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Vanguard Management: An Emerging New Paradigm

Abstract

There is an increasing body of evidence that significant and exciting changes are under way in how some organizations are seeing their world and transforming themselves to fit this new vision. The change is so fundamental as to constitute a paradigm shift. There is further evidence that some hospitality firms may be part of this transformation. The author advocates the use of vanguard management in this article

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by

William E. Kent

There is an increasing body of evidence that significant and exciting changes are under way in how some organizations are seeing their world and transforming themselves to fit this new vision. The change is so fundamental as to constitute a paradigm shift. There is further evidence that some hospitality firms may be part of this transformation. The author advocates the use of vanguard management in this article.

Business executives, as well as those students who aspire to join the managerial ranks, have all been exposed to the never-ending litany of management theories that have been espoused, since Moses' father-in-law served as the first management consultant and advised him to start delegating if he wanted to avoid total burnout. These maxims and theorems are frequently useful and should by no means be discounted by those seeking counsel in the ways and wiles of running a business.

But is it possible that something is afoot in American business that is so fundamental, so encompassing, so enlightening, and so right that it constitutes nothing less than a paradigm shift? Is this the dawning of a new age in management that will shake present assumptions and beliefs?

There are a number of writers and thinkers who believe that a new paradigm is indeed emerging. Futurist Willis Harman in *Global Mind Change* puts it this way:

The latter third of this century is a period of fundamental transformation of the modern world, the extent and meaning of which we are only beginning to grasp the role of business in that transformation is absolutely crucial.

Fortune, in its January 14, 1991, issue, featured a cover story entitled "The Most Fascinating Ideas for 1991" which pointed out that "... almost unnoticed, some managers' thinking has changed drastically from only a couple of years ago." It told of a professor at Stanford's school of business whose syllabus argues that "business can find a new paradigm which takes as its purpose 'the enlightenment of those in it'." The article further refers to the best selling book *Leadership is an Art* by Herman Miller CEO Max dePree, in which

dePree writes of "a covenant--not a contract--between company and employee as the basis for superior management." Finally, the article quotes James Autry, president of Meredith Corporation's magazine group: "Work can provide an opportunity for spiritual as well as financial growth good management is a calling, a sacred trust."

Sacred trust? Transformation? Covenant? Paradigm Shift? Perhaps a pause for some definitions would be in order before an attempt is made to unravel this story. A paradigm is generally defined as a model or pattern. Edward Lawler tells us that a paradigm is a "set of assumptions about how the world works; such assumptions produce a congruent and often tightly interconnected system of policies and practices in an organization." For example, during the 1960s, '70s, and early '80s, General Motors' top management had a somewhat narrow outlook regarding labor, product quality, and the kinds of cars the company should be making. The fact that this outlook did not "jive" with the real world did not dissuade top management. They suffered from a form of group think, a mode or paradigm for evaluating and reacting to their environment.

Paradigms are useful in everyday lives to interpret the world. A paradigm shift, however, is a fairly rare occurrence, a fundamental change in how the world is seen. Michael Beer, writing in *Corporate Transformation*,¹ observes, "A paradigmatic shift is underway many organizations are showing increasing readiness for organizational transformation for a true metamorphosis in beliefs, values, and structures. The more visionary of our corporate leaders are reaching the conclusion that the thriving organizations of the 1990s and beyond will be fundamentally different from the kinds of organizations we now have." Vanguard management is a term that has been coined to describe the assumptions, the values, and the practices within this new paradigm. Vanguard refers to the forefront of an action or movement.

D.C. Phillips in *Holistic Thought in Social Science*² makes a number of interesting observations about how individuals see the world. He points out that as people scan features of the universe, they shift range and focus back and forth between telescopic and microscopic vision; that as individuals focus on microscopic vision, they tend to lose perspective and gain precision; and that as people focus on telescopic vision, they tend to lose precision and gain perspective. Further, he points out that the whole of anything is more than the sum of its parts, that the parts cannot be understood if considered in isolation from the whole, and the parts are dynamically interrelated or interdependent. Phillips concludes, "there are no parts at all, only patterns in an inseparable web of relationships." This somewhat profound outlook is a major key to truly understanding the paradigmatic shift being referred to as vanguard management.

What is Vanguard Management?

There is no one precise definition or description of the paradigm, but the best developed description is contained in James O'Toole's book *Vanguard Management*³. O'Toole discusses five principles of

excellence that characterize companies practising vanguard management:⁴ stakeholder symmetry, dedication to high purpose, continuous learning, high aim, and moral courage.

