

THE ONE-DIMENSIONAL MANAGER

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Rui Amendoeira

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The difference between taking a radical cost-cutting approach versus a broader view of things, says Rui Amendoeira, is that the latter is the sign of a true business leader

La diferencia entre un recorte de costes radical y una visión amplia del negocio es que lo último refleja un verdadero liderazgo empresarial, afirma Rui Amendoeira. Pero debemos encontrar el equilibrio adecuado entre maximizar los beneficios y compensar adecuadamente a aquellos con los que trabajamos. Encontrar ese equilibrio es aún más importante en tiempos de dificultades económicas.

If you ask a business leader in 2012 how to measure professional success, he or she will almost certainly respond that success is synonymous with robust earnings and a climbing share price if the company is listed.

He or she will also say that a key lever to achieve healthy earnings and shareholder loyalty is to have an almost obsessive attention to the bottom line. That is, to never spend a cent if you can avoid it. If the business leader is uncertain how to cut costs and streamline its operations, there is no shortage of consultants that can offer their wisdom (but not necessarily hands-on experience) on how to make a company leaner and more efficient. So, a business leader who is able to compress costs to an extreme and operate at maximum efficiency, must be acclaimed, right? Wrong, I contend.

And before you think I am writing this article after a traditional Portuguese long lunch with a bottle of red wine, please listen to my arguments below.

Inefficiency as an economic value

I subscribe to the theory that the generation of money in an economy is a function of the lack of efficiency or at least sub-optimal efficiency on the part of some (or even most) players

The fact that one player is not fully efficient, at least not in the traditional and narrow sense of the word, creates an opportunity that some other player will inevitably use to their advantage. Think of the total amount of inefficiency existing within an economy as an economic value that is available to be seized by the most astute (and cost-conscious) operators.

The problem with this is that if all players were fully efficient there would be no inefficiency, hence there would be no economic value left. This may be an extreme view, and I certainly do not have empirical evidence to back it up, but it would seem to me that a 'perfect' economy where all players operated in a 'not one single cent is wasted' mode would be... well a dead economy.

A working example

If you run a law firm and you decide to aggressively slash your IT support budget to a point where your IT provider is no longer making a profit (let alone a decent one), he may not drop you immediately because he needs your money to make ends meet or wants to cling to the relationship in the hope of brighter days ahead.

But, if he wants to stay in business, he will likely have to cut on wages or let people go. And these people will have less money to spend in the supermarket, which, coincidentally, happens to be your top billing client.

And the supermarket client, never slow to jump on the opportunity to cut a legal bill, will send you an email in due course requesting (should we say 'demanding') a fee discount given the "deterioration of the economic environment". Sadly, that fee discount is higher than the money you saved on your IT support. The theory of eternal return adapted to the age of capitalism.

The right balance

At this point the reader may rightly ask whether I am advocating that a business leader should generously overspend for the sake of the good of society. Of course not.

But one has to find the right balance between maximising profit and rewarding fairly the people that we come into contact with in our daily business. Striking this balance is all the more necessary in

times of economic hardship. If we don't do this, I guarantee you that what goes around comes around.

I do not particularly like to label people (as human beings we are too complex to be labelled), but I would suggest that a relentless aggressive cost-cutter is a 'one-dimensional manager'. A person with a broader view of things, however, is a true business leader.

And, I would suggest, we need less of the former, and more of the latter.

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