Common sense management is still uncommon

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After over a decade of research, Stanford University School of Business Thomas D. Dee II Professor of Organisational Behaviour, Dr Jeffrey Pfeffer, is no longer surprised that top level managers persist in making foolish decisions based on "gut", the latest management fad, or obsolete practices that are proven to have failed time and again.

"You would think that making decisions based on facts and evidence, and to revisit old ideas based on new facts and evidence, is common sense management. But it really isn’t — not for most companies and definitely not by many governments," says Pfeffer.

Pfeffer is the author and co-author of 13 management books. Two of these — Hard Facts, Dangerous Half-Truths, and Total Nonsense: Profiting from Evidence-Based Management (2006) and What Were They Thinking?: Unconventional Wisdom About Management (2007) — address the concept of evidence-based management.

"Evidence-based management is not much different from evidence-based medicine. The idea is simple. Instead of making decisions based on what other companies do or past performance, make decisions based on facts derived from studies and controlled experiments," explains Pfeffer. The author and academic was in Kuala Lumpur to deliver a talk organised by Universiti Tun Abdul Razak on Dec 14.

The idea, says Pfeffer, is to turn the practice of management from an art into a science. "Companies like to base decisions on intuition and beliefs. It’s as if they feel that if they have to make decisions based on facts, they lose power. This is actually understandable. After all, evidence-based medicine took 200 years to develop," he says with an exasperated sigh.

"Take US firms for example. Despite the fact that research has proven that layoffs hurt companies and the economy, conventional wisdom still advocates downsizing to drive a company’s stock price higher and increase profitability. So during the credit crisis, US companies downsized," says Pfeffer.

In an article Pfeffer wrote for Newsweek’s cover in February last year titled “Lay off the layoffs”, he points to a study of 1,445 downsizing announcements between 1990 and 1998 which also reported that downsizing had a negative effect on stock-market returns. “Not to mention the detrimental effects to the morale and health of both the unemployed and the overworked employed. Layoffs, literally, kill people.”

"On the other side, there’s proof that not downsizing works. In the wake of 9/11 the airline industry announced tens of thousands of layoffs. Today, the only airline that didn’t cut staff, Southwest, is the largest domestic US airline and has a market capitalisation bigger than all its competitors combined,” says Pfeffer. "And yet, this downturn, the airlines, besides Southwest, downsized again."

Companies also have a tendency to take a liking to an idea and immediately implement it everywhere, continues Pfeffer.

"Why not apply it on a smaller scale and collect data objectively to test its effectiveness?” he asks.

The key, he adds, is objectivity. "There is a danger that people will see what they expect, or want, to see. The data must be collected in a way that is as objective and as unbiased as possible.”

Again, paying attention to the facts is not as simple as it sounds. Falling back on the field of medicine again, Pfeffer points to Ignaz Semmelweis, an Austrian obstetrician who discovered the germ theory of disease in 1847. "He noted that the death rate of mothers who delivered in his hospital was 20%, compared with a 1% death rate for those delivering at home. He implemented hand washing with chlorine bleach and the death rate in his hospital fell to 1%. When he presented the facts to his superiors, he was fired. In fact, it took 30 years before germ theory was accepted."

When presented with facts that conflict with internal beliefs, people tend to either ignore the facts or twist them to suit those beliefs, says Pfeffer. "Managers love the idea of a ‘lean and mean’ organisation and they persist in believing it works. Never mind that no one
wants to work for a mean organisation and being too lean leads to overwork. Overwork, in turn leads to tired workers who are less creative and make more mistakes.”

Achieving a system of evidence-based management is achieving wisdom, says Pfeffer with a chuckle. “The idea of wisdom, dating back to Plato and Socrates, is to know what you don’t know. By understanding the limits of your knowledge, you will have less trouble facing unpleasant facts. Too many leaders like to surround themselves with ‘happy talk’ and discourage truth-telling,” he explains.

Leadership, says Pfeffer, is less about making decisions in a prophet-like fashion than about creating the right environment where others are better able to make good decisions. “As a professor, my job is not to take everyone’s tests for them, but to teach them to analyse and think so they can perform well. Leaders should be in the business of teaching people how to think.”

A leader who leads based on evidence has the ability to say ‘I don’t know’, encourages dissent and independent thought and allows employees to learn from mistakes, says Pfeffer. “Also, don’t shoot the messenger, encourage employees to bring problems and issues to the light.”

Pfeffer’s latest book Power: Why Some People Have It – And Others Don’t, published last September, is about surviving and succeeding in organisations.