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**It's Not
LUCK**

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WHAT IS THIS THING CALLED
THEORY OF CONSTRAINTS?



IT'S NOT LUCK

Eliyahu M. Goldratt

POSTAL PERCANA



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“As for Alex Rogo’s group . . .” At last, Granby has reached my part. I lean back and concentrate. I enjoy every word. No wonder, as the executive VP in charge of the diversified group, I wrote all of it. Well, not exactly all. Granby has changed some superlatives—his prerogative being the CEO, I guess.

It’s not just the way he reads it, with his deep baritone voice, it’s the music. Who said that numbers can’t be a symphony. Now he reaches the crescendo, “In total, the diversified group has finished the year with an operating profit of 1.3 million dollars.”

Granby paddles on, but now I barely listen. Not bad, I think to myself. Not bad at all, considering that when I took over one year ago, this group was deep in the red. Each and every one of its three companies. Granby has finished. Now it’s the external directors’ turn to justify their existence. You see, a board is composed of three groups. The top managers of the company—we do our work before the board meeting. The decoration directors, the ones who are (or were) top guns in other companies—they do their work elsewhere. And the professional sharks, the “representatives” of the shareholders—they don’t do any work.



“Well done,” says the pompous ex-CEO of an oil company, “you have succeeded in putting UniCo back on track exactly in time for the upcoming market recovery.”

Well done, I say to myself, a whole sentence without referring to his own past achievements. He’s getting better. Now it’s the sharks’ turn. Who will be the one to start poking holes in Granby’s report, demanding, as they usually do, something more?

“I think that the budget for next year is not aggressive enough,” says one of the sharks.

“Yes,” says another. “The forecasted performance is all based on the expected recovery in the market. There is nothing in the plan that shows real effort on the part of UniCo.”

Exactly as expected. These professional directors are nothing but modern slave drivers; whatever you do is not good enough, they always crack their whip. Granby doesn’t bother answering; but now James Doughty speaks up.

“I think that we must constantly remind ourselves that business is not as usual. That we must put in extra effort.” And, turning to Granby, “Seven years ago, when you got the position of chief executive officer, the shares were traded for sixty dollars and twenty cents. Now they are oscillating around thirty-two dollars.”

Better than the twenty dollars they were two years ago, I think to myself.

“Moreover,” Doughty continues, “this company has made so many bad investments that we have drastically eroded our asset base. The credit rating of UniCo has dropped two categories. That is totally unacceptable. I think that the plan for next year should reflect a management commitment to bring UniCo to what it was before.”

This is the longest speech I’ve ever heard Doughty make. He must be serious this time. Actually, he does have a point, of course, if you ignore the overall economy in which we operate. Never before has competition been so fierce. Never before has the market been so demanding.

Personally, knowing very well how difficult this task is, I think that Granby has done a superb job. He inherited a blue chip company, but a company that had eroded its product base. A company that was diving into losses. And he brought it back to profitability.

Trumann raises his hand to quiet the murmur. This is serious. If Trumann backs up Doughty, they have enough power between them to do whatever they want.

It is quiet around the table. Trumann looks at each of us, the managers, and then very slowly says, "If this is the best that management is able to come up with . . . I am afraid we will have to look externally for a successor."

Wow. What a bomb. Granby is retiring in one year, and until now everyone assumed that the race was between Bill Peach and Hilton Smyth, the executive VPs in charge of the two main groups. I personally wanted Bill Peach to win; Hilton is a political snake—nothing more. But now it's a whole new ball game.

"You must have contemplated some more aggressive moves," Trumann says to Granby.

"Yes, we did," Granby admits. "Bill?"

"We have a plan," Bill starts, "a plan that I must emphasize is not finalized yet, and it is very sensitive. It seems it is possible to reengineer the company, enabling us to cut costs by an additional seven percent. But there are many details that have to be hammered out before we can announce it. It's not a trivial task."

Not again. I thought we were over this stage. Every time bottom line improvements are pressed for, the instinctive action is to cut expenses, which actually means laying off people. This is ludicrous. We have already downsized thousands of jobs. We didn't cut just fat. We cut into flesh and blood. As a plant manager, and even more as a division manager, I had to fight Bill all the time to protect my people. If we put the same effort that is constantly drained by reorganizing into figuring out how to get more market, we would be much better off.

Help comes from an unexpected place. Doughty says, "Not good enough."

Trumann immediately follows, "That's not the answer. Wall Street is no longer impressed by such actions. The latest statistics show that more than half the companies that laid off did not improve their bottom line."

It's not just me, everybody is puzzled now. It's obvious that this time the directors are synchronized. They are aiming toward something—but what?

"We must focus our company. We should concentrate more on the core business," Hilton Smyth says in a decisive voice.

Count on Hilton to say some meaningless empty phrase. What is preventing him from concentrating on the core business? That's his job, nothing else.

Trumann asks the same question. "What else do you need to better develop the core business?"

"Many more investments," Hilton replies. And with Granby's permission, he goes to the overhead projector and starts to show some transparencies. Nothing new; it's the same stuff he's been bombarding us with for the past few months. More investments in fancy equipment, more investment in R and D, buying some more companies to "complete our line." Where the hell does he get his certainty that this will help? Isn't it the same way we have buried over a billion dollars in the past few years? "This is definitely the direction," Doughty says.

"Yes, it is," Trumann backs him up, "but we shouldn't ignore what Hilton said at the beginning. We must focus on the core business."

Hilton Smyth, the snake. He was in it with them all along. It's all just a big show. But where are the concrete actions? Where are they going to get the huge sums needed to invest in this fantasy?

"I think that the strategy to diversify was wrong," Trumann says. Turning to Granby he continues, "I understand why you initiated this. You wanted to broaden the

base of UniCo, to give it some security. But in hindsight you must agree it was a mistake. We have invested almost three hundred million dollars in diversification. The return-on-investment certainly doesn't justify it. I think we should go back. We should sell these companies, improve our credit base, and re-invest in the core business."

It's the first time I have seen Granby under such an attack. But that's not the point. The point is that this attack on Granby will destroy me. What Trumann is suggesting is to sell all my companies!

What can I do about it?

Granby won't let it pass. His whole long-term strategy was based on diversification.

But from this point on, things move with the speed of an express train. More directors support Trumann's suggestion. The resolution is proposed, seconded and accepted—all within less than five minutes. And Granby doesn't say a word. He even votes for it. He must have something up his sleeve. He must.

"Before we move to the next item on the agenda," Granby says, "I must comment that we should carefully plan how to invest in the core business."

"Agreed," says Trumann. "The investment plans that we have seen so far are too conventional, and much too risky."

I look at Hilton Smyth. He isn't smiling any longer. It is obvious that a double-crossing took place. The CEO position is not in his pocket. Most likely we are going to get a parachuted-in CEO. Anybody is better than Hilton.

IT ALL STARTED WITH ELI GOLDRATT
AND HIS INTERNATIONAL
BEST SELLER

THE GOAL

Eliyahu M. Goldratt has been described by Fortune as a "guru to industry" and by Business Week as a genius. His book, THE GOAL, is the gripping fast-paced novel that is transforming management thinking throughout the world.

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Business Week

AND CONTINUES WITH HIS NEW NOVEL

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