A Consultant's View

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Gresham's Law

In economics, Gresham's Law has been cited numerously in many different ways. The basic definition is that "bad money drives out good whenever they are declared to be of equal value". It has many applications in management also; in planning, in employee turnover, and in quality. It can also be used to describe how a company slides into mediocracy when we do not distinguish actions.

Gresham's Law has a long history including being found in ancient documents in some form or another. It properly describes how we perceive value in trades and how we seek the most value for ourselves. It exists in several forms. The key to bad money taking over happens when we can see the value difference, but are forced to use the two equally. Without that forced equality, people naturally gravitate to using items of higher value.

In Many Ways Bad Drives Out Good

In companies, managers have different skill levels and different commitments to quality of work. Employees are able to discern this difference and tend to want to choose to work for quality managers. Most employees want to produce quality and have their actions mean something to society as a whole. Bad managers drive away quality employees.

It doesn't need to be bad managers themselves that are the problem. A company can neglect to define priorities and practices so that actions that are not of high value are given the same emphasis as those of low value.

When employees see that the company does not value extraordinary efforts, they move on to the places that do.

The net effect of Gresham's Law in companies is a hollowing out where competent employees and managers leave and only those who can't go elsewhere are left. The company quickly slides into mediocracy.

Another variation on Gresham's Law occurs in quality control. When bad quality is rewarded, people do more of it as it is always easier (and more profitable) to produce bad quality. Thus, on online auction sites, there is a lot of bad quality that is rewarded while those who spend the extra effort to make high quality have to work hard to stand out from the crowd. Likewise, customer service often is dropped as corporations do not see the effects of bad customer service on their sales.

Another variation on Gresham's Law occurs in planning. It states that actions that are already planned will drive out the unplanned actions. Thus, the routine actions (those already planned) will drive out actions where we need to do serious planning in order to accomplish. We can get caught up in actions that do not accomplish our goals.

One of the most effective ways to move out of the trap of Gresham's Law in management activities is to delegate everything that anyone else can do keeping only those tasks that we alone can do.

Taking time to have an honest evaluation of our businesses will often be the best way to keep from sliding backwards and to move the business into the future.

Hope and Employment

Zappos has a policy of offering a good sized bonus to get employees to quit. They do not want people there who do not fit the culture and style. Companies offering a job are not just offering a financial transaction. They are offering hope and that hope they offer may be more important than the finances.

Under the pressure from bosses and from investors, many a manager starts to think in terms of finances instead of the individuals. In many cases, they start to think of the position as fixed and individuals as interchangeable. Yet, a company is made up of individuals with hopes, dreams, and aspirations.

There are a number of "activist investors" who purchase a large chunk of shares and put pressure on the company to improve the "return to the shareholders". That pressure rolls down the corporate structure to the lowest levels. In some cases, the pressure destroys the hope and the best people dribble away.

Hope is a difficult thing to plant and quickly dies. We plant hope with our ideas, when we present our corporate dreams, and as we continue to be honest about the corporate situation. People respond to being taken seriously, being offered meaningful work, and recognition for their efforts. Our actions to honor the achievements offers hope to those watching.

The trouble with hope is that it is not something easy to measure. We can measure the result of no hope; employee loss. But hope is based far more on social interactions than on factors that can be manipulated with finances. Hope depends on people.

Risky World - Hackable Homes

With all the internet connected homes out there, people can be hacked. One person hacked his ex's home and was changing the temperature while the new couple slept.

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