

Management by Numbers

Is it all in the spreadsheet?

What need you, being come to sense,
But fumble in a greasy till
And add the halfpence to the pence
And prayer to shivering prayer, until
You have dried the marrow from the bone?

WB Yeats - September 1913.

What have innovation, creativity, teamwork, motivation, morale, cooperation, adaptability, flexibility, values, absenteeism, resistance to change and intractable conflict got in common? You won't find them on a corporate spreadsheet. Nobody would deny that they affect the numbers, but these qualities are themselves invisible and the way they combine is too complex to be manipulated by any simple formulae. Their impact on the numbers can sometimes be inferred, especially if one takes trends over the longer term into account. You can't increase morale by 25% in the way you can try to double production and, even if you could, it couldn't be mapped to any cell in a financial spreadsheet. This invisibility and complexity makes it tempting to give these kinds of qualities less attention, or even to ignore them, especially for executives who are going to be judged on the hard numbers.

I would say that the most toxic form of management I know of is an extreme form of what I call 'Management by Numbers' (MBN). When we can put something into a spreadsheet it can give us comfort that everything worth knowing is known and that everything uncertain is under control. All the messy stuff (reality) that fails to conform to simple linear thinking can safely be ignored. And this is what more and more corporations are in effect doing.

I was working with an IT company a while back who decided to change the format of their main product in order to conform to the requirements of a large customer. Almost everybody involved, as far as I could determine, clearly understood that this would have a damaging effect on the quality, maintainability and usability of the product. The proposed change was dictated by a 'rule' that some consultant to the customer recommended should be applied to all potential software purchases they made. This rule was a form of MBN in that it was mandated for all purchases regardless of whether it

made any sense. The changes entailed an enormous amount of time, effort and money, most of which was considered to be a complete waste of time by all involved in the implementation. But they decided to go ahead anyway!

I just could not believe what was happening. "Why hasn't anybody objected to this and pointed out the folly?" I thought. But I soon learned that quite a few people had already done this – and at personal cost. Some of those who objected most loudly and had 'created waves' had been part of the latest downsizing exercise. So the message was clear: "Go against this at your peril". I remember one humorous encounter when a programmer asked his supervisor if the executive team were aware that this change was destroying the product. The supervisor thought for a moment and then replied: "Yes, they do know. But they don't care". Unbelievable, but true – I was there.

The IT Company was afflicted by a severe case of MBN. Winning the contract would guarantee the numbers for the next twelve months. Everybody on the executive team would look good and the numbers would be inviting to potential investors. Being naive, I was baffled by this short-term tactic until I learned that the plan was to sell the company as soon as it became attractive enough. Jim Collins refers to this strategy as 'Built to flip'. Sad to say, this kind of management is becoming increasingly popular. It is very attractive because it is so easy and because it appeals to a get rich quick mentality. It often doesn't require great subtlety or intelligence to make some simple decisions that will result in a favorable short-term financial return. And by the time the consequences are felt, many of the executives will be long gone, along with piles of cash. Others can pick up the pieces or reap the consequences. Enron and WorldCom come to mind as wonderful examples of MBN. The numbers they dealt with were very big and, as many people now know to their loss, bore no relation to reality.

But it's not just corrupt or incompetent managers who suffer from MBN. It is endemic and systemic in business. The stock market only sees the numbers and increasingly only sees the immediate numbers. Companies need to show consistent quarterly returns and to grow revenues and profits incessantly. With pressure like this, it is no wonder that MBN is so common. But who is counting the cost? Where does the welfare of staff, the community and the environment figure? Nowhere: they don't have a cell on the spreadsheet. Paying too much attention to these concerns can easily lead to early retirement.

Many times I have been asked by senior executives questions such as: "How will better leadership or teamwork improve my bottom line?" Or, to put it into more common language: "How will this shit help us make more money?" I used to try to persuade them with the usual arguments such as better teamwork leads to increased cooperation and productivity, less destructive conflicts, more innovation and creativity, getting the best out people etc. But I'm now fed up having this conversation. I really am not interested in whether it helps companies make more money. It actually can and often does, but that is not the point. As far as I am concerned, if the motivation is exclusively financial then I am not interested. For me, it is either worthwhile in itself making work a more healthy, interesting and fun environment or it's not. If not, fine. I won't waste your time and you won't waste mine.

Numbers are what we use to measure the performance of a corporation. We haven't invented anything better yet as far as I know, so I'm not objecting to them, although I live in hope of a better alternative. But many executives fail to realise the extent to which qualitative variables, or the 'soft stuff', has on the numbers. Quantitative variables, such as production output, production costs, sales revenue and profit are simple to measure. They can be combined using simple arithmetic operations and have neat, cause and effect, mechanical properties. So the spreadsheet is ideal for measuring them. But how these quantitative numbers are generated is heavily influenced by qualitative variables. And these variables combine in non-linear complex ways, often impossible to predict or perhaps somewhat predictable using sophisticated modeling techniques. My experience is that the soft stuff is really the hard stuff. It is very hard to measure, can be very hard to influence, and very hard to predict. Because of its 'hardness' it is no wonder that it often gets overlooked. But ignoring it doesn't make it go away.

Another problem with the soft stuff is that it usually requires deep personal, inner change from senior managers. From my experience, the quality of the relationships within an organisation quite often reflects or resembles the qualities of the relationships within the executive team. Trying to get people to work well together throughout an organisation just doesn't work if the senior managers don't have the capacity to relate well themselves. And improving these kinds of skills can be a difficult and sometimes protracted task. It can require a lot of courage, honesty and perseverance. When we engage in self-inquiry and honest

communication we inevitably discover things about ourselves that we would rather not have included in our self-image. The soft stuff engages areas of the brain that are habitual, automatic, emotional and not so subject to rational control. We use the neo-cortex for intellectual thinking and are accustomed to receive training from schools and universities using our rationality and memory. But training in the soft stuff often relates to the amygdala, the area associated with instinctual, learned responses of which we are often unaware.

Self-inquiry can be challenging and intimidating, especially in the early stages of exploration. It can be painful and humbling to discover that some of our behaviours (which may have been well-intentioned and we believed were helpful) are having an adverse impact on others. Emotions, although they govern a huge amount of our behaviour are often considered a no-go area in business. I have observed many executives becoming hesitant and fearful when it is suggested that they should examine what they are feeling. One can be perceived as weak or soft if one attempts to name them in a business context. Some of the more macho emotions, such as aggression and the compulsion to control others, may be deemed more acceptable. However, denying the existence of the role that emotion plays in our dealings with others, or avoidance of becoming conscious of emotions, merely sends them underground where they can secretly govern us and are certainly out of our control.

No wonder MBN seems so attractive. But it is worth remembering that MBN merely manages numbers, not people. And numbers are only symbols – not reality. Excessive reliance on MBN can reduce life and business to a shadow of what makes life really interesting and worthwhile to many people. It can make people miserable, demotivated, disinterested, stressed and depressed. It is destroying our environment and the legacy we leave to our children. Things such as our personal values, our sense of what gives meaning to our lives, our vision and our hopes, making a contribution to our community or society - or whatever our souls are longing for - are too important to be left at home when we go to work. I would go so far as to say that whatever is truly worthwhile in life is impossible to measure. Consider for a moment how you would like to be remembered by others after you die. Can it be measured? Numbers are fine. Just let us remember that they are only numbers. Lets' not ignore the important stuff.

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