A Brief Description of the Measured Exchange^{tm} Principles:

Why Businesses Work and Bureaucracies Do Not

1. A business owner has incentive;
   a bureaucrat does not.

2. A business owner is rewarded for being productive;
   a bureaucrat is rewarded for putting in time.

3. A business owner is punished if he does not perform;
   a bureaucrat is not.

4. A business owner is at risk;
   a bureaucrat is not.

These are the reasons businesses many times succeed while bureaucracies never do. When businesses fail, it is because too many employees within the organization are operating like bureaucrats.

As a business grows, it is increasingly more difficult for the owner to keep his attention on every aspect of his business. At a certain point, his employees begin to drift into bureaucracy because they lack the same risks and rewards of the owner and the owner is not there to play "cop." This is true unless the correct management system is put into place.

Measured Exchange^{tm}

The correct management system will structure each employee's duties, with attendant risks and rewards, such that the employee becomes a small business "owner" within the context of the entire business operation. Properly done, each employee's duties will be coordinated and aligned with the duties of the other employees and the company's mission. The final system of assigning duties is analogous to a composer writing the music to be played by each musician in an orchestra, with the result that one gets music (coordinated activity hence a well running company) and not noise (a failing bureaucratic company).

If a business owner does not properly define production for each employee and reward same, he will have a bureaucracy where the employees are rewarded to put in time. This is typically the situation. The Measured Exchange^{tm} principles correct this. The Measured Exchange^{tm} principles are employed so that each employee has his own "business" within the larger organization and just like any other businessman, the concomitant risks and rewards. The Measured Exchange^{tm} principles rest on the idea that a certain task (or tasks) be clearly defined and this becomes the basis of exchange between the employee (now businessman) and the employer (now customer).

When the Measured Exchange^{tm} principles are utilized, the employees take on all the characteristics of any business owner. They cease acting like bureaucrats with the result that the business becomes much more efficient, much more dynamic and most of all, much more profitable for all concerned.

The key is to balance all the dynamics of the business so that they work together toward the same exact goal. Putting employees at risk creates a very powerful dynamic within the business and must be done correctly otherwise the same force that one hopes to harness to drive the business will pull it apart.

The Principles

1. Each product and/or service necessary to run the company is clearly defined. This is called defining the hat. This tells what the person wearing the hat is supposed to do. A particular employee may wear more than one hat or different hats at different times or just one hat all the time.

2. Each hat is further supported and defined with policy (or policies) explaining how that hat is to be performed. Policies include those which are general to every hat in the organization and those which pertain only to that particular hat. When the employee is correctly wearing the hat, he is performing the "what" according to the "how" of that hat.

3. The compensation (Measured Exchange^{tm}) is determined for the correct wearing of a hat and the employee (hat wearer) is paid accordingly.

4. If not wearing a particular hat correctly, that is, if not doing what the hat requires the way the policy dictates, causes a loss to the company's operations, then the policy supporting that hat should spell out what loss the employee will suffer for not wearing the hat correctly. In short, the employee must be at risk, the same as any other business owner.

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