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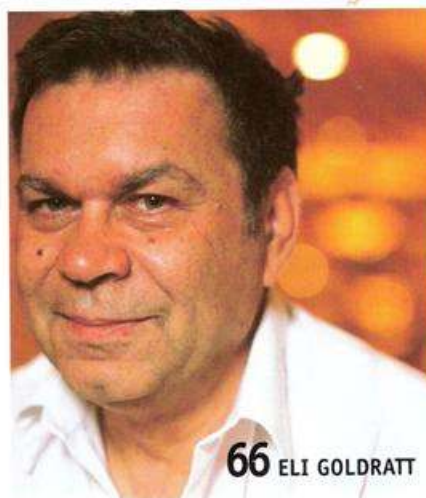
A forthright elucidation on contemporary linguistics as pertaining to the macrocosm of commerce and general fiscal activity, with discombobulation as the cynosure. In this instalment: ABCs, ASS, TLAs and DCOMSUBORD-COMPHIBSPAC.

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It's unusual – very unusual indeed – for economic growth to happen alongside political instability and global insecurity. But that is exactly what we are seeing at the moment, and it could spell deep trouble before too long.

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People aren't pig-headed, they just have very different paradigms in their analysis of crime. The whole Mbeki/FNB/crime debate provided a nice microcosm which, while it doesn't help solve the problem, tells us a lot about our society.



EUREKA MAN

Eli Goldratt is not one for change management. If changes improve things, workers will readily adopt them, he says. And his changes generally improve things a bundle.

photographed by **sally shorkend**
assisted by **paul shiakallis**
shot at emperors palace,
8th february 2007

the physicist and the amazingly stupid business people

Eli Goldratt used to be a physicist, until he figured out how to build affordable housing for chickens. Then he wrote a book, lost his company and started helping dead-dog businesses make billions of dollars by forcing them to stop being idiots. BY PHILLIP DE WET

ELI GOLDRATT THROWS HIS HANDS UP IN FRUSTRATION as he paces before his audience.

"It is so bloody simple!" he thunders. "Why do we go out of our way to make our lives difficult?"

The audience of around 150, comprised of at least middlingly powerful business people in their own right, shows no dissent. These people have just been told that the only reason they are not making money hand over fist is because they have been stupid for a long, long time. They seem to find this argument eminently sensible and well founded.

Admittedly, they may not be the sharpest tools in the shed to begin with. After all, each of them has paid R4 000 to sit in Boksburg and be harangued by Goldratt in what is little more than a sales pitch lasting an entire day. The lucky ones, those whose applications are accepted, will

eventually pay his local organisation a lot more for consulting services.

Or perhaps they aren't all that stupid after all. Being sold to by Goldratt has the feel of a religious gathering where higher truths are revealed to all who care to listen. Also, there is the small matter of his reputation as a man who has helped turn around everything from cutlery factories to army logistics bases, and realised many billions of dollars of profit for businesses that had been written off as no-hopers. And, of course, R4 000 isn't really that much money. If you wanted Goldratt all to yourself it would cost you \$50 000 per day – plus expenses – if he deigned to accept your invitation.

GOLDRATT SEES STUPIDITY EVERYWHERE, and once he's pointed it out it is indeed mind-numbingly obvious. Take the things

that companies concentrate on, for example.

Mass-market retailers make the most money out of products that turn over fastest. Look at the products that are out of stock and it is often those with a higher than average rate of sales. Now look at where all the attention is: the products that don't sell. Slow movers are discounted, promoted, and have shelf space lavished on them, because everything must move, and if it doesn't move you have to make it move. Would you, Mr Retailer, perhaps be better off dumping those slow movers in a deep ocean trench? Really? Have you run the numbers? Goldratt has, and he's got news for you.

The same holds in what is laughingly called

soloist is a genius with a Stradivarius. When you hand him his sheet music for a symphony he goes: 'What? I paid a million bucks for this instrument and you only want me to play it for 15 minutes total during the whole thing?' If every piece works perfectly it still doesn't mean that the whole thing is working well."

If any of this sounds familiar, congratulations. You have at least heard of process harmonisation, or just-in-time manufacturing, or any one of a dozen hot business theories that have floated around business schools in the last twenty years. On a superficial level, almost none of what Goldratt has to say is entirely novel, and what is new consists of observations that any sufficiently bright child could have made.

That is the point at

So how do you do it? You engineer a culture change within your organization, one that will take the competition a long time to emulate even once they realise how well it works. You then engineer a second culture change in a completely different department, which is equally difficult to emulate. If you engineer these two changes in perfect synchronisation, then you have a winner. If you want to know exactly what that means, it's going to cost you at least R4 000.

