Interview with:
WILLIAM G. PHILLIPS

Chairman and Chief Executive Officer International Multifoods

and

RICHARD KING

Vice President, Finance International Multifoods

By: GARY W. DICKSON
Senior Editor
Management Information Systems Quarterly

MIS Quarterly: What is the most important kind of information that you, as a Chief Executive Officer, receive?

MR. PHILLIPS: The information that I believe is the most important is related to planning. Our management cycle really starts with planning. In the area of planning we need good historical data trend line analysis. In fact, we need this for each of the components of the business as well as the total business.

MIS Quarterly: Is this primarily financial information that you're talking about?

MR. PHILLIPS: Right at the moment, I'm speaking primarily of financial information. The second area we need information on, for the planning process, is that dealing with the outside environment as it has affected us and as it may affect us in the future. In this area we're talking not only about comparisons in the market place with various of our competitors, but also about the economic conditions within geographic areas in which we operate and in individual market areas. We also need data for planning relative to changing social conditions. This is hard to get. Certainly unemployment, minority percentages

within various employment areas, availability of labor, and availability of natural resources are very important. By having this information, we have a feel for the total environment and can project, hopefully, what might change in the future. From this we would put together a major information document. We put it together in such form that it can be used for comparison on a monthly, or in some cases, a weekly, basis. It would show actual results, trends, and deviations from expectations which give management the ability to take corrective action on a timely basis. Of course, the other side of the issue is the straight information necessary for regular, in depth analysis of problem areas within the company and to report to all of the various regulatory government bodies who require information in various forms. Finally, we need data for our own reporting to our shareholders in a way that is as meaningful and as factual as it can be.

MR. KING: This company over the last six years has emphasized that the information that goes to the top ought to stress what's new and what's different. In his answer to your question, Mr. Phillips was talking about the basic information that we have to start with from the top of the company. He has been asking for future management information that communicates to top management "what's new" and "what's different." That is, those things that increase the challenges and provide the early warning for the need to redirect or redetermine strategies.

MR. PHILLIPS: Right, and there's one big area which I didn't mention, which is becoming increasingly important. More and more frequently today we get new laws and regulations proposed in congress which affect our operations. I think we're getting a lot more of them than we used to. It's necessary that we take proposals and determine quickly the potential impacts of these proposals on us, in order for us, as management, to even express our views on potential legislation in a timely manner. The timing is usually such that our reaction is quite abbreviated. At the same time, we're obligated to be relatively factual in the information that is passed on to these legislators. Let me give you an example. When an article comes out in the paper about a new internal revenue ruling or a new section of the tax law, the analysts from the financial community who follow our company are going to call and want to know how this impacts our company. We have to have

these kind of evaluations much more quickly than previously and they must be reasonably accurate.

MIS Quarterly: Are you suggesting that the information function is much broader than just a computer — that the computer is only one component?

MR. PHILLIPS: It's a component of the total information system. Of course, whether you use an information system or you use the vague term that everybody talks about — "communications" — I don't think you can have good management in a company without a good information system. These systems have become imperative to effective management.

MIS Quarterly: Do you have any formalized mechanism for scanning the environment and seeing that the proper environmental information gets to the top?

MR. PHILLIPS: We have not. When you say "formalized" it gets tough to say we do. In segments of the area we do; overall, we do not. If you said, "Do you have as much as you would like?" the answer is "No." We are, I think, increasing the pieces of this sort of information that are available on a regular basis. This is a difficult job, however, especially when you consider it in connection with a company such as ours which operates in five countries, and in perhaps 150 different locations. To say that we have all of the environments scanned in our information system would be an absolute exaggeration. A good part of the information system requirement is our knowing where other pieces of information are available to us. We don't have to have everything in our own system. It may be enough to know that there's a data bank in the Smithsonian that has certain types of information we can use for infrequent requirements we might have. I believe everything we use from the public library and other sources is part of the information system.

MR. KING: The difficulty with this area is always determining how it is pulled together. Again, there are only sixteen or twenty-four hours of the day to produce this kind of information. We do have in the legal function the responsibility for calling attention to and publishing the top management issues that come about through Congress and through changes in the laws. The accounting department has the responsibility for

doing the same thing from the standpoint of the Financial Accounting Standards Board, the SEC changes, and so forth. Those things are done, but more is needed.