***Stakeholder symmetry:** Readers are familiar with the term stockholder, persons who have a significant "stake" in the financial success of a business. However, James Emshoff in *Managerial Breakthrough*⁵ points out that many other external groups exist that have a legitimate stake in a company and its policies. Key stakeholders (in addition to stockholders) include employees, suppliers, various governmental entities, the public, the environment, and even competitors. O'Toole says that vanguard managers believe that even stockholders are best served in the long run when corporations attempt to satisfy the legitimate claims of all parties that have a stake in their companies (hence the term, stakeholder symmetry).

There are many examples given by O'Toole of how vanguard managers practise stakeholder symmetry. One is the decision by the top management of Levi Strauss to forego all executive raises during the period of time that the unions agreed to a wage freeze to help the company get through a recession. During that same period, the late 1970s, General Motors executives voted themselves an "enormous raise" on the heels of winning significant "give backs" from the union. Interestingly, the subsequent outrage from GM's other stakeholders, the unions, the press, the public, and even stockholders, was so great that the raises were rescinded.

Arco's former president, Thornton Bradshaw, described stakeholder symmetry as follows: "It all must be of a single fabric. From the company's social posture, through the way it treats its employees, to the care it takes in its artistic decor and style of its buildings, everything must manifest a commitment to quality, to excellence, to service, and to meeting the needs and aspirations of our owners, workers, consumers, and the broader society."

***Dedication to high purpose:** According to O'Toole, the vanguard feel they exist to provide society with the goods and services it needs, to provide employment, and to create a surplus of wealth (profit) with which to improve the nation's general standard of living and quality of life. He describes how Weyerhaeuser has made tree planting investments that won't--can't--reap returns for sixty years. To invest in the northwest USA, to help the environment, to do something for our children and for our grandchildren. Control Data has a company policy to build all their new factories in urban ghettos. Vanguard managers feel that a great corporation addresses a larger agenda than that of product quality, return on investment, or even employee compensation; that agenda includes the improvement of society as a whole.

***Continuous learning:** A fundamental point made in O'Toole's book is that vanguard managers feel there is "no right way to manage all companies at all times." Therefore, the only alternative a vanguard company has is to become a "learning organization." Eric Hoffer has been quoted as saying, "In a time of drastic change, it is the learners who inherit the future. The learned find themselves equipped to live only in a world that no longer exists."

Significantly, O'Toole points out that five of the eight vanguard companies he studied refer to their headquarters as "campuses." Vanguard managers constantly challenge old assumptions. Junior managers are empowered and encouraged to challenge the thinking of senior managers (and are expected to do so!) At Motorola, a young middle management executive came up to the company CEO in the presence of author O'Toole and said, "Bob, I heard that point you made this morning and I think you're dead wrong. I'm going to prove it. I'm going to shoot you down." CEO Robert Galvin spoke later of the incident with pride!

***High aim:** Vanguard corporations have a commitment to become superlative in every respect. Dayton-Hudson reached the pinnacle among American retailers in philanthropic activities. Not content with that worthy accomplishment, they set about to become number one in return-on-investment, customer service, marketing, and serving stakeholders.

According to O'Toole, Motorola in 1974 vowed to become the top producer in semi-conductors in the nation. At the time they were far behind number one, Texas Instruments. In 1985, they surpassed TI, because a (very) high aim is a part of their corporate fabric. Vanguard companies do not reach every goal set in every aspect of their aspirations, but they consistently aim high and frequently do reach their goals.

***Moral courage:** James O'Toole contrasts the stonewalling, the legalistic maneuvering, and the political lobbying undertaken by the A.H. Robins Company when confronted with evidence of the havoc the Dalkon Shield was wreaking on women to the sterling response of Johnson & Johnson to the tainted Tylenol incident. J&J immediately stepped forward to assume responsibility for the problem, before they even knew who or what was at fault. They immediately withdrew all Tylenol products, set up a toll-free hot line to handle worried callers, opened channels of communication to the health-care community, and responded to all press queries with honesty and candor. Tylenol subsequently regained its market share.

Vanguard corporations not only have a moral gyroscope, they adhere to it. Their moral standards enhance all their stakeholders because they see permanent, long-range benefits from so acting and because a moral imperative requires that behavior.