There are far simpler illustrations of what Goldratt offers, however; in the example of that stupid retailer, for instance. You are a manufacturer and your goods are sold by the stupid retailer. Because the retailer is stupid, you aren't making enough money. So you go to the retailer and guarantee you will improve



"I have seen stupid top management; I haven't seen stupid workers."

which most business gurus get off the stage and out of the building – before their charisma wears off and you realise you've

been taken for a ride. Goldratt, on the other hand, patiently connects up his non-novel ideas and simple observations to create a system of logic. He uses that system of logic to create a set of tools. Then he uses those tools to make everybody stinking rich.

THE USUAL MAFIA OFFER IS THIS: WE'LL TURN your top line into your bottom line in no more than four years. In other words, do exactly what we say and 48 months from now your profit will equal or exceed your current turnover. Oh, and that is guaranteed; no result, no pay. Also, you will start seeing the first positive results within weeks, not months.

Today, bored by that old chestnut, Goldratt is selling something different. He is offering his interpretation of the "built to last company": a company that no longer takes part in the rat race and has such a stupendous lead over the competition that it will take them 15 years or more to catch up. And, of course, a company that can charge like a wounded buffalo.

"Competitive edge based on reducing price is not a competitive edge, it is stupidity, nothing else," he says.

project management, a world where cost guesstimates are multiplied by two and time guesstimates by four and then derided for being hopelessly optimistic. Why do projects invariably run late and over budget? Because when Murphy strikes everybody still focuses on the things that are going well, because they are measured on progress and paid accordingly. Dropping everything to put out a fire doesn't earn you a bonus, it gets you fired.

Or take the classic production line, the wellspring of Goldratt's rather daunting body of work and a limitless reservoir of examples impossible to argue with. The point of a production line is to make stuff that makes money. Yet production lines are measured by the output of each individual section, all of which must run hell for leather at all times in order to attain some mystical ideal of efficiency. And while the company bleeds a torrent of money everybody stands around scratching their heads because, well darn it, if everything is running so great then where did their profits get to?

"Think of a production line as an orchestra," says one of Goldratt's disciples, rolling out the flavour-of-the-month analogy. "Your violin

turnover on the shelf that stocks your products by ten percent or write out a cheque for the difference – if you are given control of what goes onto that shelf.

"This takes very big balls," Goldratt deadpans. After all, retailers know their game and like making money as much as the next guy. Now you, Mr Smarty Pants Industrial Tycoon, are going to do what that retailer never could?

Odds are the retailer will accept your offer, if only for the entertainment value. Then you hit him with part two of the dastardly plan: the two of you split any improvement that you achieve above and beyond that guaranteed ten percent.

"At this point their eyes usually pop out of their heads," he says.

Then you simply fix that shelf by making sure your most popular products are given the most attention and never, ever, run out. Just getting that right will improve your sales by no less than 50 percent, and it could actually triple sales. Suddenly everybody is rolling in money.

There are some prerequisites, of course. The retailer must sell at least 30 discrete items that you manufacture and must have a problem with stock turnover to start off with, to name two. Other than that, though, Goldratt is happy to stick his neck out and make promises.

Can it really be that simple? Apparently, yes. Many have taken Goldratt up on such offers and nobody has called him a charlatan for decades.

SOME 25 YEARS AGO, ON THE OTHER HAND, HE was called many worse things than a charlatan by no less than the shareholders of the company he had founded. One fairly large company was none too impressed with his work either, and today Goldratt acknowledges that those who flew his banner early on were ripped off.

Goldratt was an over-educated Israeli PhD physics student with big ideas and too much time on his hands. He developed a drip irrigator and a device to determine when a surgical instrument had breached the human cornea. He worked on a game to teach children the Fortran computer programming language. Then he went to look at his wife's cousin's factory, which was in trouble. The business made, and installed, chicken houses for the Zionist Movement. Not chicken coops, mind you, which are a far less complicated enterprise.

"He was going mad," Goldratt says. "When he was in the factory, the assembly went down the tubes; but when he watched over the assembly, nothing worked in the factory."

So Goldratt and his brother, who then headed up the scientific department of the Israeli army, went to have a look at the outfit. They quite quickly agreed that the only problem was scheduling, something that Eli, in his youthful arrogance, believed easily solvable.

His brother, on the other hand, had grappled with scheduling issues for army depots and the like.

"He mocked me. He said: 'Huge companies haven't solved it, but you think you can?' Then we stayed up until four in the morning discussing it, at which point he said: 'Okay, let's try it.'"

The brothers ended up writing some software based on an algorithm they developed, which was used to double production at the plant. They were chuffed, to put it mildly.

The story doesn't have a happy ending, however. The Zionist Movement, the only customer, withheld payment for six months and the company went under.

