Hard Facts, Dangerous Half-Truths and Total Nonsense

- ***Profiting from Evidence-Based Management***

By Jeffrey Pfeffer & Robert I Sutton

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Too many business adages are built on flimsy information. When decisions are based on dubious knowledge, the consequences can be catastrophic. This book by highly respected scholars, Jeffrey Pfeffer and Robert Sutton explains how better evidence can be used in business to generate superior results. Evidence based management enables business leaders to face the hard facts and act on the best evidence.

Introduction

Business decisions are often based on hope or fear, what others seem to be doing, what senior leaders have done and believe has worked in the past and strong ideologies. Hard facts and strong evidence do not seem to back many decisions. It is time that companies and leaders rooted their decisions in solid evidence to ensure optimal utilization of resources. The authors relate poor decision practices with a number of examples. Then they explain how evidence based management can be used profitably.

Poor Decision Practices

Poor decision making practices can be seen across organizations. Take benchmarking. The approach to benchmarking seems to be fairly casual, with some rare exceptions. More often than not, companies tend to copy the most obvious, visible and frequently least important practices. The underlying culture or business philosophy of the company against which benchmarking is being done is not given enough importance.

Companies tend to repeat what has worked for them in the past. By all means, learning from experience and mastery through practice can be useful. But this kind of an approach can backfire when the new situation is different from the past and the lessons learnt in the past may have been wrong or incomplete in the first place.

Managers also tend to be unduly influenced by deeply held ideologies and beliefs. Beliefs rooted in ideology or in cultural values are quite sticky. They resist disconfirming evidence.

Evidence based management

Evidence based management assumes that using deeper, better logic and employing facts rather than assumptions or guesses leads to better decisions. Such an approach advocates going by hard facts about what works and what does not. Even when companies have little data, there are many things, they can do to rely more on evidence and logic and less on guesswork, fear, belief or hope. For example, qualitative data collected from field trips can be used.

Implementing evidence based management requires a mindset change. Facts and evidence are great levelers of hierarchy. Resistance to evidence based management comes when it changes power dynamics, replacing formal authority, reputation and intuition with data. Another problem is that delivering bad news does not win us friends. We like to deliver good news because that is what others want to hear. Unless we consciously and systematically understand the psychological propensity to deliver and hear good news and actively work against it, implementing evidence based management will be tough.

The proliferation of business ideas also has stood in the way of evidence based management. There is too much information out there for anyone to absorb. The recommendations from different gurus are often disparate and disjointed and in some cases inconsistent. So it is important to develop a good understanding of the various analytical and logical issues involved and evaluate business ideas carefully before accepting them.

The differences between typical practices and evidence based management are summarized in the table below:

Current practice	Evidence-based management
Treat old ideas as if they are brand-new	Treat old ideas like old ideas
Glorify, celebrate, and apply breakthrough ideas and studies	Be suspicious of breakthrough ideas and studies
Celebrate brilliant individuals	Celebrate communities of smart people and collective brilliance, not lone geniuses
Emphasize only the virtues of the research methods and the management practices.	Emphasize the virtues, drawbacks and uncertainties of research and proposed practices
Use success and failure stories about companies, teams, and people to uncover best and worst practices	Use success and failure stories to illustrate practices supported by other evidence
Use popular ideologies and theories to generate and justify management practices. Ignore or reject all clashing evidence	Take a neutral approach to ideologies and theories. Base management practices on the best evidence, not what is in vogue.

The key to implementing evidence based management is wisdom. Wisdom is reflected in the attitude people have towards what they know, not in how much or how little they know. The essence of wisdom is knowing what we know and what we do not know. It means striking a balance between arrogance (assuming we know more than we do) and insecurity (believing that we know too little to act). The essence of this attitude is to act on the present knowledge while doubting what we know. Wise people get into action mode right away but keep learning as they go along.

HR Policies

Many HR policies are faulty. Because they are framed and implemented without collecting enough evidence, they do harm rather than good to the organization. The authors question the basic approach to HR which many companies follow.

Work and Life

Although there are aspects of work and personal life that are best kept apart, the general idea of separate domains is a dangerous half truth. The emphasis on incentives stems directly from the idea that work behaviour must be motivated differently from homes where people have different motives like obligations to parents or children. The tendency to divide work and life into watertight compartments has also resulted in the treatment of the workplace as a zero sum game with a few winners and many losers and a focus on hiring superstars rather than helping a large number of people to perform to their potential.

