The Global Citizen

A Business Is More Than a Balance Sheet

By Donella Meadows

Teachers sit on the bleachers at town meetings watching the townspeople resist raising their salaries. The Dartmouth faculty complains to the trustees about the governance of the college and gets no response. Labor v. management. Again and again and again.

Marx said the conflict between workers and bosses is inevitable in a capitalist system. Maybe so. But a hierarchy can also fit together smoothly for the benefit of both the parts and the whole. It happens in the human body, in a fine sports team, in a symphony orchestra, and sometimes in a well-run business. What does it take to create that kind of harmony? Why does it so often break down?

A small business close to home is a classic example.

It is a retail store, established to demonstrate how businesses *should* work, to save money for the customer, to encourage local producers, and to bring community people together.

The store sells products of high quality at fair prices. It does not waste money on advertising gimmicks. It is customer-owned and dedicated to treating people with respect. Its board of directors makes decisions by consensus.

The store did pretty well at first. Customers liked its honest and homespun quality. But during a particularly hard time a large debt accumulated and the business nearly went under. The crisis pulled in a new no-nonsense board, serious about fiscal responsibility. At the same time a level-headed, talented young woman was found to manage the store.

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While the board tightened up the cash flow, she made the store bright and attractive, eliminated non-selling items, added new products. She knew the customers, knew the merchandise. She found other employees like her, dedicated to the business, willing to work long hours and to do everything–unload trucks, restock shelves, find suppliers, wait on customers–all for low wages.

With better management from the board and the staff, business slowly improved. The debt was being retired. At that point the staff asked for modest pay increases. Most board members were sympathetic to the staff's request. They would have liked to hand out raises, but they were worried about the still-wavery bottom line. They felt the staff didn't understand that the business was still in trouble. Some board members suggested the debt could be paid off even faster by firing everyone but the manager and hiring minimum-wage cashiers.

The discussion, at this point, got a bit insensitive on both sides. The staff felt unappreciated and discouraged; some of them quit; all of them talked about quitting. The board, in a badly-timed move, suggested a new bylaw allowing themselves to meet in closed session. The staff took this as a further blow to their status as partners in the enterprise. Labor and management moved further apart.

This little example, still unfolding, is especially sad because the intentions of all parties are so good. These people are not motivated by personal greed; they are all dedicated to the high principles of their enterprise. Given the information the board and the staff have, each side is behaving rationally and understandably. I think the main problem is that they don't have the same information. They are living in different worlds, and those worlds have stopped communicating.

Any board sees an enterprise primarily through its balance sheet–that's the board's job. On a balance sheet a debt looms large, and a labor force is a pure expense. Higher wages are an extravagance. A pleasant atmosphere, a smile for the customer, flowers in the window boxes do not show up. Balance sheets reveal quantity, not quality.

The staff see all the little efforts that make the place work. They know the difference between an organization where everyone feels appreciated and works with commitment and an organization where everyone just puts in time. They see good workers not as an expense, but as the source of revenues. From their point of view money spent for the greater quality is an investment that will repay itself.

Both these ways of seeing the business are important. They have to be integrated and balanced, if difficult decisions are to be made wisely. That is the design problem of capitalism: how to combine the view from the top and from the bottom, how to see the system whole.

All sorts of devices are used to keep information flowing between the levels of business hierarchies: written reports, skillful arbiters, straightforward talks. All these devices abstract human experience through numbers and words, symbols. They leave out wordless but vital perceptions of quality, or the absence of quality. Those perceptions can only be shared by direct experience, by walking as they say, in each others' moccasins.

If there is to be a bylaw change, it might require every board member to work occasionally in the store. Airline executives probably couldn't qualify to work shifts as flight attendants, but I'm told that one airline CEO flies on his own airline regularly, unidentified, economy class. At least that way he gets to appreciate how passengers are treated and how hard attendants work. It would be most instructive for the folks voting on the school budget to handle a class of third-graders now and then. And somehow Dartmouth trustees should experience the college not on special "trustee weekends," but as its secretaries or students or faculty members do every day.

Everyone in an organization should understand its balance sheet and share responsibility for financial soundness. Everyone should also have a feeling for the morale of the workers, the quality of the products, the satisfaction of the customers. That shared perception of the total picture would not make tough business decisions easier, but it might make them more compassionate and more wise. It might even become clear to everyone that labor and management, quality and quantity, raises and debt payoff usually rise or fall together.

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