

# BIBLICAL ECONOMICS TODAY

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## THE COVENANTAL STRUCTURE OF SERVICE

by Gary North

*Because the foolishness of God is wiser than men; and the weakness of God is stronger than men. For ye see your calling, brethren, how that not many wise men after the flesh, not many mighty, not many noble, are called. But God hath chosen the foolish things of the world to confound the wise; and God hath chosen the weak things of the world to confound the things which are mighty; And base things of the world, and things which are despised, hath God chosen, yea, and things which are not, to bring to nought things that are: That no flesh should glory in his presence (1 Cor. 1:25-29).*

It is said that the British Navy is an organization that was designed by geniuses to be run by morons. The genius of the founders is testified to by the survival of this organization in both peacetime and war.

Similarly, every organization needs to be designed to be run by people of less-than-mediocre abilities. Why? Because there is such a thing in life as **the bell-shaped curve**. There are very few geniuses and very few morons. If the population sample is large enough, a pattern of individual performance emerges in every field of life. Some win, some fail. Some do, some don't. And most people are in between. If, therefore, the founder can design his organization so that it can be run by morons, he is truly a genius. He will be able to hire the services of morons – for whom there is comparatively little market demand – at low wages. He will make winners out of losers, competent performers out of recognized failures.

Surely, if an organization can be run profitably by morons, it can be run spectacularly by mediocrities. It is not that the British Navy is filled with morons; it is that it is filled, inevitably, with mediocrities who have been enabled by the "moron-effective" structure to perform at above-average levels. Large organizations must content themselves with mediocrities as on-line staff; there are not enough senior managers to go around.

No organization that expects to grow should be designed from the beginning on the basis of the rule, "No Mediocrities Need Apply." Most people are mediocre. Most students receive C's, not A's or F's, assuming that the grading system is a real-world system that is intended to identify individuals in terms of their competitive performance. To hire the best, you must pay top wages. There just isn't sufficient talent to go around. To hire the worst, however, is also not possible for a growing organization; there just aren't enough incompetents to go around. A successful organization must employ ordinary people.

Michael Gerber's brilliant book, *The E-Myth* ("E" being "entrepreneurship"), has stated the reality well:

It is literally *impossible* to produce a consistent result in a business that is created around the need for extraordinary people. On the other hand, if you intention-

ally build your business on the skills of *ordinary* people, you will be forced to ask the difficult questions about how to produce a result *without* extraordinary ones. You will be forced to find a system that leverages your ordinary people to the point where they can produce extraordinary results (p. 61).

### Built-In Failure

Each year throughout the world, people start businesses and non-profit ministries or charities. Both types of organizations are necessarily service organizations. This is not generally understood with respect to profit-seeking businesses, but it is nonetheless the case. The business that does not serve consumers by offering to them goods and services at a price they are willing and able to pay will not survive in a competitive market. Also, if the business serves the consumer inefficiently – if it costs the business more to serve the consumer than the consumer voluntarily pays in return – then it will not survive.

Few new businesses survive. The general estimate is in the United States that 80% of all new businesses fail within the first five years, and 80% of those that survive succumb in the following five years. This means that 96% of all businesses fail within the first decade. Nevertheless, overconfident people keep starting new businesses.

Comparable figures for non-profit ministries are not readily available, but it is likely that similar competitive constraints apply to them. The smaller ones usually rely on unpaid or underpaid talent. While new charities may possibly survive longer than new profit-seeking businesses because of the dedication of their founders, they survive only because founders refuse to admit what should be obvious: institutional defeat. The founders scale back the operations of their ministries, and they use their own donated time and money for the sake of "the cause." The lure of serving "the cause" may keep them going, but their organizations remain barely visible. The businessman quits earlier, refusing the sustain the escalating losses; the non-profit service ministry can go on longer by scaling back operations. But in terms of any impact on society, most new service organizations fail.

There is one exception to this rule: the franchise.

### The Franchise as Idiot Savant

The idiot savant is a most remarkable anomaly. He is someone whose IQ (whatever that statistic means) is at the moron level, yet he can perform one or two mental feats with an ability beyond the power of anything but a computer. For instance, an idiot savant may be able to sit at a railroad crossing when a 100-car freight train rolls by. On the side of each car is a six-digit identification number. When the train has passed, the idiot-savant can give you the total of all 100 numbers.