Talent Management

The “war for talent” seizes the attention of most organizations. The idea rests on three crucial assumptions:

- Individual ability is fixed and variant. There are better and worse people
- People can be reliably sorted based on their abilities and competence
- Organizational performance is the sum of the individual performances. What matters is what individuals do, not the context or the system in which they do it.

These assumptions, according to the authors, are wrong. For example, talent is not that easy to identify. Even the best predictors don’t do a good job of selecting the best people. Identification of talent involves human judgment which is often subject to various psychological biases.

Talent is also not fixed, according to the authors. Talent depends on the motivation/ experience of people and how they are being managed or led. Talent depends more on effort and having access to the right information and techniques than on natural ability.

According to the authors, good systems are more important than having the right people. Organizations are complex systems that can only perform well when the pieces mesh together well. People’s performance depends on the resources they have to work with, including the help they get from colleagues and the infrastructure that supports their work. It is impossible for even the most talented people to do competent work in a flawed system. On the other hand, a well designed system can enable ordinary but well trained individuals consistently achieve remarkable performance levels.

The authors provide four useful guidelines for managing talent:

- Treat talent as something almost everyone can learn. Performance depends on peer support and can be negatively affected by health and personal problems. Do not make the mistake of spending too much and money, attention on a few stars.
- Do not lay too much emphasis on individual personality, preferences and efforts when trying to explain performance and underplay the setting, culture or system. People over attribute actions and consequences to individuals rather than to the constraints under which they operate. Bad systems do far more damage than bad people and a bad system can make even a genius look pretty ordinary.
- Organizations need wise, not necessarily high IQ people. Wisdom means knowing the limits of one's knowledge, being prepared to ask for help from colleagues and willingly share one's own knowledge to introduce constant improvements.
- To keep improving over time, people must tell everyone about the problems they have fixed, point out others' errors so that all can learn, admit their own errors and never stop questioning what is done and how to do it better.

The differences between wisdom and absence of wisdom, as explained by the authors are summarized in the table below:

Wisdom	Antithesis
Acting with knowledge (while doubting what we know)	Acting without knowledge or without doubting our knowledge: also inaction combined with endless analysis or, worse yet, no effort to learn what to do
Understanding and acknowledging the limits of our knowledge	Acting like know-it-all, not seeming to understand, accept, or acknowledge the limits of our knowledge
Having humility about our knowledge	Being arrogant or insecure about our knowledge
Asking for help from others	Not asking for help
Giving help	Not giving help
Being curious – asking questions, listening, constantly striving to learn new things from people around you	Lacking curiosity about people, things, and ideas; answering questions and talking only to show off, without learning anything from others.

The authors mention that four kinds of people can facilitate organizational learning.

Profile of people who sustain organizational learning	
Noisy complainers	Repair problems right away and then let every relevant person know about it
Noisy troublemakers	Point out mistakes, but do so to facilitate learning, not to point fingers
Mindful error-makers	Tell managers and peers about their own mistakes, so that others can avoid making them too. When others spot their errors, they communicate that learning
Disruptive questioners	Constantly ask why things are done in a particular way and whether there is a better way of doing it

Financial Incentives

Most organizations believe incentives can be used:

- to motivate people
- to provide people with information about what the organization values and its priorities
- to attract the right kind of people and repel the wrong kind.

According to the authors, far from motivating people, incentives undermine performance in many situations. People view pay as a signal of whether the organization values them and to figure out whether or not they are being treated fairly. Status and fairness both matter to most people. So making mistakes in pay can demotivate people and lead to turnover.

Incentive schemes have to be simple to be effective. But simple schemes can cause damage when there are multiple interrelated dimensions of individual performance – when judgment and wisdom are needed in abundant measure to improve organizational performance. Indeed, when incentive schemes are used for complex tasks, unintended consequences can result. People may “beat the system” to achieve the targets and claim incentives.

As the authors put it, “when the tasks that people do are even modestly complex, it is often impossible to think up every possible way that they might achieve these goals…” Financial incentives are best applied when there are simple, clear, agreed upon measures that make cheating almost impossible or when optimizing performance on those measures is the focus, regardless of what it takes for people to meet the numbers. Another problem with individual financial incentives is that they increase inequality in compensation, often in an unfair manner. It is difficult to identify who is a high performer. Moreover, most people perceive themselves as superior to others along numerous positive dimensions, believe they are above average, not recognize their lack of competence, fake credit for their success and blame others for failures. Differential incentives may make sense only if performance can be objectively assessed, measured along one or just a few dimensions. Moreover, such incentives make sense only when interdependence on others is minimal.

It is often wrongly assumed that people want to be differentiated from their fellow employees. The fact is many people derive satisfaction from their social relationships in the workplace. Differential rewards drive people apart, resulting in jealousy and resentment, damaging social ties and diminishing trust.