MR. PHILLIPS: We don't depend on any external source as the sole source. For example, each of our top officers is involved in trade associations and is constantly using these as information sources. We're involved in activities such as Chambers of Commerce and other organizations which give us exposure to information. Another part of the system is the periodic contact we have with peer members in other companies. The fact that I see other people and we discuss new items that have come up or personal concerns results in discovering areas that I might not have heard about through the normal channels.

MIS Quarterly: I'd like to pursue this very important area. There is the notion that most top executive information probably is not produced by computers. Could you describe your principal current sources of useful information?

MR. PHILLIPS: There are so many, I could not be all inclusive. We start with the media. We scan the newspapers. I make it a point to scan, as do a number of our other people, the weekly news magazines. We still take a couple of the services that give briefs of articles which are classified by a type of activity. Our own corporate development department puts out a monthly report of articles they think would be of interest to our top people. For the last six or seven years we've used what we call a "Weekly Flak Report." Each of our corporate officers writes me a weekly report which is limited to one page. In it are items which he thinks could be important to anyone in the top management group. These reports all come in to me on Monday morning. I read them, and then they're circulated to all of the other corporate officers. It takes a very short time to read these pages, but sometimes a comment from one person put together with a comment from a couple of other persons may indicate something we ought to look into thoroughly.

Returning to other sources, we have the visual and sound media which supplement the written part of our sources. I've already mentioned the trade associations and committees of trade associations. Civic association exposure keeps us up-to-date on certain areas. All of our top people and many of

our people down the line are active in civic activity. The general business organizations are also helpful. Many of them have services, such as the U.S. Chamber of Commerce or Minneapolis Chamber of Commerce. They circulate current information on items of interest as prioritized by their group. The fact that all of our people travel a great deal of the time is also a condition leading to much information. They are in contact with people in different parts of the country and the world, and they pick up information in these travels. This is the source of much of the information in the Flak Report. Internationally we're active members of organizations such as Business International. Again, our participation is directed toward really having a broader understanding of problems and developing trends in areas such as nationalism. Many of the countries cooperate with business interaction in what are called government round tables. These are off-the-record meetings between business executives and the top government people in these countries. These vary from two or three day meetings to ten-day meetings. These are a great source of information flow to us.

All these, I believe, would be classified as the principal sources of information that are beyond our own internal systems. I suppose I should add one more. The annual reports that we receive from many companies have become a very important source of information.

MIS Quarterly: Since the information services area impacts upon and is impacted by all parts of the company, are they represented in the planning process from the beginning or are they recipients of the end product?

MR. PHILLIPS: That is always difficult to say. The information systems area reports in our company to our financial vice president and is involved in planning from the beginning. If you say, "Do you bring them into every planning meeting," the answer is obviously, no. There's no one in our company who could attend every one of the planning meetings at every level. I think we build a consciousness of planning problems within the company.

Generally, within the divisions, the division controller has to be very active in the planning process. He also is the individual who coordinates activities of the division with the information

systems department. This gives us a pretty close link between the groups.

MR. KING: There is always the difficulty of determining how much information costs and what value it has. In our company, our information systems director is responsible for working with the divisions. His contacts are from the general manager, who is part of corporate management, all the way through the remainder of the organization. He must work with them in the utilization of information systems. Where he can show benefits or, in working with them, can identify things that can be done for them, they see the value. [MR. PHILLIPS: This is at a cost they're willing to pay.] He has that responsibility. In my experience, that's an important way to make the information systems area really a part of overall planning. The information systems director is the creator of ideas, and the implementor if the idea is of value to the user.

MR. PHILLIPS: I would like to correct something though, Dick. I think while the director is the originator of many ideas, frequently these come from the unit itself. They flow both ways. I think, in total, we can answer the question by saying, "Yes, I think information systems is involved in the process throughout."

MIS Quarterly: What criteria or methods do you employ in evaluating the performance of the information services lead executive?

MR. PHILLIPS: This is done in exactly the same way that we evaluate other managers. We have developed a set of performance standards for each of our people's job. These performance standards tie right into the approved goals, objectives, and plans of the department or the division. Each manager has to be supportive of what we've approved as the objectives and the plan for the department for the year. At the end of the year, each of these people is evaluated by his superior and reviewed by the top management group. At this level it would be our Human Resources Vice President and myself. We have that formal an evaluation.

