

In This Issue

Turnbull's 'Re-Inventing Corporations'

Shann Turnbull proposes an interesting idea for speculative capital: generating higher cashflow returns, in a shorter time and with smaller risk through *Ownership Transfer Corporations* (OTCs).

In effect, two categories of stock are created: one for the short-term, speculative and absentee capital, and the other for the long-term active participants and stakeholders in the enterprise. Absentee investors would, after a set time, withdraw and transfer their investment and let their ownership fade out in favor of employees, customers, host community and suppliers. This 'fade-out' would only begin after the agreed upon investor's time horizon.

This innovation combines the quickness, immediacy and start-up power of the speculative capital with the permanency, long-term efficiency, self-governance and environmental interest of the local employees and stakeholders. In this form, it could be most suitable for economic reforms in Eastern Europe, i.e. precisely where such modern and innovative ideas are being scorned, ridiculed and censored by assorted finance ministers.

Traditional ESOPs and LSOPs (Leveraged Stock Ownership Plans) can and should be used in conjunction with OTCs to facilitate self-financing economic development.

Through OTCs the features of Mondragon worker cooperatives are extended in the direction of self-governance. Corporations would increase in number, become smaller and be locally owned. A universal minimum income would be provided through stakeholder stock holdings. The universal income could be used to reduce income taxes and welfare payments. The size of the government would diminish and its role would be minimized in regulating private sector or redistributing its income.

In Eastern Europe, unfortunately, the new 'Utopian Capitalists' and the propounders of 'The Only

Possible Way' have concentrated on introducing traditional, absentee-owned public corporations even though these are increasingly uncompetitive and their shortages and failings are well known: (1) low efficiency, (2) based on inequity and injustice, (3) low self-governance, (4) no social accountability, and (5) no environmental sustainability. These are precisely the shortcomings that have to be overcome in Eastern Europe. These are precisely the shortcomings that are being implemented with harsh vengeance and with full support of the West and its centralistic institutions.

The Ownership Transfer Corporation (OTC) was invented in Australia as a way to attract more foreign investment without extending foreign ownership and control forever. OTCs eliminate perpetual property rights and also monopoly property rights by introducing ownership sharing through *dynamic property rights*. Ownership can be thrown away to investors but it automatically returns to local stakeholders. OTCs and Community Land Banks (CLBs) operate on similar principles.

Modern management practices now involve stakeholders others than just the stockholders and employees. Customers and suppliers are being involved in Total Quality Control (TQC) and Just-In-Time (JIT) deliveries of products and services.

Čuba and Divila's 'Credit Privatization'

Privatization is one of the most important concepts in Central Europe's economic reform and reconstruction. Yet, privatization is being dangerously misunderstood, misused and misinterpreted by the ex-communist reformers. Their view of privatization ranges from naturalistic distribution of 'coupons' and state-controlled holding companies to outright foreign sellouts (like Skoda Co.) and public companies with state participation or dictate. None of this is, of course, privatization.

This is why Mr F. Čuba, chairman of the DAK MOVA Slušovice (one of the most successful national companies in Central Europe) is proposing

and also practicing real and concrete privatization concept, called 'credit privatization'. It is important to note that MOVA is operated only a few kilometers from Zlín, the original site of the original Bat'a Enterprises of the 20s and 30s, where the famous Bat'a-System of Management had been evolved. The *genius loci* is unquestionably present in Southern Moravia in the field of world-class management.

MOVA Slušovice has just completed its own corporate and regional bank (Bank of Moravia) as a private finance, investment and accounting center for entrepreneurship and privatization support, for the development of national capital and national capitalists.

The Bank of Moravia creates Financial Consortium which secures foreign loan and initiates establishing local private companies led by small groups of most able entrepreneurs and managers.

The bank then offers these new companies the necessary loans for purchasing the existing plants and for their outfitting with new technologies. The management of each company is then repaying the loan from current profits and thus gradually gaining the full ownership of these companies and their assets. The Financial Consortium maintains economic pressure on the effective functioning of these companies.