The authors emphasize that instead of signaling people through financial incentives, it may be better to emphasise other benefits from their work such as being part of a supportive community and doing work that benefits others. People should believe in the company, like its culture and enjoy the work.

Organizations are social entities and people are social beings. People compare themselves to others and derive feelings of worth and status from that comparison. Pay differences have not only substantive but also symbolic meaning. A skewed rewards distribution can create problems.

Strategy is destiny

Many companies are obsessed with strategy. There is nothing wrong in investing time in formulating a well thought out strategy. But a fixation on strategy, is dangerous because it can become a distraction from other crucial tasks. Evidence shows a fairly weak link between strategic planning and company performance. Instead of focusing so much time and attention on strategic planning, it may be better to learn as we go along.

There are two costs that companies must take into account in thinking about the role of strategy in their management process. The first cost is the resources consumed in planning and the second is the leadership attention that is devoted to strategy and as a result the diversion of focus away from fixing operational problems. What actually provides competitive success and what is difficult to copy is not so much knowing what to do as having the ability to do it. Often success has less to do with planning and more with execution.

Companies too easily find fault with the strategy or business model when things go wrong. But the actual problem may lie in poor implementation or not addressing the basics. Spending a lot of time on customers and the quality of the work environment is preferable to drawing up complicated strategic plans, especially when there are many uncertainties in the environment and flexibility holds the key.

Change Management

Change management has been one of the biggest fads in recent years. The authors suggest that leaders should not rush into change initiatives. They must ask the following questions before embarking on organizational change.

(a) Is the practice better than what we are doing now?
(b) Is the change really worth the time, disruption and money?
(c) Is it best to make only symbolic changes instead of core changes?
(d) Is the change initiative good for the leaders but bad for the company?
(e) Do leaders have enough power to make the change happen?
(f) Are people already overwhelmed by too many change initiatives?
(g) Will people be able to pull the plug?
(h) Will people be able to learn and update as the change unfolds?

Besides collecting evidence about the wisdom of some change initiatives, companies can limit risks by first running experiments or pilot programs. If the idea is still promising, they can refine it before rolling it out to everyone.

Companies tend to frequently overestimate the gains from implementing business practices, technologies and strategies, particularly things that others are doing. This is partly because they think the grass is greener on the other side. Sometimes it makes sense to send the message that the company has adopted a new business practice or launched a new initiative but without really changing the way the company is operating. That way the perception of change can be created but without really upsetting the apple cart.

Perverse incentives can make managers and leaders take decisions that may be in their interest but not in the interest of the organization. Recognizing the trade off between individual and organizational interests is important.

It is not all that easy to shake up an organization and move it in a different direction. Power is needed to implement change. Leaders are shocked to discover how little power they have to push changes through an organization. Before embarking on a major initiative, leaders should figure out the power dynamics, identify the key constituencies, mobilize useful information and track political shifts.

People may be overwhelmed by too many changes. Human beings have limited information processing capacity and their ability to focus and make choices is limited. Too many changes can cause people to freeze in their tracks, making them give up even before getting started. Alternatively, they may become cynical and start viewing such initiatives as the flavour of the month.

Before launching a change initiative, managers need to ask whether there is scope to modify or take corrective action as things unfold and people learn from experience. If the change does not permit mid course correction because it is irreversible, the risk of undertaking the change gets higher. A change poses lower risk if there is an option to discontinue it at a later date.

While change initiatives should be launched after a lot of reflection, it is equally dangerous to start with the assumption that a change initiative must be implemented very slowly. If too much time is allowed, people may keep postponing desirable actions or may also tend to assume that the initiative is not urgent. And if it is over communicated that the process is going to be difficult and time consuming, people may take this message too seriously and find it difficult to get started.

Indeed, organizations can change remarkably fast when the right conditions are in place. The authors mention some of them:

a) People are dissatisfied with the status quo.
b) The direction they need to take is clear and they stay focused on that direction
c) People become confident that it will succeed
d) The company accepts that change is a messy process marked by episodes of anxiety and confusion that cannot be avoided.

Hero Worship

Hero worship of leaders is quite common. But the fact is leaders and managers have far less influence over organizational performance than most people think. Leaders operate under several constraints – existing people, products and markets. People who occupy leadership positions tend to be similar in terms of educational background and out look. They wind up thinking similarly and making similar decisions as a result. Consequently, there is only that much impact they can make because of their leadership style. Moreover, poorly performing organizations cannot really select who they want as the leader. They have to make do with whoever is available.