We also use the E. N. Hay Associates program of compensation evaluation so that we have an external factor in weighting the job and determining what is the appropriate salary and compensation range for that job to make sure that we are equitable on compensation.

MR. KING: I have four items specifically that I look at in terms of performance of this function. As I see it, the job is a broad one and it is not just one of providing service. It also has the responsibility to offer ideas and to suggest things that can be provided to help manage our company. Really, the effectiveness is in controlling costs and providing timely services. A second effectiveness measure is how well the major data processing hardware and software improvements are monitored and implemented. These result in better service, improved cost effectiveness, and that sort of thing. Another very important evaluative criterion is the responsiveness of the function in meeting the identified needs of the users. Finally, there is the success of the function in identifying meaningful information needs of users and in convincing the users of the value of implementing systems to provide this information.

MR. PHILLIPS: I could add one other. This one deals with major programs. After the head of the information systems department has set up a program that has been approved as a general policy, he will PERT chart that program on a very detailed basis. Top management will then meet with him periodically, at least monthly, and sometimes more often, to review progress and to review impediments he might be running into. We give support on the one hand, but also we make sure we meet the schedules and deadlines which are critically important in this area.

MIS Quarterly: I would like to go back to those four major evaluative criteria that you use. Do you formally gather data on these, where appropriate, from the various users throughout the organization?

MR. KING: We do collect data from specific reports that monitor progress against plan. All of these things are worked out in terms of the plan for the year. This includes the budget.

MR. PHILLIPS: Our plans in this respect, we think, are quite complete and quite formalized. The progress against plan is a very formal procedure for every operation in this company. It's not hit or miss. I like to emphasize this because I do not believe this is true in a lot of organizations that say they have effective planning. The tougher to quantify aspects in many cases are not followed to the extent to which we attempt to quantify and

follow them. I think this has been one of the approaches that has enabled us to make the progress we've made over the last nine years.

MIS Quarterly: Haven't we switched just a little bit from evaluating the individual to evaluating the function headed by the individual?

MR. PHILLIPS: Both are important. On the performance standards side, we must evaluate the individual because our system uses individual performance standards. On the plan side we're evaluating the department. The head of the department has the basic responsibility to keep the department on plan. So while they're different, they aren't that different.

MIS Quarterly: How are priorities set within your company for the allocation of resources for the information systems function?

MR. PHILLIPS: These are established through the planning process. We have a meeting of our top management group that would include, in this case, the Vice President of Finance, the President, the Vice President of Corporate Development, and myself. The top information systems people make their presentation and we will then approve or modify it as appropriate.

MR. KING: Part of the resources provided is a function of the considered value of the information to users. There is a cost for information. Thus, information that we might consider appropriate, or that our director of information services might suggest is necessary for the user, still may not be provided. If the users don't feel they need the system, then they aren't going to utilize it very effectively. Recognition of a need for the information by the users is a factor that I feel is very important before resources are made available to provide the information.

MR. PHILLIPS: There is no free ride in information systems to anybody. The user pays via a department or a separate profit center.

MIS Quarterly: How do you decide how much to spend on your information services function?

MR. PHILLIPS: When it comes down to the final evaluation, it has to be subjective. We listen to the recommendations of people on all sides of the question, and make comparisons with other priority items. We try to assign a level of priority. We next go through the procedure of saying, if we

put more money into the system, what benefits do we get, and how can we quantify them? We compare the results against putting that same money in some other area. You're hitting on what is one of the principal tasks of top management — resource allocation within the corporation. I still don't think there are any formulas. We have guidelines or criteria for return potential for types of investment dependent on relative risk evaluation, but there is still a lot of subjective judgment in the final process.

MR. KING: I think, as you know, tremendous amounts of money can be spent in this area. My emphasis has been on getting an information systems director who can provide service at a reasonable cost. We've been very fortunate in having a director who truly is dedicated to performance and to cost effectiveness. He has taken this challenge seriously. Based upon the analyses that I've seen, our company spends substantially less in total dollars than any comparable company of which I'm aware.