That didn't stop the brothers Goldratt, who roped in a couple of others and in the late seventies Creative Output Inc. was born in the United States. The company produced a piece of software called OPT (which originally stood for Optimised Production Timetables), and became successful enough to be featured in the hallowed pages of *Fortune* magazine by 1983. Goldratt managed to attract a lot of attention, in fact, by kicking sand into the eyes of cost accountants, and the living was easy.

Not everyone bought into OPT, and the cost accountants were far from alone in their scepticism. The supposed software system was actually the implementation of a new



management philosophy that was trying to slip in by the back door, and managers who realised it would have nothing to do with the thing.

Those who accepted his ideas saw results – sometimes. But for Goldratt it just wasn't enough.

"In the eyes of our shareholders we were extremely successful. In 1983 we were doing something like \$30-million minimum ... but I was miserable. Here we had this huge problem: how do you schedule your shop floor? And it was a problem everywhere. And we had the best references, with companies like General Motors and General Electric, so why were we selling only \$30-million a year? Why were people not grabbing it in huge quantities? Why weren't we doing \$30-billion a year?"

So he wrote a book, with co-author Jeff Cox. A novel, to be precise. A novel about a factory manager with all kinds of headaches at work, marital problems, a boy scout son and a roving former professor (who has been likened to Obi Wan Kenobi in his inscrutability) as an advisor.

Writing fiction rather than a textbook is tough, he says, because any scenario you create can be dismissed as unrealistic. But he had respect for the work of authors like Ayn Rand while philosophy text books put him to sleep, and in his messianic zeal he rated accessibility more important than academic orthodoxy.

The Goal was initially turned down by just about every publisher in town, and the one who finally accepted it and printed 4 000 copies did so more as an act of charity than anything else. Later, after it sold more than two million copies, that publisher would tell his peers how the book helped him buy his first Ferrari.

As the book started to sell, Goldratt started receiving letters from new disciples, who cited enormous benefits to their businesses. He visited some sites, checked some numbers, and came to a startling realisation: those who paid a few dollars for the book were seeing better results than those who paid tens of thousands for the software and

struggled through its implementation with the help of armies of consultants.

"I reached the inevitable conclusion that the software was actually an impediment." And he sighs, because that is where things turned ugly.

Goldratt describes what followed as a war, with himself as the good guy who refused to continue ripping off customers; while the rest of the Creative shareholders, with his brother in the lead, considered their clients grown up enough to make their own decisions. In the end, he swapped his shares for the rights to the book (the company had paid for his co-author) and walked away.

The company would later be quietly acquired and disappear from view, but not before being countersued (Creative apparently struck first, demanding payment that was withheld) by Mars, the makers of M&Ms. That case set a precedent when Creative was forced to disclose the secret source code of its software so that Mars could prove it had been taken for a ride and had promises made to it that could not be kept.

Goldratt had a best selling book and a new crop of followers, but no infrastructure and a dubious reputation. Only a few years later, he would be a business superstar.

"SHE IS TALL, OVER SIX FEET TALL. AND SLIM. Elegantly dressed. Almost too elegant. Always. Not the type one calls beautiful, but striking. First impression is of expensive silk. Maybe because she never raises her voice, maybe because of the traces of a soft Southern accent. But it's just a first impression and doesn't last for long. It's the underlying steel that is hard to escape noticing."

That is an extract from one of Goldratt's lesser-known business novels, *Critical Chain*, which tells the story of a young business professor who realises everything taught in MBA classes is bullshit but who still can't get tenure; a university professor who despairs when she realises that the business school bubble is about to burst, and a development team from a company that builds modems and has realised it is in trouble.

Like all his work, the book is alternately cited as an acceptable source in academic papers or vehemently attacked by academics as derivative, simplistic and unsound – but nothing in between.

"Arguably, the reason is that Goldratt's personality influences the academic debate," wrote University of Auckland management professor Dan Trietsch in a 2005 paper. "Thus, even Goldratt's true contributions are denied or ignored by some of his detractors, while many supporters refuse to admit that Goldratt's teachings are often misleading or erroneous."

Perhaps it is also the nature of Goldratt's showmanship that polarises people so. In front of an audience, he paces without pause while throwing his entire body into dramatic, expansive gestures. He doesn't talk, he preaches, and you'd better be listening.

"Is it understood, yes or no?" he asks. When he doesn't get a reply from the audience he cups a hand around his ear and draws, "Hel-lo-o?"

It is insulting and exhilarating at the same time. There is no emotional manipulation of the crowd, no attempt to speak to their fears or so much as acknowledge their sensibilities. The slides are ugly and jam-packed with information. There are no funky video clips or sound effects.