Other Impressions of Vanguard Management Vary

Professor Jerry Wind of the Wharton School reported⁶ on a consensus among a group of major corporation CEOs as to the characteristics of the organization of the 21st century:

- * individual and group empowerment
- * learning
- * innovative
- * flexible
- * flatter
- * cross functional
- * networking between companies
- * quality conscious
- * customer/market driven
- * stakeholder focus (whole set)
- * information technology based
- * time as a strategic dimension

Robert Haas of Levi's describes his vision⁷ of the new business organization, the "corporation without boundaries," saying it would:

- * challenge old concepts every day
- * treat suppliers and customers as partners
- * eliminate the distinction between workers and managers
- * redraw the lines between personal and professional concerns
- * empower employees so that they can tap fullest potential, take personal responsibility for their contribution, and feel like owners (and will be)
- * be technology harnessed, especially information technology
- * be global
- * compress time as a competitive advantage and be responsive
- * have concern for the community
- * be non-secretive

Michael Ray and Jagdish Parikh in a paper presented at the IMD Roundtable on Transformational Management held in August 1990 in Lausanne, Switzerland, outlined the perceived changes along a 10-dimension model (see figure 1).

Anti-Vanguard Management Persists

While there are examples of vanguard thinking and vanguard management at work, it is easy to find recent examples of its antithesis. A May 2, 1991, article in the Atlanta Constitution revealed that military contractor General Dynamics announced plans to eliminate at least a third of its 90,000-member workforce over four years because of the new austerity in government defense spending. At the same time, the article reports, shareholders approved a plan that could double and possibly quadruple executive salaries as early as the following week.

Figure 1
Ten-Dimension Model for Transformational Management

Short-term goals	————>	Corporate and individual vision
Rigid culture	————>	Flexible culture
Product orientation	————>	Market orientation
Internal focus	————>	External focus
Regional emphasis	————>	Global emphasis
Management direction	————>	Employee empowerment
Procedural bias	————>	Risk bias
Analysis only	————>	Creativity: analysis x intuition
Competition only	————>	Cooperation, co-creation, contribution
Aggressive values	————>	Harmony, trust, honesty, compassion

Marilyn Geewax in an April 26, 1991, editorial in the Atlanta Constitution bemoans how Robert Campeau, the "wacky Canadian entrepreneur," was somehow allowed to buy up a string of American department stores in a leveraged buyout, only to see his "crazy scheme" quickly collapse, causing perhaps 300,000 vendors and suppliers to lose their collective shirts and throwing thousands out of work.

Indeed, the LBO (leveraged buyout) may epitomize "anti-vanguard" management. The proponents of LBOs have argued that the results of such transactions create new wealth for stockholders, maximize operational potential by cutting inefficiencies, and offer new incentives to management for growth. But many critics have expressed concern about the potential financial risks and social costs associated with LBOs. According to Elisa Moncarz⁸, the financial concerns "have been predicated implicitly on the notion that changes in the firms' financial structure have no positive real effects on the firms' output since a post-buyout firm must direct its funds to meet growing debt service instead of investing them in research and development or expansionary activity." Moncarz goes on to comment on the concerns over social costs of LBOs: "These doubts stem from the bad effects of wealth distributions, increased instability of the economy, and possible loss to society. A typical post-buyout strategy is to cut costs ... this results in the layoffs of employees, (and) closing of divisions..." She also points out that LBOs have added large amounts of debt to the financial system: "This increased risk of

bankruptcy will probably contribute to the severity of a given recession."

It can also be argued that LBOs are a classic case of stakeholder asymmetry, wherein a select few are poised to accrue enormous gains at the expense of many other less powerful individuals. In fact, society as a whole stands to lose as well.

Thomas Horton and Peter Reid in their new book, *Beyond the Trust Gap*⁹, argue that LBOs, downsizings, and mergers and the resultant ruptured relations between managers and their employees have created a "trust gap that can derail companies seeking to become more competitive." The authors say that employees realize and even accept the fact that the business world has changed and that the security they once took for granted may be diminished. But they can't forgive top management for the way in which jobs were eliminated and the subsequent extra burdens heaped on survivors. They feel that top management treats them not as people, but simply as opportunities to cut costs. Horton and Reid feel companies pay a price in that their employees tend to be alienated and fearful rather than flexible and innovative, the very qualities companies desperately need in their employees. To repair the trust gap, the authors offer the following trust enhancers: Leaders should balance the needs of all constituencies--customers, employees, owners, suppliers, and communities; leaders should balance short-term needs with the long-term health of the company; leaders should make a strong commitment to genuine and continuous change; leaders should practice honest communication and support what they say with action; and leaders should understand the need to establish a cohesive corporate culture that maximizes human potential. While the authors make no reference to vanguard management, the parallels between their advice and the values inherent in vanguard management are striking.

Is Vanguard Management Profitable?

The key to understanding the profit motive from a vanguard perspective is that it is considered to be very important, but not to the exclusion of or detriment to other stakeholder interests.