MIS Quarterly: I'm interested in your response to this question because I have reached a similar conclusion. I would suggest that you may, for your industry, be spending far less than average on data processing as a percent of sales; you spend only about .25%. Similarily, you have one of the smallest data processing staffs of any company your size, about thirty professionals. If you are satisfied, you must be remarkably efficient.

MR. PHILLIPS: In some respects, we are decentralized in a lot of our data processing activities. We not only have the facilities at this location, but we have major facilities and supporting staff in Canada, Venezuela, and Mexico, as well as at some other locations. It is true we have a small staff in the United States, but obviously we've centralized here. You can be misled in looking at the total size of the company and then looking at the Minneapolis headquarters operation.

MR. KING: Do the studies that you have made of our operations include just the Minneapolis operations?

MIS Quarterly: They include almost everything. You are running approximately .25% of sales dollars on data processing where the overall average for all industry is about 1%, and

approximately .43% for food processors. You're very, very low.

MR. PHILLIPS: That's helpful, because we have some people that we'd like to convince we're efficient.

MIS Quarterly: If you were looking for the head information services executive, what would you look for in this person?

MR. KING: In looking for the right kind of individual for this company, we went for a knowledgeable and experienced person who knew hardware and who had run operations. In our company, it is very essential that we get an operations-oriented head of information systems. His first job was implementation of a complete update of a system. Our initial and continued need is service relative to cost, that is , cost effectiveness.

MR. PHILLIPS: We would consider this individual to be one of our top level executives. Consistent with our basic policy, we feel that there are certain things we want in people. We want someone who has the intelligence and intellectual ability to do the job. We want people who are doers rather than theoreticians. This is the point Dick is making. We want people who are committed to the concept that you can set goals, objectives, and plans effectively in the business. Furthermore, that this person is willing to be measured against quantified and specific plans and take his rewards fundamentally on the basis of achievements against those objectives. We try to stress that we want people who are — I want to say creative, but that word is too broad — let's say innovative, or willing to be innovative, versus the type of person who has a right way and wrong way of doing things. We believe, in our company, the essential characteristic is that we must be changing on a continuing basis. The world is changing, and we're going to have to continue to make changes. We would like to anticipate those changes to the highest degree possible rather than have to react to them. The final thing is that this person has to express himself well, communicate effectively both verbally and in writing, and deal effectively with the peer group in the company. It doesn't do any good for this person to be tremendous in the data processing area if he can't get cooperation and sell his ideas to the profit center and the division general managers. He has to be able to work with people, communicate, and, in effect, sell ideas.

I would use pretty much the same characteristics for any of our top executives. As a philosophy, we say it is our objective to pay above average salaries in this company to our top people. We also expect above average performance. Certain people want that kind of a challenge, and that's the kind of person we're looking for.

MR. KING: One example of this innovative approach that we took several years ago was getting terminals out into the departments and eliminating one step in the process of checking and sending back information which is incorrect. The responsibility of the users is to input information accurately and completely. I think this is an innovation that we've moved forward with and has been very useful.

MIS Quarterly: Some companies have gone to the chart or information room concept. Do you see this as a trend?

MR. PHILLIPS: I'm not smart enough to say whether it's a trend or not. We have not gone to this approach *per se*, but we've looked at it. I think we have certain reasons why it probably might be a little bit less effective here than it might be in other companies. One is the geographic distribution of the company. All of our top people travel extensively and are out of the office more than in most other companies. Therefore, we have found that rather than having information in a central location, there are certain advantages in being able to send that information out to the person. They can read it on the airplane or in a hotel room. One of our greatest problems is to get our top management people together on short notice.

MR. KING: I don't see chart rooms as a trend. Some of the large corporations are using them. I think that certain styles of management are such that a company will try them for a while; the difficulty is in getting more than one or two people to use the room. If this doesn't occur, such a facility isn't warranted.

MR. PHILLIPS: We do, in a sense, bridge the gap. This happens through the use of our quarterly Director's Report. Almost all of the information that we present in written form is shown both in numbers and in charts of one form or another. We *do use the* technique extensively, but we use it in a hard copy, reproduceable form versus the chart room form.

MR. KING: The report shows the performance of every division, in words and numbers. The corporation as a whole is shown at the beginning of the report.

MR. PHILLIPS: This report tends to accomplish what you're asking about. Some people can understand graphs much better than numbers; other people can understand numbers better than graphs. We try to show both and give people the chance to use whichever is better for them.