This approach reminds us of the OTC (Ownership Transfer Corporation) which is another mechanism for gradual transfer of ownership to local private entrepreneurs with the full utilization of foreign capital, management and investment. Without needless and irreversible sellout (like Skoda to Volkswagen), the foreign investor recoups his entire investment plus profits within 10–15 years, while transferring part of the ownership back to managers and employees with each such withdrawal of dividends.

Both Credit Privatization and OTC-Privatization are mechanisms custom-made and fitted-for-use in Central Europe. It is quite surprising that the government in Czechoslovakia seems to be doing everything possible to destroy and discredit MOVA Slušovice, force it to register in Bratislava, to close and confiscate its Bank of Moravia, and to stop any efforts for real and useful privatization. Instead, this government is hellbent on naturalistic distribu-

tion of investment 'coupons' to general population and foreign speculators, while keeping 30% of shares for the State. The article of Čuba and Divila demonstrates that there is still some rationality left in Central Europe: it only has to be recognized, encouraged and let free.

Warfield's 'Complexity and Cognitive Equilibrium'

Cognitive equilibrium (CE) pertains to the achieved harmony and balance between decision-making components (criteria, alternatives, measurements, representations, ideals, etc.) within a coherent problem formulation. CE approach, because it seeks 'solutions' through 'optimal' problem formulation is therefore fundamentally different from optimization: seeking solutions to (any) given problem formulations.

Professor John Warfield of George Mason University has studied group decision-making performance: his experimental data provide new insights into necessary conditions for groups to arrive at cognitive equilibrium in relation to complex problems. He also identified *cognitive equilibrium as a prerequisite to emotional equilibrium*, while both are prerequisite to a sought for state of serenity and harmony in individuals and groups.

Warfield is convinced that a state of serenity cannot be reached through emotional equilibrium alone. Emotional equilibrium refers to the perceived compatibility of proposed or accepted resolutions with individual and shared value systems of members of the group. But emotional equilibrium cannot be brought about in the environment of poorly resolved or partially resolved issues: bad solutions and bad outcomes destroy any temporary and artificially achieved consensus or conflict resolution. Cognitive equilibrium, or the conflict dissolution, of high quality of harmonious pattern must be reached.

We have all seen how apparent but shallow and artificial emotional equilibrium of the American public about the Persian Gulf war was quickly destroyed by the lack (and the sharp and widespread realization of absence) of the underlying cognitive equilibrium in the overall conduct, purpose and strategic grasp of the war effort. Rapid disintegra-

tion of emotional consensus about problem 'solution' is the price paid for ignorance, i.e., total lack of any cognitive equilibrium in problem formulation. One can derive certain 'happiness' from ignorance, naivety and simplicity, but it is uninformed happiness, unwise, non-redeeming, short-lasting.

Warfield then presents three laws which he derived from the experimental data and which should pose a challenge to the research community: 1. The Law of Inherent Conflict acknowledges that there will be inherent conflict within *any* larger group dealing with non-trivial issue. 2. The Law of Structural Under-conceptualization implies that the organization of information about a given issue is not sufficient for *any* group to explore important underlying patterns. 3. The Law of Uncorrelated Extremes states that the initial aggregate group opinion (or pattern) is uncorrelated with the final aggregate group opinion (or pattern); i.e., new patterns of knowledge are being *produced* through the group learning process.

Warfield virtually demolished Burton's view of so called non-negotiable and deeply-rooted values which prevent any conflict resolution. In fact, human search for cognitive equilibrium is dynamic, self-correcting and . . . well, harmonious – different from the 'deeply-rooted' values of the Persian-Gulf War.

It is only the beginning, but the CE paradigm seems to outline a promising path.

Carlsson's 'New Management Research Paradigm'

We now talk about *constructing* our decisions, *producing* our knowledge and *ordering* our problem space. New emphasis is on active and direct involvement of the decision maker in structuring and ordering his perceived reality. In other words, in human systems management there is no such thing as a well-structured problem, only a well-structured model.

Well-structured models can be solved efficiently, but they have little, if anything, to do with the reality they purport to describe. Well-structured models are precise, but largely irrelevant to the ill-structured

reality. The entire OR/MS paradigm has been built around this simple-minded pretense of 'sum and substance' in well-structured modeling.