Author O'Toole contrasts stock analysts' love affair with Texas Instruments during the early 1980s because of their high ROI, coupled with their virtual ignoring of Motorola because of its relatively low ROI. Return-on-investment is a measure of profitability, as compared to total investment. If a company assumes a short-term financial perspective, it will seek to maximize profits or minimize investment to achieve a favorable score. However, vanguard companies tend to invest heavily in the future, in new technology, in their employees, and in their communities, and may very well be discounted among stock analysts for low ROI. Vanguard managers run their companies as if stockholders were truly long-term owners of the company, not stock speculators. If the investor is looking for a long-term relationship, then vanguard companies are most attractive. If speculation is the objective, then the long-term consequences are of

little concern. Vanguard corporations pay the price of short-term devaluation in order to do what is right for owners in the long term.

Value Line, a company/stock investor guide, currently lists Texas Instruments as having a financial strength of A, current earnings per share of 43 cents, and projected capital spending per share in the next three years of \$4.95. In contrast, Motorola is listed as having a financial strength of A+, current earnings per share of \$3.80, and projected capital spending per share in the next three years of \$9.90.

In fact, there is further evidence that socially responsible companies are doing well in the stock market, taken as a whole. A socially responsible company is variously described, but examples are those that do not exploit third-world countries, do not sell tobacco, have a good record of dealing with the environment, and have solid records of progressive hiring practices. Ties to stakeholder symmetry here are evident. According to Knight-Ridder newspapers,¹⁰ there are mutual funds that are comprised only of stocks of socially responsible companies. According to their analysis of returns from the five-year period 1986-90, "socially responsible investment funds have flourished...and now control an estimated \$3.5 billion." Average rate of return for these funds for the five-year period was 56 percent, while the average for socially responsible fixed funds was 40 percent.

Hospitality Industry Shows Some Evidence

There is evidence that at least the spirit of vanguard management is alive and well in the hospitality industry. The evidence may be spotty and anecdotal, but it is encouraging:

* McDonald's USA president Ed Rensi, speaking at the 1990 MUFSO meeting, challenged those present by declaring "you and I can change the world through collective leadership." He referred to the "sweeping trends" around the world that impact business. He implored the industry to "cultivate the public trust by being truthful about the healthfulness of what it serves."

* The September 1990 issue of *Lodging* reports that more than 20,000 needy persons have benefitted from the 800 hotels and motels that are members of Hotels/Motels in Partnership, Inc. These properties donate free temporary lodging to people who have been displaced due to disaster, unemployment, or abuse.

* The president of the Rosewood Hotel Group in Dallas tells how his company operates "wellness programs" for employees, including sponsoring health fairs, free counseling regarding mental health issues, and a solid employee benefit program.

* Hyatt Hotels reports a recycling program at one of its Chicago hotels resulted in a collection of 250,000 pounds of recyclable material at a savings of \$20,000 per year in garbage collection fees alone.

* A bellman at the Ritz-Carlton Buckhead in Atlanta suggested a recycling program for the hotel to management. He was empowered to start and administer it full-time and currently recycles 236,000 pounds of materials per year.

In addition, there is at least one bonafide vanguard manager in the hotel industry. Robert D. Zimmer, president and CEO of the Robert D. Zimmer Group in Dallas, seems to possess all the right qualities. The Zimmer Group offers a complete range of development and management services. As founder and former CEO of Rosewood Hotels, Inc., Zimmer created an organization whose properties are routinely ranked among the world's finest. These include the Hotel Bel-Air, the Mansion on Turtle Creek, and the Hotel Hana-Maui. Some of the awards won by Zimmer's properties include Mobil's Five Stars, *Leaders Magazine's* Ten of the World's Best Hotels award, *Travel and Leisures'* the Great Hotels of the World award, and more.

Zimmer is a popular speaker at travel and tourism conferences and universities and writes frequently to express his vision and philosophy of hotel and resort development. Several selections from his writings include the following: "We have the opportunity to make our new world a balance between economies and values"; "The relationship between hoteliers and their communities must be just"; "We must assume a holistic view of our world, our industries, and ourselves"; "The Zimmer Group is built on a foundation of positive human values, integrity, and strong business ethics"; "Our paradigm shift will further renew a commitment to genuinely care about ourselves and our guests"; and "The magic of excellent companies is an understanding of human values and ethics."

O'Toole's attributes of the vanguard manager are evident as he frequently uses comments such as "vision," "symmetry," "empathy," "moral," "humility," and "dedication. Zimmer and his company are indeed in pursuit of profit, but not at the expense of what he perceives to be his major stakeholders--communities, employees, guests, the environment, and society as a whole.

