Rotman dean Roger Martin says the customer must be king

Educator and innovator puts people before profit

Glen Norris

For the dean of a prestigious business school, Roger Martin has a surprising attitude towards money. Rather than "making the world go around" as the conventional wisdom goes, cash, says Mr Martin, is only a by-product of what the true vocation of the good business person should be: serving customers and making good-quality products and services.

The 52-year-old dean of the Rotman School of Management at the University of Toronto is no academic in an ivory tower. The former co-head of international strategic consulting company Monitor Group was named by *BusinessWeek* as one of the top seven "innovation gurus" and one of the 10 most influential business professors in the world. He was in Hong Kong in April as a guest speaker at the Bauhinia Foundation Research Centre's Thought Leaders Forum: The Innovation Imperative.

His attitude to the world of business was hewed in a small rural community of Mennonites in Canada where his father founded a successful stock feed business. His elder brother still runs the company. Traditional Mennonites – a Christian faith that dates back 500 years – do not believe in modern-day conveniences such as the car and instead rely on horse and cart. The young Roger got an early introduction to real customer service because his family was one of the few in town to own a vehicle.

"I lost count of the number of times I was awoken by a horse and buggy in the front yard and there would be someone from the community – perhaps a young woman in labour or an injured farm hand," he remembers. "It would have taken them three hours to get to the hospital in their horse and buggy, so my father bundled them into his car and took them – a journey of about 15 minutes. He did this because he loved his customers, not because he wanted to make money.

"He went on to make a good deal of money out of his business, but that wasn't the important thing. The important thing was taking care of his customers."

His Mennonite upbringing may have something to do with the look of distaste that appears on his face when our conversation turns to one of the hot topics of the day: the bonuses paid to the former high-flying financiers partly responsible for the current global financial crisis.

"These people were all about making money, and the more money they were paid the better – it helped define them as human beings and they ranked themselves according to their bonuses," he explains.

"In fact, if you had offered them a choice – to accept a US$10 million bonus, which would place them at the top of the rankings, but they had to give US$8 million to charity, or a US$5 million bonus that they could keep, many would accept the US$10 million even though they got less money. The money itself was therefore not that important, it was the status that came with it."

Mr Martin said the danger in such a compensation system was that it attracted a type of person who was uninterested in serving customers or building great brands. Making money was the sole object and, as we have seen, that has helped unravel the global financial system.

"Companies have to be careful about their selection bias – if you are only offering money to people, you are only going to attract people who are interested in making money."

Unsurprisingly, Mr Martin's corporate heroes are not the Merrill Lynches or Goldman Sachs of this world. His admiration is reserved for consumer goods giants Procter & Gamble and Johnson & Johnson. Why do the makers of such mundane products as baby powder, soap and shampoo elicit the excitement of this top business educator?

"At Johnson & Johnson headquarters it is hewed in granite that the customer comes first. Shareholders are fourth on the list, below customers, community and employees," he explains. "That has helped build the finest of companies and one that has a market cap of US$144 billion.

"So many CEOs over the years were saying that shareholders always come first and that their employees should be coming to work each day to work for the shareholders. But why would anyone want to work for someone they do not know and who can opt out of the relationship without any discussions?"