Professor Carlsson calls for evolving new research instruments, which – unlike mathematical models of OR/MS – can deal effectively with the semi- or ill-structured problems. He laments the lack of progress in management research and effective management theories. Effective management theories should provide reliable guidance and support for managers. The sad fact is that they do not. In reality, management *practice* is increasingly marching to the beat of a different drummer. Theorists cannot make their 'theories' stick, so they are willing to attack the practice itself: see defense of hierarchies, attacks on just-in-time and expounding of simple-minded and largely irrelevant 'competitive strategies', for example in *HBR*.

Carlsson starts with describing three basic approaches to management research: (1) *descriptive*, action-oriented theory; (2) *prescriptive*, optimization-oriented theory; and (3) *rescriptive*, appreciation-oriented theory. Rescription, according to Carlsson, means that knowledge and insight of a manager is transformed into formal representation which is then manipulated to yield solutions *as if* they were reached by the manager himself.

Carlsson then analyzes, compares and provides examples of all three of the above management research instruments. The strongest criticism is levied against the optimization paradigm, which continually trades off essential relevance of the 'real' problem for the mathematical simplicity of the model. Instead of tackling the reality directly, it increasingly concerns itself with the increasingly irrelevant and arcane mathematical niceties of very little import. Traditional optimization theories cannot handle the 'moving target' or 'displaced ideal' optimization based on contextual evolution of the problem.

Carlsson concludes that the decision support provided by rescriptive expert system is more relevant than the support derived from the descriptive or prescriptive methods. Expert systems are designed to reproduce human reasoning processes. Carlsson suggests that expert systems be upgraded into a new and novel role – that of a *research instrument*. This nontraditional research instrument

will be actively developing its own knowledge about the context being studied.

Professor Carlsson's paper is dealing with a very complex and demanding issue of paradigmatic change. But this issue can no longer be avoided: our hypotheses are now taking another necessary step in their continuous, elusive and challenging search for and approximation of truth . . .

Angehrn's 'Visual Decision-Making Support'

Visual and graphical approach to Multiple Criteria Decision Making (MCDM) is increasingly asserting itself in both theory and practice. Where traditional single-objective approach does not benefit from visualization and can get by using numbers only, the multiplicity of criteria naturally requires visualization of complex formulations, direct decision maker's involvement, continuous learning and refinement of the modeling, continuous reformulation of the problem and easy and effective communication through human-computer interaction.

In addition, MCDM support systems are starting to tackle increasingly qualitative problematique: questions of quality, environment, beauty and harmony are increasingly being brought forth in real-life situations, even in purely technical and economical settings. Decision making becomes a self-organizing and knowledge-producing process leading to ordering and re-ordering of the perceived reality. There is a big difference between complex knowledge production and ordering and single-objective computation.

Professor Angehrn of INSEAD is aiming at creating a learning-capable humanized Multiple Criteria Decision Support System (MCDSS), not

'solving' any conveniently predefined ('given') problem, but providing a flexible working environment in which individual learning about a decision situation can take place.

In the 'Triple C' model, i.e., Circular Criteria Comparison Model, Angehrn represents each criterion by a graphical sector, with sector's size indicating the relative importance (weight) assigned to the criteria. Information technology is integrated within the decision-making process: the computer screen is in fact decision maker's desktop.

The 'Triple C' also exploits the displaced ideal methodology: users can design the shape of an 'ideal' alternative by specifying ideal values for each separate criterion. This ideal alternative is presumed to provide maximum possible satisfaction (100%) and all other alternatives and options can be measured against this reference.

Decision making is hereby transformed into an incremental learning process. Step by step, decision makers can define and formulate their problems, generate, compare and analyze alternatives, and communicate their conclusions and partial decisions using flexible visual representations of very complex situations.

As information technologies (or technology platforms) become integral parts of business organizations and their strategies, often indistinguishable from organization itself, management of systems becomes directly concerned with human interaction with these technologies. As knowledge and information become major and most effective form of capital, it becomes mandatory to use, manage and expand this new capital wisely and competently. Human Systems Management journal has positioned itself not only to explore these new realities, but to make them positive forces in human evolution, as they should be and as they can be.