But, throughout, Goldratt is engaging in some serious cerebral manipulation. He adds one observation (so obvious it insults your intelligence) to another one (which so clearly results from the first that there seems no point in even mentioning it) to a third (which seems to assume that you are an idiot) and then reaches a conclusion as utterly counter-intuitive as it is unarguable. These "eureka" moments come along every five minutes or so as he talks – for hours – and the result is like watching an electrical current slowly pulse through the room as everyone absorbs what he is saying and suddenly sits up a little straighter.

That is what Goldratt sells: logic that leads to insight. Logic, applied to fundamental but everyday business problems. Look at it the right way and the solutions seem childishly simple, especially given the standardised approaches that Goldratt and his team have developed over the years.

Like one of the recurring characters in his books, Goldratt has a mischievous streak that makes him prone to setting traps for his audience and leaning towards hyperbole in the quest for shock value. Still, you'd have to go a long way to get the same entertainment value out of any other business speaker.

ELI GOLDRATT IS PASSIONATE, EXCEEDINGLY bright and bubbling over with insight. But only two things set him apart from other business strategists: he genuinely holds nothing sacred and he has an uncanny insight into corporate and individual psychology.

"In the physical sciences we don't accept dichotomy, we don't compromise," he likes to say. "If we measure a building using one technique and get twenty metres, and we measure it using another technique and get 15 metres, then we don't say, 'Oh well, so it's around 17.5 metres.' We fix the problem."

Business, he says, considers itself a special case. When revenue increases by thirty percent and profits increase by two percent everyone mutters about one-time costs and slippage and natural wastage. Fine, Goldratt says, then let's quantify all of those factors. If the numbers still don't add up we keep digging until the math is perfect. Eventually we'll reach the root of the problem, and then we can fix it.


Then, once you have the solution, you have to get it implemented. Change management? Don't be ridiculous. You don't need fancy-shmancy strategies to get people to change the way they do things, not when the change will be to their benefit. An improvement that means the company is more profitable makes jobs more secure, means that people don't have to work overtime anymore and that they can believe in the future. Workers will always – always – accept that kind of change, he argues.

"I have seen stupid top management; I haven't seen stupid workers," he tells the audience in his seminar. "If you think that I'm joking, think again."

Only later do I understand what a profound sense of personal responsibility that implies.

"If the solution is obvious and it is not implemented then you are a bad communicator," he tells me. "In 1980 everyone looked pig-headed to me because I couldn't convince them. The more I improved [my message] the more I found that people were suddenly getting smarter and more open. Sometimes when they pushed back I found that they were right, what I thought was a full analysis had missed something."

Goldratt, the consultant with the crazy ideas, considers every failure to be his fault. But then, he asks, what is the alternative? "If you don't take the responsibility then fine, waste the rest of your life bitching and moaning that you are the only smart guy."

If you like the sound of that, give him a call. Oh, he'll charge you a couple of million rand ("if you give something away for free people don't think it has value") and you'd better do exactly what he says ("this is not a negotiation, not when we know what needs to be done and you don't"), but he'll not only make you more money, he'll throw in that kind of wisdom for free. 

Phillip de Wet is Maverick's deputy editor. His usual disgust at the dribble that is called business theory is due back from the cleaners next week.

THE THEORY OF CONSTRAINT

Eli Goldratt's *pièce de résistance* is the theory of constraint or TOC, which has its own literature and an army of practitioners around the world that do nothing but implement it.

TOC supposes that, in a business environment, there is a single constraint, or bottleneck, that stops you from making the maximum amount of money. Find that bottleneck, fix it, and everything will be better.

The steps to implementing TOC are:

1. Identify the constraint.
2. Figure out how to exploit the constraint, to make it as efficient as possible.
3. Subordinate all other processes to the constraint.
4. Elevate the constraint, by increasing capacity in that area.
5. Go back to step one, and either find the new constraint or improve on what you've achieved.

The idea is that by fixing the constraint you optimise the entire system. By subordinating every other piece of equipment in a production line to your bottleneck, for example, you ensure that inventory doesn't pile up elsewhere. Shades of just-in-time, in other words.

TOC implementation uses a set of tools with funky names like "the current reality tree", which provides a simple structure for cause and effect relationships, and "the evaporating cloud", which is a conflict resolution structure.

Implementing these approaches and disseminating the ideas is the job of a whole group of organisations that carry the Goldratt name: Goldratt's Marketing Group, the AGI-Goldratt Institute and TOC for Education Inc, to name a few.

Goldratt himself is technically retired – he just couldn't stand managing people any longer, he says – but he remains the heart and soul of the organisation in every way. Asked by one seminar attendee whether he had a "new strategic and tactic tree" for a specific industry, he replied: "Can I be really arrogant now? Right now there is only one person in the world who can create these trees. If I haven't done one for you yet I apologise."