Industry writers, columnists, and educators are increasingly calling for vanguard management approaches, while not using that term per se.

* Rick Telberg, contributing editor of *Nation's Restaurant News*, advocates in his October 29, 1990, column that restaurants "treat your suppliers like partners." Telberg moderated a panel of operators and suppliers and reports a "tremendous transition in the supplier-operator relationship.....today more and more operators are making suppliers an integral part of the evolution of their menus."

* Tony Marshall, dean of the School of Hospitality Management at Florida International University and contributing editor of *Hotel and Motel Management*, encourages readers in a recent column to "switch

to recyclable and biodegradable products, be hospitable to the nation's hungry, and support wellness programs for employees."

* *The Cornell Hotel and Restaurant Administration Quarterly*, in a May 1987 issue, featured an article that described corporate day care as "an answer to the labor shortage." Mutual benefits to the hotel, the employee, and society are extolled.

* *The Cornell Quarterly*, in its August 1987 issue, described employee assistance programs that could not only help employees, but also boost productivity and help society as a whole.

* *The Quarterly*, this time in the August 1989 issue, described an HRM class at Cornell that chose a community project to work in for a semester. The students learned, among other things, "empathy and caring."

* Finally, *Lodging* magazine in its February 1990 issue listed a wealth of ideas that vanguard managers would readily embrace, including donating to Toys for Tots, getting involved with McDonalds charity efforts, teaming up with the Salvation Army, holding an event for underprivileged children, donating leftover supplies, and preserving and enhancing local culture through careful architectural and landscape design.

Ancient Values Are Present

There lies embroidered in the fabric of vanguard management a set of timeless virtues that are at once ancient and avant-garde: symmetry, high purpose, continuous learning, high aim, and moral courage. They possess a millennial-like weight and wisdom. Yet they may also be considered vanguard because it seems only a relatively few enlightened executives consistently preach and practice them in the boardroom. There is no intent here to portray any companies, hospitality-related or otherwise, as regularly acting immorally in the past or the present. But, "old guard" companies frequently do not hesitate to optimize the gains of stockholders or top executives at the expense of other stakeholders. Vanguard management imposes new and higher standards of morality and propriety, and therefore qualifies as a true paradigm shift.

D.C. Phillips' statement that "there are no parts at all, only patterns in an inseparable web of relationships" is a profound observation."¹¹ It can be applied to the physical world of atoms and whales, rain forests and the food chain, the environment and the solar system. It can also be applied to the social world of business, education, government, and society as a whole. Managers must become increasingly aware that many, if not all, decisions impact a host of stakeholders. While management cannot be rendered impotent (analysis paralysis) by means of a never-ending weighing of

stakeholder interests, all managers (and their companies) will be well served in asking if "this is fair to all."

As man becomes more enlightened, he becomes increasingly aware that, as Phillips puts it, "the parts cannot be understood if considered in isolation from the whole...the parts are dynamically interrelated or interdependent." O'Toole describes in a modern parable how, in the past, young managers were shown they were expected to juggle a number of balls (variables) in order to be successful. All the balls were white, except one, which was red. The white balls included employee welfare, the environment, long-term stability, the needs of society, etc. The red ball was profit. The managers were sternly counseled that they could drop any of the white balls and still succeed, but never to drop the red ball. O'Toole says there is a profound difference today: all the balls are red.

Evidence has been presented that hospitality managers are increasingly aware that all the balls are red and that success tomorrow may very well be defined as much more than being profitable.

Hospitality educators might very well have a profound impact on the future of our industry by becoming knowledgeable about vanguard management, exposing the concept to students, espousing its values, encouraging debate about its risks, and challenging students to become vanguards themselves. If there is indeed a "fundamental transformation of the modern world" and a "true metamorphosis in beliefs, values, and structures," the serious reader, whether manager, educator, or student, may very well ask how he or she feels about this personally, whether the destination as well as the journey itself is worthy.

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³James O'Toole, *Vanguard Management* (Garden City, NY: Doubleday, 1985).

⁴O'Toole identifies a number of companies that he believes are outstanding, but focuses on eight firms that he characterizes as "the vanguard": Hewlett-Packard, Honeywell, Motorola, Control Data, John Deere, Levi Strauss, Dayton-Hudson, and Weyerhaeuser.

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¹⁰Knight-Ridder Newspapers, *Atlanta Constitution*, (March 11, 1991), p. B2.

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William E. Kent is director of the hotel and restaurant management program at Auburn University. He wishes to thank Juergen Ahlers, a true vanguard thinker, for introducing him to the concept of vanguard management.