

Doubting Tom: Second guessing the management gurus

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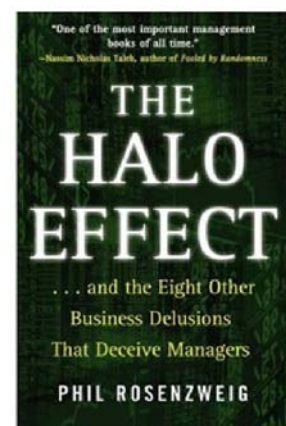
Oops

It was 1982 when famed TV evangelist, Jim Bakker, released the humbly titled audio book, *How You Can Guarantee Success*, but it was an evangelist of another sort whose scribblings that year came to earn its author the title “Ur-Guru” (that is, “guru of gurus”) from *The Economist*. The deep-thinker in question was then-McKinsey man, Tom Peters, and the book was *In Search of Excellence*. Benefiting from an uncanny ability to tap the zeitgeist of the business world, not to mention impeccable timing (his follow-up book, *Thriving in Chaos*, was published on Black Monday, 1987), Peters parlayed the success of his books into a lucrative public speaking career and quickly became a rock star within management circles. Fully a product of his time, Peters’ sweat-soaked stage persona channeled equal measures of Gordon Gekko and Jimmy Swaggart, as he ranted and fist-pumped his way to six-figure speaking paydays.

While the influence of *In Search of Excellence* (or, for that matter, its author) has hardly waned in the quarter century since its release, the Achilles heel of Peters’ analysis was apparent almost immediately. In their book, Peters and his (oft forgotten) co-author, Robert Waterman, looked to corporate America for examples of ‘excellent’ companies. Predictably, 85 percent of the companies highlighted by the authors for their excellence proceeded to trail the market for several years following the publication of *In Search of Excellence*. Meanwhile, 39 companies reckoned “abysmal” by Peters and Waterman outperformed the market in the same period. The cover of *Business Week*, which first picked up on Peters’ habit of betting on the wrong horse, ran a single word headline: “Oops!”

While Peters barely concerned himself with the failed application of his excellence model as a predictor of business results (“There are no excellent companies” he declared flatly and with insufficient irony, in the opening pages of *Thriving on Chaos*), a pack of followers, including such notables as Bill George (Authentic Leadership) and Jim Collins (*Good to Great, Built to Last*), have resumed Peters’ abandoned quest to discover the corporate holy grail: the eternal, Aristotelian form of business mastery.

But in contrast to Peters’ almost quaint sounding principles of excellence (“stick to the knitting”, “stay close to the customer”), the next generation of pop management writers have sought to achieve a heretofore unseen level of accuracy and, by extension, credibility, by drawing on massive quantities of data. As a result, the latest round of corporate fortune telling to emanate from the business press has come with a previously unseen and probably undeserved gloss of academic respectability and intellectual rigor. Even more than Peters’ hackneyed, careless research (at one point, Peters confessed that he had “faked the data”), it is the endemic over-reliance by the new management gurus on their general impressions (ostensibly backed up by an overwhelming amount of statistical analysis) to draw specific and universal conclusions, that Phil Rosenzweig, author and professor at the International Institute for Management Development (in Lausanne, Switzerland) has in his sights in *The Halo Effect*, his new book.



Hunting for big game, Rosenzweig is sharp in his critique of bestselling management tomes like *Good to Great* and *Built to Last* (both of which made, along with *In Search of Excellence*, a Forbes list of the “20 Most Influential Management Books”). Rosenzweig describes how faulty research design, poor quality data, and badly drawn conclusions introduce serious bias to studies of corporate performance. Such errors are particularly egregious when committed by the likes of Jerry Porras and Jim Collins (the former is tenured faculty at Stanford Business School, the latter a former instructor there) – academics who attempt to buttress their “timeless principles of lasting greatness” with mountains of data, preemptively squelching criticism under the sheer weight of their analysis. Rosenzweig finds the absence of independent variables and use of questionable data (such as retrospective interviews and analyst reports, which amplify, not mitigate, biases like the halo effect) featured in *Built to Last* particularly galling.

