutting edge, and do they always reach this stage of order in a haphazard way?

Friedrick von Hayek, the Austrian economist who helped the free-market champions, like Thatcher and Reagan, emerge victorious in the 1980s, argues that market economies are more complex and intricate than can be explained in terms of any deliberate efforts to achieve coordination among individual activities. Economic phenomena, Hayek says, are the product of spontaneous order, the “results of human action, but not of human design”. The market, courts, government are all a result of this unpredictable spontaneity. No one actually planned any of these things, but the interests and actions of thousands of individuals produced an order that works. Hayek insisted at that time that any tampering with this system comes at a cost, and in the market economy, the costs are much higher than the benefits. The market economy uses prices as signals, as a means of disseminating information to all participants about the supply, availability, and even the probable use of products and services.

How much are we using our rational mind in all this? How much are we using our emotional mind in all this? How much are we using of both?

Einstein once declared: “I never discovered anything with my rational mind.” On another occasion he claimed that “imagination is more important than knowledge.” In reality, we need to use both. But how much are we using both?

For many years economics and even more recently management were being directed towards the science faculties in universities. Rational and scientific thinking were taking the lead, without giving due attention to the holistic human mind and its consequent behaviour. Scientific management as presented by F.W. Taylor in the beginning of the 20th century, was revived in the nineties with the thinking of people like Michael Porter and Michael Hammer, with their focus on breaking business down into measurable and controllable activities. Closely defined structures and systems in Strategic Planning and Total Quality Management can restrain human spontaneity and thinking.

How much are we structured thinkers? How much are we unstructured thinkers? Warren Buffet, one of the world’s most prolific business dealmakers argues that homework, common sense and trust are the main ingredients of his success. Just imagine that in May last year it took him just a couple of hours to come up with a US dollars 1.5 bn. offer to buy Wal-Mart’s distribution business. There was no due diligence, he “literally shook

hands and it was done.” In another statement he said,: “I have no faintest idea what our cost of capital is and I think the concept is fairly crazy.” I was at a World Business Forum in Milan last month, where there was possibly the most interesting configuration of Management gurus in the world at the moment, and Jack Welch, of GE fame commented after sitting for an hour listening to what Michael Peters had to say on Strategic Planning, “bullshit, its what the guts tell you, man, and not this crap of models, graphs, numbers and statistics!”

Consumers are free, and open minded and they dictate the products and services they want. Their perceptions change, as they dream of experience and adventure and they expect more out of each and every experience. Dreams and fantasy is what people’s consumption is all about today.

Business need to innovate. Innovation is a product of their vision. Visions should stimulate people’s thinking, and their decisions. I would not invest in a company that does not innovate. This company is more than sterile, it’s dead. Innovation is the “output,” creativity is the raw material. Creativity is the thinking process which helps us to generate ideas. Creative thinkers are not born “different”, but creativity is a skill, it can be learnt. It needs to be practised, first by parents and teachers and then by people working in companies. Innovation happens when one of the ideas emerging through creativity is implemented successfully. Ideas can be bizarre, way-out, even stupid. Innovations must then be realistic, capable of commercialization and implementation.

But the creativity-innovation process is painful. Culture changes are necessary. Conflict is essential to innovation. The key is to make the abrasion creative. Creation through destruction?

How can this be attained?

Employees need to be reconverted to entrepreneurs. Make them win back their freedom of thinking, to have initiative, to break out of the box. They are to be empowered to decide, to resolve problems, to make suggestions. For God’s sake do not refer to them as human resources or employees, but as people. Respect their dignity.

We need fresh air. In a world where business is more concerned with operating in “best practice”, its future is dull, if not dark. We should look at “different practice”, those factors that make us different, that give us the leading edge, the competitive edge.

We need to nurture the creativity process, because it needs an environment which is different from the normal business ethos. Uniformity and consistency are important ingredients that discipline the production and provision of service. However Greenhousing is essential to protect the young ideas when they are the most vulnerable. Creativity and innovation can easily be frustrated by the regime of structured business.

We still need to keep in touch with reality, and the real world. We can only do this if we keep in touch with the consumer, listen to what he has to say, be sensitive to his changing needs, empathise with him.

We need to retain the momentum. We need strong leadership to ensure that the direction is made clear and to enthuse the now entrepreneur-innovator in his innovation process.

We need to send signals, communicating changes of direction to these people instead of expecting them to be mind-readers. It helps the employee to navigate between a judgement free world where ideas are allowed to grow and the harsher style of a rigid business world.

We need to be brave to do all this. To transform our people from bureaucrats to creators, from number crunchers working in structured organizations, to artists who are self-employed, who risk every day to be able to live rather than exist, to grow rather than survive.

“Back in 1981, I had decided that it was enough to prophesy. I ought to try and practice some of what I had been preaching, to find out for myself what it felt like to leave the shelter of organizations and fend for myself – to be what I have come to call a flea, outside the world of big organizations that had been the pillars of the employee society of the twentieth century... What is the future of capitalism and how will it change given that value is now vested in knowledge and know how rather than land and things that you can see and count?” This is a quote from Britain’s Charles Handy, probably the best management thinker that the country has seen.

Back in 1983, I decided to take the plunge, to leave a cosy permanent job, to become an artist and performer in the world of business and society.