MIS Quarterly: As you look at the '80's, what are a few key problems facing business in general that information services might help?

MR. PHILLIPS: First, I would have to make the assumption that information services can be of help in all of the major problem areas, because communications certainly has to be of help. Most major problems suffer from a lack of reliable base data. I think getting people convinced of the problem is often the result of having conflicting or ineffective base information.

I'll list off the problems that, from a national perspective, I happen to think are the most important. First, I consider energy and all of the associated problems. I don't like getting skeptical and using the word "crisis" because it has been so over-used, but we have a major energy problem. There is a need to convert to a higher cost energy economy, which we are doing gradually. Without a doubt, we all need more energy-related information. As an example, take our program for measuring improvement in energy usage. Just this past week I was talking to the Vice President who controls this program. He was saying the system we set up was good, but the way the weather patterns went this year, particularly with the much warmer than normal late February and March after the colder than normal January and early February, we're going to move to a different system to monitor this as effectively as we can.

A related area is the pending world food and population problem. I won't elaborate on it much here because I think I'd be overdoing it. I've just recently seen some figures for world population growth. World population was running at about a 2.1% to 2.2% growth rate and changed to a 1.7% growth rate last year. That is a fantastic drop and nobody has yet been able to understand what caused it. Whether it is a statistical error or a

collection error of data, I don't know. It seems like an almost impossible change in a one year period. We always have to question the statistical base when we get that big a change.

Closer to home, after twenty years of declining *per capita* consumption of flour in this country, we have a levelling of consumption in 1973 and 1974, a small *per capita* gain in 1975, and recent figures indicating a 4 lb. *per capita* increase in 1976. So far everybody, including the fellow who published the figures, has to say, "It seems like we have to view the 1976 results with suspicion." The direction is very positive and we can be sure flour consumption is up, but we do not have the method of collecting accurate information. Certainly, the biggest advance we could make in the area of world food would be to have the ability to better estimate crop yield and follow crop production and yields on a world-wide basis. We could cut out the huge swings that occur in the market place. That would be more effective than multi-lateral agreements between nations which won't work and which are, according to some people, the only other alternative.

Capital formation is another major problem. How are we going to again develop better incentives for capital formation, which is necessary to support not only energy and food, but all of the environmental activities leading to better employment and controlling inflation? Certainly there is a crying need here for better information systems. Most of the models that have been developed, until recently, have proven ineffective in dealing with the multiple variables that enter into these problems.

I think there are many other areas where information systems can help. The whole educational system has a tremendous opportunity for much greater performance, particularly in the areas of underachiever and overachiever training, special course material, enrichment programs, as well as in some of the standard programs. I had better stop here. I could go on and on but, obviously, we can't do all of these things in a short period of time.

MR. KING: All of these things point out more clearly the need for any kind of a system that will provide early warning indicators of problems. With the increasing pace of change today, problem indicator systems are an even greater need than fifteen years ago when we thought they were

essential. The increasing involvement of government in control of business is another area where the ability to apply information services may be helpful.

MIS Quarterly: In conclusion, do you have any advice that you'd like to give to those professionals who are working in the information systems field?

MR. PHILLIPS: Number one, I think management generally tends to take for granted the things that work well in a big company, and sometimes we fail to point out to people their achievements. In big companies we talk about things such as management by exception rather than talking about accomplishments. One word of advice would be, don't get discouraged because what has been accomplished throughout industry in the last ten years in this area has been tremendous. I think it has been essential and has contributed greatly to the progress that has been made.

A second word of advice would be that we must continue a policy of taking things step by step versus getting enchanted, as we sometimes do, with the "ultimate system." It hasn't worked very well in the past, and it is better to want a little bit better information and get it than to strive for the ultimate system and have everything messed up. Too often the failures have been when we've tried to take a quantum jump forward rather than sequentially building a system. Where the sequential program has been used, I think we have generally been very successful.

MR. KING: I have a challenge to extend to this group. I really believe that, with all of the tremendous growth and expansion in knowledge and understanding that exists, there is always the need to think carefully and clearly on how to be more and more aggressive in getting the message to users. There are applications of information systems which can be very beneficial.

MR. PHILLIPS: He's saying, "Become better, more effective salesmen."