Another example that I read about in the early 1960's was the case of a pair of twin brothers who were institutionalized because they could not care for themselves. They had a peculiar skill. If anyone gave them the year and date of the month, they could almost instantly tell the day of the week it would fall on, and they could do this for several centuries, forward and backward. Each time, the same one was always a split-second faster than the other. They had no idea how they could do this.

So it appears to be with franchised businesses. Most new businesses fail, but some, such as McDonald's hamburger stands, succeed. Established franchises succeed when they launch a local operation. Michael Gerber claims that the development of the franchise has revolutionized modern business.

What is the secret of its success? The business manual. All the operations of the local franchise are broken down into moron-proof steps. Each step is designed to be performed by people of minimal skills. McDonald's suffers from a 300% turnover of hired personnel each year, Gerber says, yet you can walk into any McDonald's franchise, day or night, and know exactly what you will receive for your money. The individual worker's steps are repeatable, so the performance of the franchise is repeatable.

Gerber has summarized how it works: "The system runs the business. The people run the system."

The system becomes the solution to the problems that have beset all businesses and all human organizations since time immemorial. It integrates all the elements required to make a business work. It transforms a business into a machine, driven by the integrity of its parts, all working in concert toward a realized objective. And it works like nothing else before it (p. 55).

There are two metaphors of organizations, including societies, that have been dominant in the history of Western social philosophy: the machine and the organism. Gerber uses the analogy of the machine. This metaphor describes human organizations in terms of design, cogs, lubrication, and replacement parts. Gerber could also have used the metaphor of the organism: cells, blood, nourishment, etc. Machines run smoothly; organisms grow. Machines break down; organisms die. Sometimes human organizations seem best able to be described as machines, yet other times they are more easily perceived as organisms.

The best way to understand them is as analogies of a biblical covenant.

### The Biblical Covenant Model

There is no way that individuals with limited knowledge of others and limited knowledge of the future can assure themselves of success when launching a new organization. There will always be winners and losers in life. The goal is to minimize both individual and social losses and to maximize the gains. "Cut your losses, and let your profits run" goes an old investment slogan. There must be sanctions: negative and positive. No economic system has better enabled men to honor this rule than free market capitalism.

How can this fundamental principle of positive and negative sanctions be observed within organizations? Founders can at least reduce the risks of failure by paying close attention to certain fundamental principles that govern all organizations. I believe that these principles are covenantal in structure.

By saying that all organizations are covenantal in structure I do not mean that all organizations are covenantal organizations. The mark of a biblical covenant is the **self-maledictory oath**. The self-maledictory oath calls down the negative sanctions of God on the individual if he disobeys

the terms of the covenant. People formally take such an oath to God in order to gain God's support in this life and the afterlife. There are only four valid covenantal oaths. First, there is the individual's oath to God. "But what saith it? The word is nigh thee, even in thy mouth, and in thy heart: that is, the word of faith, which we preach; That if thou shalt confess with thy mouth the Lord Jesus, and shalt believe in thine heart that God hath raised him from the dead, thou shalt be saved. For with the heart man believeth unto righteousness; and with the mouth confession is made unto salvation" (Rom. 10:8-10). There are also three institutional oaths: church, State, and family. No other covenantal oath is valid under God. No other institution is authorized by God to require a self-maledictory oath from anyone or enforce its provisions.

The structure of this biblical covenant, however, is universal. It applies also to all non-covenantal institutions. The covenant structure of organizations is analogous to that of covenant institutions, though not identical. In the same way that a business contract is analogous to a covenant, so is the structure of the business organization analogous to that of the covenant institution.

The biblical covenant is governed by a five-point structure:

1. Transcendence/presence of God
2. Hierarchy/representation
3. Ethics/law/dominion
4. Oath/sanctions
5. Succession/continuity

Its acronym is THEOS: the Greek word for God. Similarly, every organization inescapably is governed by an analogous five-point structure:

1. Control
2. Management
3. Rules
4. Sanctions
5. Succession

Five key questions must be answered by those who participate in any organization's operations. These questions are easy to ask but are exceedingly difficult to answer accurately, which is why so many new organizations fail. The questions are:

1. Who's in charge here?
2. To whom do I report?
3. What are the rules?
4. What do I get if I obey (disobey)?
5. Will this outfit survive?

Because so few new entrepreneurs understand these five principles, and because they do not think long and hard about how to make the answers to the five questions clear to their employees (including themselves), they are unable to create organizations that survive very long.

