

Leading From a Position of No Power

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Tom DeMarco is a management consultant and a principal of The Atlantic Systems Guild; he is also the author of a number of best-read books on managing high-tech workers, including the recent Dorset-House book, Why Does Software Cost So Much? (and Other Puzzles of the Information Age). In 1986 he was named winner of the J.D Warnier Prize for "lifetime contribution to the information sciences."

Below you will find a synopsis of Tom's presentation. In addition, he has provided a short essay on "Human Capital" for inclusion in the proceedings.

Leading from a Position of No Power

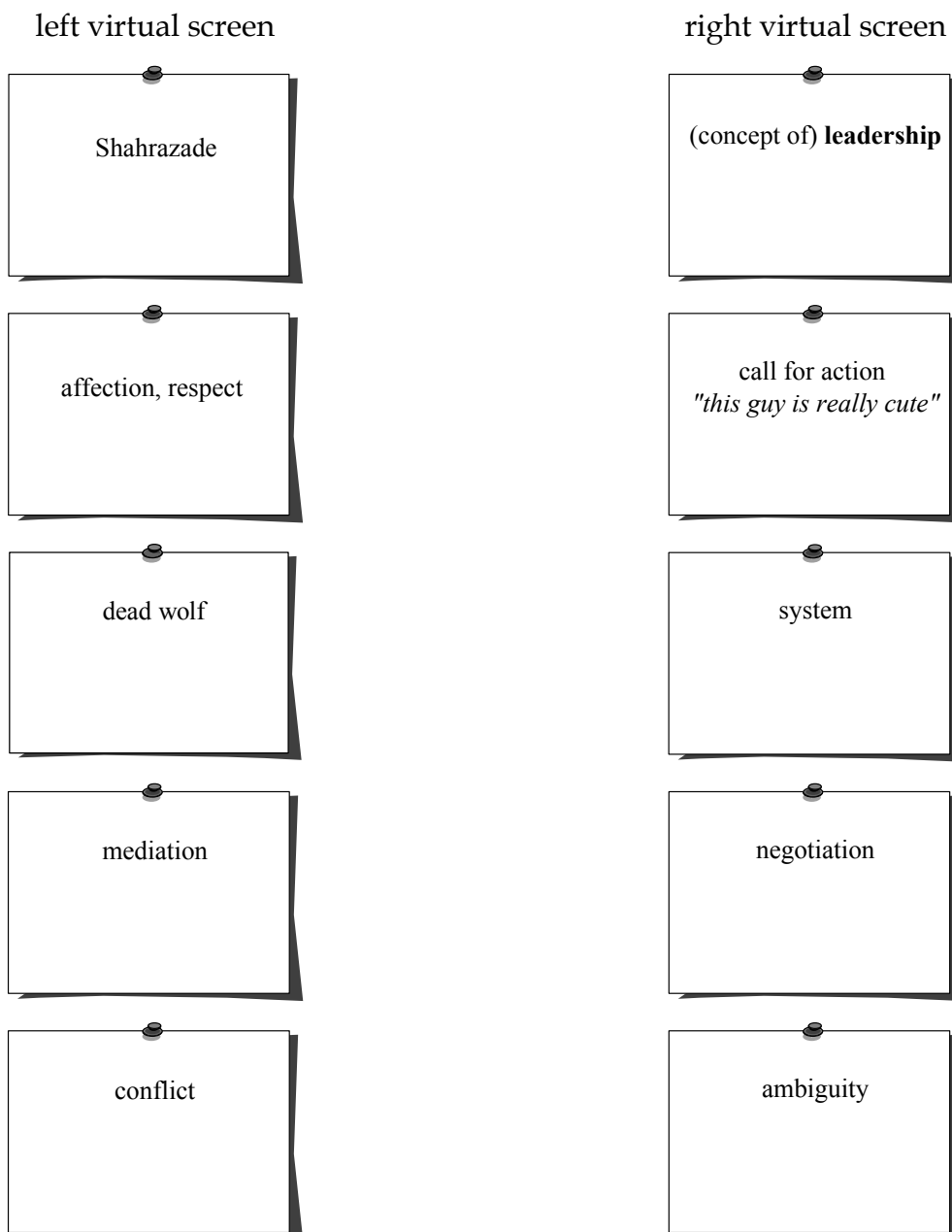
Synopsis

This is a performance involving the imagination of the audience. Two virtual screens are at the disposal of the listeners and used by them for projecting their own images triggered by the speaker.