“[Porras] probably wouldn’t have passed his [own] work if it was done by one of his graduate students”, Rosenzweig said in a recent conversation with this reviewer.

Seek and ye shall find

First identified in 1920 by American psychologist Edward Thorndike, the halo effect is a cognitive bias which describes the tendency to infer specific attributes based on general impressions. The logic behind the halo effect is intuitive (why else do you dress up for a job interview?), but self-detection of such bias often eludes management writers. How else to explain, argues Rosenzweig, the see-sawing impressions (in popular business books and magazines) of companies such as Cisco and ABB? When times were good in the early 1990s, these firms were widely believed to feature enviable customer focus, standout operations, and executives who walked on water – only to discover the opposite was true (according to the same writers and publications) after a few rocky quarters.

The prevalence of the halo effect, explains Rosenzweig, leads observers to think that successful companies do everything right, while lesser lights must be complete incompetents. While such analysis easily lends itself to the boiled-down allegories of the business gurus, the halo effect strips away nuance, and in the process ignores the fundamental complexity of running a successful enterprise.

Another recurring bias is the “Texas Sharpshooter Effect”, which gets its name from the story of a fictional Texan who paints targets around his randomly fired shots at the side of a barn to substantiate his claim to be a crack marksman. In practical terms, this bias illustrates how, if the researcher is dogged enough, even random occurrences can be arm-wrestled into yielding a (false) pattern. The grand-daddy of all management books, *In Search of Excellence*, fell victim to this bias by neglecting to seek any disconfirming data when Peters researched his list of excellent companies. Rosenzweig notes that this tendency to, “connect the winning dots” is still widely found in popular management texts and explains why nearly all successful businesses -- but oddly no stagnant companies -- seem to have brilliant CEOs.

The halo effect stems not just from poor research technique, but from the guru’s desire to convey findings in simplified metaphors and narratives that any manager can relate with (hey, whatever sells books, right?). This method worked wonders for Horatio Alger, who authored well over a hundred dime store novels filled with rags-to-riches tales of bootstrapping young boys whose hard work delivered promised riches. (The Alger oeuvre includes such gems as: *Do and Dare* (1884), *Luck and Pluck* (1869) and *Strive and Succeed* (1872)). The universal appeal of such stories fuels the popularity of management books like *Good to Great* (a title that would fit seamlessly on Alger’s alliterative c.v.), but the idea of a repeatable formula for success is ultimately false and insults its audience. Yet the temptation to learn the art of management via parable is strong (check out Jesus: CEO or Sun Tzu: *The Art of War for Managers*, for proof) leading, says Rosenzweig, to a raft of management books that use familiar narratives (the heroic leader, the company that strayed from its roots, etc.) to promise a tried-and-true recipe for superior performance.

The fatal flaw in this notion, however, is the zero-sum nature of business performance. With apologies to Garrison Keillor and the children of Lake Wobegon (who are all above average), business is filled with winners and losers. In any given industry, which may be booming or receding, there are leaders and laggards, a distinction based on each company’s relative position in the marketplace. So what

happens if every CEO in a given industry adopts the strategies of *Good to Great*? This paradox, argues Rosenzweig, invalidates the very concept of surefire success formulas, since performance is a relative, not absolute, measure.

Clearly, Rosenzweig revels in the role of iconoclast, sparing few pop management authors in his wake. His systematic takedown of self-important purveyors of management pabulum is sure to draw wry smiles from the Dilbert crowd as dog-eared copies of the book start to filter through department circulation lists. One only hopes the manager who adds *The Halo Effect* to the company bookshelf is prepared for the fallout from angry staff who discover every piece of corporate-mandated weekend reading this side of *Who Moved My Cheese?* has just been made obsolete.