### Dominion Through Service

I have said that service to others is the basis of all organizations, profit-seeking and charitable. I have also argued that most new organizations fail. Why is offering service to people so risky? **Because it is never cheap to offer services.** To offer one kind of service rather than another reduces the number of excluded services. There is thus an inescapable cost attached to every service: **the cost of the most valuable service excluded.** Offering a service to one individual or group rather than to another also imposes a cost: **the cost of thwarting the needs of those next-to-the-most needy who were excluded.** These costs are in fact a single cost. This is referred to by economists as the **alternative cost theory**.

Offering services to the public absorbs scarce economic resources, the most valuable of which is time, which is the only irreplaceable resource. A successful service organization in the broadest sense must survive by meeting a growing number of people's needs year after year. If it cannot sustain this growth over time, then it should cut back its operations or even disband and disburse any remaining assets, so that it does not continue to misdirect scarce economic resources into service areas that the recipients or donors determine are less important to them than other service areas.

Growth leads to dominion – the steady replacement of less effective institutions by more effective ones. Jesus taught that dominion must inevitably be in terms of service:

But Jesus called them unto him, and said, Ye know that the princes of the Gentiles exercise dominion over them, and they that are great exercise authority upon them. But it shall not be so among you: but whosoever will be great among you, let him be your minister; And whosoever will be chief among you, let him be your servant: Even as the Son of man came not to be ministered unto, but to minister, and to give his life a ransom for many (Matt. 20:25-28).

What is true of the individual is also true of the organization: the basis of dominion is service. **The biblical foundation of an individual's extended influence in society is his ability to meet the wants and needs of other people.** People seek solutions to perceived needs; anyone who can offer an acceptable way to solve these problems is a beneficiary in the eyes of the person who seeks the solutions. He becomes an asset.

This does not mean that a Christian's task is to meet all the demands of everyone. Some of these demands may be evil. It is not the righteous person's job to subsidize evil or to become an accomplice. But whenever another individual has a need or desire not identified by God's Word as being morally illegitimate, then the Christian who is interested in seeing his own influence increase must focus on the other person's need.

By helping the other person to solve his problem, the provider creates a **sense of dependence** in the mind of the other person. This dependence may be financial, intellectual, or emotional. It may be merely dependence on God, upon whom the Christian also depends. But it is inevitably a form of dependence.

### Dependence and the Division of Labor

Not all forms of dependence are equally healthy in any given individual, but in a world governed by the principle of the division of labor, each of us is always highly dependent on many people. Paul uses the organic analogy of the body to convey this covenantal point:

Now there are diversities of gifts, but the same Spirit. And there are differences of administrations, but the same Lord. And there are diversities of operations, but it is the same God which worketh all in all. But the manifestation of the Spirit is given to every man to profit withal. For to one is given by the Spirit the word of wisdom; to another the word of knowledge by the same Spirit; To another faith by the same Spirit; to another the gifts of healing by the same Spirit; To another the working of miracles; to another prophecy; to another discerning of spirits; to another divers kinds of tongues; to another the interpretation of tongues: But all these worketh that one and the selfsame Spirit, dividing to every man severally as he will. For as the body is one, and hath many members, and all the members of that one body, being many, are one body: so also is Christ. For by one Spirit are we all baptized into one body, whether we be Jews or Gentiles, whether we be bond

or free; and have been all made to drink into one Spirit. For the body is not one member, but many. If the foot shall say, Because I am not the hand, I am not of the body; is it therefore not of the body? And if the ear shall say, Because I am not the eye, I am not of the body; is it therefore not of the body? If the whole body were an eye, where [were] the hearing? If the whole were hearing, where were the smelling? But now hath God set the members every one of them in the body, as it hath pleased him (I Cor. 12:4-18; cf. Rom. 12:4-8).

No one knows how to support himself apart from economic dependence on others. In his famous essay, "I, Pencil," Leonard E. Read made this point: no one knows how to make a pencil. A pencil is composed of wood, carbon (the "lead"), rubber (the eraser), metal (the band around the eraser), and paint. No one knows how to make any of these items, let alone all of them. Where do we get the metal, for instance? From factories that convert raw materials into finished rolled metal. But who knows exactly how to make each of the machines in this process? Who knows metallurgy, engineering, and transportation to this degree? No one. And this is true for all the other products that go into a pencil.

The division of labor is so extensive in a modern economy that none of us could survive long without the fruits of each other's labor. Even Robinson Crusoe and the Swiss family Robinson had to rely initially on the conveniently undestroyed stores of manufactured goods in the ships that had brought them to their respective deserted islands.