To make sense of the onslaught of confusing information thrown at them, people use cognitive shortcuts to interpret observations & experiences in comforting and efficient ways. Placing excessive faith in leadership is one of these shortcuts. There is also a human tendency to generalize from the performance of the unit to the qualities of the leaders and then infer that since performance was good, the leader must be also so.

Of course, leaders also have enormous incentives for perpetuating the myth that they are in control. They could hardly be expected to come clean and admit their limited powers. For one, a lot is at stake in terms of compensation. Moreover, who wants to appear excessively modest in an age where talking confidently is considered a great virtue?

From the company's standpoint, it is clearly desirable that leaders do not wield too much power. The best groups perform better than the best individuals because groups are able to take advantage of the collective wisdom and insights of multiple individuals. Leaders make mistakes. But to the extent that they exert tremendous control over their organizations there are few checks and balances to reign in the errors. Moreover when leaders make decisions, people do not have a sense of ownership. So others are less motivated to implement them. Human beings like to be responsible and be in control over some aspects of life. When they cede control, they feel uncomfortable.

Leaders must act as if they are in control and project confidence even while recognizing the organizational realities and their own limitations. They must maintain an attitude of wisdom and a healthy dose of modesty. Leaders must also know when to get out of the way and let others make contributions. Indeed, the best leadership in some situations is no leadership at all. When leaders know less about the work than the people who are being managed, it may be better to get out of the way. When a group does creative work, minimal interference on the part of the leader is advisable. Leaders often have the highest impact when they help build systems where the actions of a few powerful and highly skilled people became less important. Leadership is all about architecting organizational systems, teams and cultures and establishing the conditions and preconditions for others to succeed.

One of the major challenges faced by leaders who want to convince others that they are in control is the onslaught of conflicting and small details that need attention. Leaders must focus on the few crucial things that matter most right now and relentlessly communicate about those few things.

Leaders must instill confidence in people and convince them that the future will be bright if they act in a cooperative coordinated fashion to accomplish things. But while instilling this confidence, leaders must not succumb to their own hype and start believing too much in their own omnipotence. Leaders must minimize power distance. They should also nurture senior managers who see themselves as serving rather than dominating others in the organization.

Leadership cannot be learnt by reading, or by attending classes. It is a craft best learnt through experience. Leadership skills are also not that easily transferable across companies or industries as widely imagined. Becoming an effective manager requires deep knowledge of the industry, organization, people and the work they do. If and when leaders move across companies or industries, they must take time to learn about the work people do, customers and products before they start making changes.
The key take away from the book is that leaders must be smart enough to act as if they are in charge but wise enough not to let their power go to their heads. They must neither be arrogant nor insecure.

Conclusion

Evidence based management is too often the exception than the rule. Pfeffer and Sutton emphasise that evidence based management is not a list of techniques that can be mechanically applied. It is a way of thinking about what the company knows/does not know, what is working/not working and what to try next. It is not a one time magical fix to problems. The authors provide a few implementation principles to practice evidence based management.

- Treat your organizations as unfinished prototype – people should learn even as they act on what they know.
- No brag, just facts – this is opposed to smart talk, self aggrandizement and making assertions with complete disregard for facts.
- Master the obvious and mundane – we must use common sense wherever we can. We should also check before launching a new initiative or taking a decision, whether pertinent evidence exists elsewhere.
- See yourselves and your organization as others do. Human beings often have inflated views of their own talents and prospects for success. Leaders who can step out of their own shoes and see their companies as if they are outsiders will make better decisions.
- Power, prestige and performance can make people stubborn, stupid and resistant to valid evidence. Many leaders fall because they believe that they cannot achieve greatness if they admit an error, or express their ignorance about something.
- Evidence based management is not just for senior executives. The best organizations are places where everyone has the responsibility to gather and act on quantitative and qualitative data and to help everyone else learn what they know.
- Evidence based management must be sold using role models. Companies can identify practices based on solid, evidence. They can use vivid stories, cases, experiences to grab the attention of people and trigger organizational action.
- If all else fails, people must slow the spread of bad practices. When leaders are wrong and people do not have the power to reverse their commands, ignoring orders, delaying action or implementing programs incompletely may be best for all involved.
- What happens when people fail? The author suggests a policy of forgive and remember. Forgive so that people are willing to talk about and admit the errors that are inevitable and remember so that the same mistakes do not occur repeatedly.

People in organizations must display curiosity and keep learning new skills, come to grips with the best logic and evidence and apply what they know to change their organizations for the better. Leaders must have the humility to be students and the confidence to be teachers. The best leaders know when to switch between these roles.