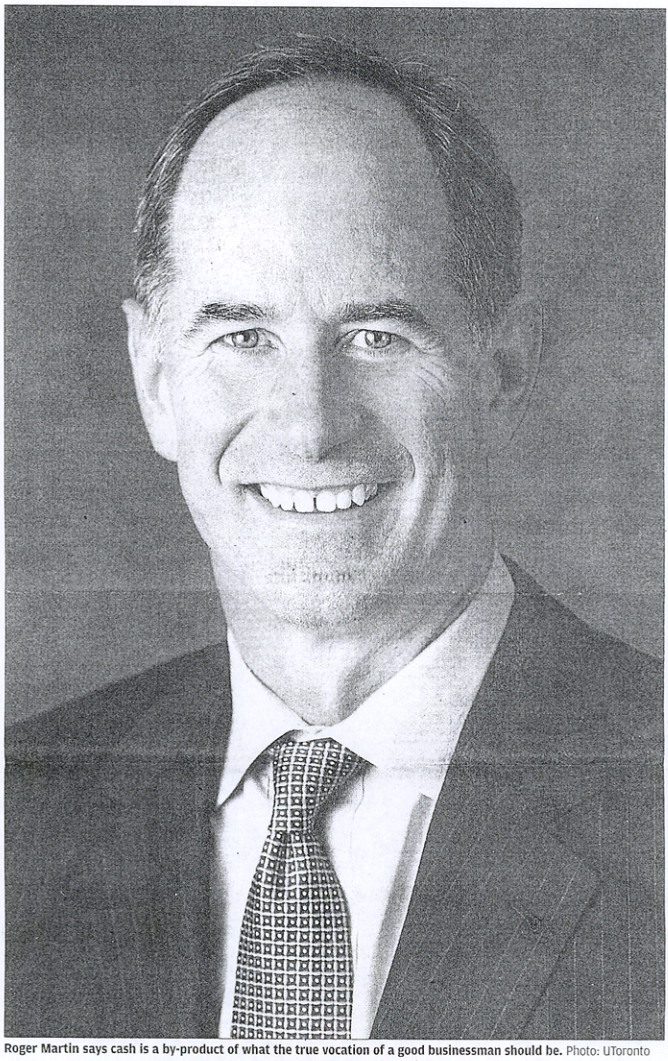
He said far more motivating for people – and fun – was to work to provide the best possible products and services for customers. The troubled bankers of the world could learn a lesson from this, he adds.

"The role of banks should be to help build the economy and help people build houses," not create fancy financial products, he said. One of the "worst ideas" in the history of the financial industry was one that was originally touted as innovative in the industry – structured products.

"It appeared to be a good idea to create these structured financial products, package mortgages and create profits out of nothing," he says. "The problem was that no one realised the correlations between these mortgages and if one level of these things went south, the rest would follow."

Mr Martin writes extensively on innovation and is a columnist for *BusinessWeek Online*'s Innovation and Design Channel. He has published three books: *The Opposable Mind: How Successful Leaders Win Through Integrative Thinking*; *The Responsibility Virus: How Control Freaks, Shrinking Violets – And the Rest of Us – Can Harness the Power of True Partnership* and *The Future of the MBA: Designing the Thinker of the Future*.

He serves on the boards of Thomson Reuters, Research in Motion, the Skoll Foundation, the Canadian Credit Management Foundation, Social Capital Partners and Tennis Canada. He is a trustee of the Hospital for Sick Children and chairs the Ontario Task Force on Competitiveness, Productivity and Economic Progress.



Roger Martin says cash is a by-product of what the true vocation of a good businessman should be. Photo: UToronto

> I would not call someone who has lost US$40 billion at an insurance company talented

There is a lot of talk these days about cutting compensation for executives. But is there a danger that in doing this, you don't attract talented people?

I would not call someone who has lost US$40 billion at an insurance company talented. To reward performance is fine, but if you are just paying a retention bonus – a bonus simply to keep someone in the job – then that is wrong. I don't call these people talented, I call them bad people.

During the air traffic controllers' strike in the US in the 1980s, 11,000 walked off the job and were fired and 2,000 stayed. Everyone believed there would be safety issues, but what happened was that the number of accidents and near misses dropped. The people who remained on the job were the really good employees and wanted to be there.

What is innovation?

It is the process of creating things that do not exist – a product or service that results in consumers wanting to pay more for it.

Is Hong Kong an innovative place?

I certainly believe it is, and if it wasn't, its gross domestic product would probably only be a quarter of what it is now. It has done things differently than other cities in Asia and without having too many natural advantages. Its ingredients for success have probably been having the stable legal and regulatory framework.

Are people going back to school to boost their skill levels during the global financial crisis?

There has been a mini surge in the number of people applying to go to business school. It is not as high as after the dotcom bust, but there has been an increase.

There are so many people with MBAs these days. Has this debased their currency to a certain extent?

Oh yes. What is the value of an MBA these days? I would say close to zero because there are so many programmes that are basically mail order MBAs. Many are unaccredited courses that people are sometimes paying a lot of money for. The more important thing for an MBA is the letters accompanying it – that is, the university it was awarded by. So a Harvard MBA or an MBA from Rotman is obviously still valuable.

How do you relax?

I write. I love to write, and it relaxes me. When the folks in my office see me looking fatigued, they schedule a day off for me. But I go home and write, because that is how I restore my balance.

Do you have any hobbies?

I am a tennis enthusiast. I took it up in my 30s and am committed to making myself a decent tennis player.

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