So, we are all economically dependent, or better put, **interdependent**. We are also linguistically interdependent – not just vocabulary and grammar, but also the frame of reference: morally, chronologically, and culturally. How productive would you be if you were transported in time one century in either direction? Not very, at least initially.

Probably the best definition of economic growth is this one: "An increase in the number of affordable options." (This, by the way, is also the best indicator of economic freedom.) But with each increase in the number of affordable options there is necessarily an increase in the number of people we have become dependent on, either in fact or as an option. The richer we are, the freer we are; also, the more dependent we are. This is one of the great paradoxes of life. **We are increasingly dependent on the system as a whole, yet decreasingly dependent on any individual supplier.**

This system-dependence should be obvious. Consider the economic effects if the Soviet Union exploded half a dozen nuclear weapons above the United States so high in the stratosphere as to be invisible on earth during daylight, but which would blow out every above-ground transistor in the nation: the EMP effect, or electromagnetic pulsation. It would mean mass starvation within a few weeks: no banks, no electronic money transfers, no ground transportation – electronic ignitions have replaced rotors, points, and condensers – no telecommunications, etc.

This interdependence, however, is more extensive than economics. We rely on others emotionally. We rely on each other militarily, educationally, and culturally. The myth of the rugged individualist is popular in the United States, but it has always been mostly a myth. It has been the mutually small dependent community of like-minded cooperating people that has served as the bedrock foundation of every civilization. This community may be racial, linguistic, cultural, religious, professional, or charitable more than geographical, but it does function as a separate organizing principle. Its members see each other as bound to the others in some unique way. This bond is not necessarily judicial, but it does exist.

### Productive Dependence

In one of the most memorable passages in the history of economic thought, Adam Smith wrote of the motives of cooperation:

But man has almost constant occasion for the help of his brethren, and it is vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favor, and shew them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages (*Wealth of Nations*, p. 14).

Those who serve others must first produce something of market-determined value, or else be the heirs of those who have done so. They must produce in order to sell, and they must profit in order to give. There is no present service without prior productivity.

Productivity must also be considered when one determines the proper form of service. Give a man a fish and he has a meal. Teach him to fish and provide him with fishing equipment, and he can provide his own meals (assuming he has economic access to fish-filled waters). The best charity most of the time is the charity that teaches people to get off charity and become productive – not independently productive (the hermit) but dependently productive. No valid charity should create dependence on the source of the charity. Charity may respond to physical dependence – to the infant, the senile, and the handicapped – but not create it. The goal of all service to make a more productive servant out of the recipient. (This is why the sale of inherently addictive substances should be made either more difficult – no sales to minors – or illegal.) The goal of charitable giving should be to create long-term economic growth. The goal of service is to decrease dependence of any individual on another individual, and therefore the goal is to make him **increasingly dependent on a system of progressively increasing interdependence.**

Dependence, in short, is an inescapable concept. It is never a question of "dependence vs. independence." It is

always a question of **which kind** of dependence.

This is the inescapable conclusion of the biblical doctrine of creation. God created the universe and presently sustains it – the doctrine of providence. There is an eternal distinction between the Creator and the creature. Dependence is built into the creation. Hierarchy is inescapable.

In the created realm, there is interdependence within the hierarchy. Those above are dependent on the services of those below, and vice versa. A properly designed hierarchy will provide incentives for all participants to cooperate with those above them and below them. The most important factors of all in this hierarchical interdependence are the free flow of accurate information and decision-making in terms of it.

### A Successful Organizational Model

When the founders of any organization and their successors (if it lasts that long, and few do) neglect the covenantal structure of all organizations, only God's invisible grace (sometimes called good luck) can sustain them. Gerber actually calls this "Management by Luck" (p. 3). He does not recommend it. His rules of organizational success are remarkably close to the five-point covenant model, as they had to be if his model is accurate:

1. The model will be operated by people with the lowest possible level of skill.
2. The model will stand out as a place of impeccable order.
3. All work in the model will be documented in Operations Manuals.
4. The model will provide a uniformly predictable service to the consumer.
5. The model will utilize a uniform color, dress, and facilities code (p. 59).

If he had placed #4 as #1 – consumer sovereignty – and if he had substituted the upward flow of information (data) and the downward flow of instructions (sanctions) for #4, he would have had the biblical covenant model. His statement that low-talent people will run the system is merely a statement of fact; it needs to be dealt by means of the five organizational principles.

How, then, should the covenant model be applied to specific organizations? This will be the topic of the next five issues of **Biblical Economics Today**.

(to be continued)