The right virtual screen is used for the key points a leader should recognize in an everyday surrounding. The left virtual screen is for images suggesting a story which helps the reader to find the right way of handling the situation in the real world.

If he or she recognizes one of the key points from the right screen, the corresponding image on the left screen will light up and flash, providing a universal truth she or he can apply to resolve the current problem.

The two screens with the five key points are:

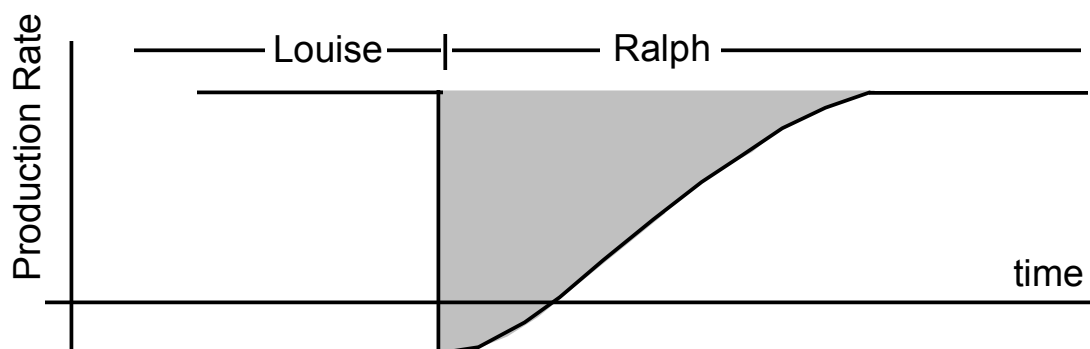


Human Capital

Imagine yourself the manager of a team of five engineers. The team is experienced, well knit and highly effective. The team members have paid their dues and they know their subject area better than anyone else on earth. Their project is on track. And now, to your dismay, one of the five comes to you and announces she will be leaving at the end of the month. What a disaster. You call down to Personnel. "Louise is leaving on the thirty-first," you tell them. "Send me another Louise." But Louises are, sadly, out of stock. "How about a Ralph?" they suggest. The deal is done: Louise out at end of month, Ralph in on the first.

In a purely accounting sense, nothing has changed. Ralph makes about the same salary and has about the same load as Louise. And like Louise, he puts in one person-day per day, five days a week. Input (cost) stays the same, and output (effort) is also the same. If the project was on track last month, it should still be OK this month. What are you belly-aching about?

To understand the problem, consider Ralph's meaningful production his first day on the job. How much does he assist at the task of chipping away the remaining project work? Of course the answer is Not at All. His meaningful production is zero; he is busy trying to figure out who's who? and where's the Gents? and where do you get yellow pads? Mostly what he's doing is poring over the notes that Louise left about her work in progress, notes that Louise would have no need to look at (probably wouldn't even have written them if she hadn't been about to leave). Every now and then he has a question, so he hunts up one of the other team members to get a little help. Ralph's productivity on the first day is not even zero: It is negative; he is keeping other people from working at their full capacity. The second day he may be a bit less of a burden, and still less the third. Eventually he comes fully up to speed, producing at the same level that his predecessor did. In picture form it looks like this:



The shaded area is the lost production due to the sudden loss of an experienced worker, Louise. Looked at another way, it is the investment that the company is now forced to make in the new worker, Ralph. The extent of the investment is a function of how long it takes new people to become as effective as the ones they replace. Depending on what kind of work your people do, the investment here can be substantial. One of my clients, a network protocol group within Hewlett Packard, figures it takes 25 months to bring a new engineer up to speed. Figuring simplistically, the shaded area in such a case would be a bit more than one person year,

including all the costs, salary and overhead. Each time they hire a new engineer, they have to invest some \$150,000 in him or her before the investment begins to pay off.

For reasons best understood to bean-counters and the tax authorities, modern companies do not capitalize their investment in people. Their rules make us pretend that people are a pure expense. Of course that may have made sense for the unskilled workers that made up most of the workforce a hundred years ago. But today's knowledge workers are different. They represent an enormous hidden investment, the company's "human capital," shielded from the eye by let's-pretend bookkeeping.

We often forget that this is a pure accounting artifice, and evaluate our companies as though human capital didn't matter. And so a company like AT&T can lay off 78,000 knowledge workers, and the market will respond positively because expense is trimmed. If we kept track of human capital, AT&T would be obliged to write down five to ten billion dollars of assets, value that had to be jettisoned in order to reduce that expense. Then the response of the markets would be quite different. Instead of applauding the company's executives, we'd be looking to lynch them.