**Performance or Control – The Tension**

Do Boards and Executive Management want performance or do they want control? This is a fundamental tension that exists and will be explored in this article.

Research has shown that given the right environment people want to do a good job. However, there is a very insignificant number of people who do not fit this result -usually because of ideological reasons.

It seems logical that if most people come to work and want to do good work, then why is dysfunctional behaviour, waste and inefficiency in workplaces observed? Obviously, it has to do with the environment or the systems in which people work.

The fundamental problem is the hierarchical bureaucratic systems that control our daily lives. The first records of such a system were in Egypt during the construction of the pyramids. The main purpose of the system was and is to control the behaviour of many by a few. In order to achieve control there are two fundamental platforms necessary to support the bureaucratic structure. The first is there needs to be specialisation, which will then permit regimentation of work activities. The second is a shared belief that is desirable and acceptable that control and co-ordination is in the level above.

The effect of those two platforms is to limit the range of activities that one does at work and the second limits the authority to act. So what does the bureaucratic system offer apart from limitation? It provides certainty, stability and predictability. In fact, it is the best system known to ensure that tomorrow looks like yesterday. After all, the rules, regulations, procedures and structures were developed from past experience and will be applied to ensure that future outcomes are certain, predictable and stable.

The point of tension here is that people are demanding flexible and adaptable responses from those organisations established to serve their needs. On the other hand, those organisations are driven by the regulatory framework which seeks the very opposite – stability, certainty and predictability.

The bureaucratic system’s ability to respond suffers from a major handicap. It distorts the quality and quantity of information. Information coming into the bureaucracy is limited to the most senior levels and those people that have a responsibility to engage with the “outside world”. Because of the limitations on people to act, information must be passed up the system for approval to act. As it goes up the system is suffers a loss of integrity. It gets consciously and unconsciously distorted. The conscious distortion may occur as a result of fear that complete information may do harm to the sender or it may be the result of a conscious attempt to summarize the information available. The unconscious distortion occurs as a result of the position taken in relation to the subject being observed. Depending on where you sit you will see it differently. Furthermore, unconscious distortion occurs when we try to fit the facts to our previous experience of similar problems. We make the facts fit our learned solutions. Similarly, decisions get distorted during their journey to those responsible for implementing them. Distorted information, incomplete information, denied information – all enhance the risk that Boards and Executive Managers face in their daily work. Good decisions demand good information.

A further dilemma for Boards and Executive Managers is how to build flexibility into a system and processes that were designed for stability and operate through limitation. An approach after World War 2 was to put extra people into the organisations to facilitate flexibility. Those spare resources or “redundant parts” enabled the system to respond to changing requirements within a constantly changing environment. Perhaps a useful metaphor comes from music. The piano is capable of playing 88 notes but at any point of time most of the parts are redundant to immediate requirements. Continuing the metaphor, the alternative is to create “violin” type organisations rather than “piano” type ones. The violin has four strings that are in constant use, with each string having redundant notes. The violin has redundant functions. The economics of today leans us towards redundant functions rather than redundant parts. Redundant functions, in a way, challenges the limitations that result from the narrow specialisation that Adam Smith talked about in his book, The Wealth of Nations, (1776).

The regulatory environment in which Boards and Executive Managers work, drives bureaucratic behaviour and processes. Higher and higher levels of prescription are being imposed with the belief that stability, certainty and predictability can be achieved in spite of the environment being one that is far from certain, unpredictable and unstable. An added complication and challenge is the internet and social media, which open up information and opportunity. It challenges the paradigm that the boss is the source of all knowledge and at the same time is the limitation on knowledge. The boss has a particular place and responsibility in the regulatory system because of the information available and the authority to act. The regulatory regime demands control.

On the other hand, customers and stakeholders are demanding flexible adaptable responses from those organisations and businesses. They demand performance.

The question is how do we deliver flexible adaptable responses from a system that is built for certainty, predictability and stability in a regulatory environment that dates back to Newton’s mechanistic view of the world. Is the regulatory environment driving us to become obsessed with control at the expense of performance?

There are clearly situations where obedience and compliance to rules and regulations are needed. Where there are high levels of certainty and the variables surrounding an activity are known and controllable, it makes sense to embrace mechanistic processes. Seek control. Adopt transformational methods when (as is often the case these days) there is more turbulence than stability. Seek performance. But don’t believe that you can achieve extraordinary performance through control alone.

**Performance or Control – The Search for A Solution**

To move from the belief in and desire to, achieve complete control, where planning and prediction are given superordinate status, requires courage. To choose this courageous path is to choose vulnerability. Perhaps reducing risk requires that we remain vulnerable - open to new, complete and timely information. It will almost certainly result in unexpected outcomes.

To numb vulnerability is to numb everything else. It numbs personal energy, growth, creativity, innovation and care. It numbs performance.

Second, it is alarming to see that so many organisations embrace the old freeze/unfreeze model of change. The idea that we break or shatter the organisation and rebuild it, is clearly demonstrated in the typical organisation restructure. We unfreeze the business then refreeze it in a new rigid structure. We may get rid of the problems of the old structure but it can be guaranteed that the new structure will spawn a new set of unique problems. So what have we achieved?

Third, for almost all of us our only experience has been that of hierarchical bureaucratic structures with their strong focus on control. Our first encounter was in the family that we were born into, followed by the education system and reinforced in the workplace and all our social institutions. This force cannot be ignored and it’s not all negative. Again it is not a matter of one or the other. It is a balance that uses the right proportions in order to optimise the outcomes in the dynamic environment in which we find ourselves. It requires clarity about what we are trying to achieve.

It seems that the environment in which a business or organisation operates in is crucial. What is important is the extent to which there is certainty and agreement on what is likely to happen, how it will happen and, what the optimum response should be. On a horizontal axis we map certainty with the left hand being a place that is close to certainty. The right hand of the axis, being far from certainty. On the vertical axis we map close to agreement at the lower end and far from agreement at the higher point. It is those two variables that provide reference points as we search for a course of action (or perhaps a cause for action). The following diagramme illustrates this more effectively:



In the area that is close to certainty and agreement we embrace the tools Mechanistic Management. They include a reliance on rules, regulations and defined procedures. It also includes rigid structures, detailed plans and budgets and rational problem solving processes. They will serve us well providing tomorrow looks like yesterday.

Single loop learning around fixed targets is commonly practiced. Examples are the monthly analysis of financial performance compared to budget. Another example is the cruise control system of a car where the target is set and the engine management system constantly reviews the actual speed against that fixed target.

Mechanistic management is where the performance management process is a “top- down” activity. Those in charge are clear and confident about the future and can legitimately set performance targets for individuals and teams. After all, the organisation is in a world that is close to certainty and agreement.

Mechanistic management is the area in which all aspects of the bureaucratic structure live. It is a place where certainty, predictability and stability exist and the bureaucratic organisation delivers on those outcomes.

What can we expect from mechanistic management? We can expect some control. We can expect limitation. We can expect can expect a heavy reliance on planning and prediction. It is also gives the organisation its “licence to operate.” If mechanistic management is not evident and functioning the regulatory framework will not allow the organisation to exist. Management is about protecting, guarding and stewardship of those resources under its control. It is what is expected from Boards and Executive Management. It is not optional.

However, mechanistic management is not likely to deliver that extraordinary performance required by shareholders and other stakeholders. To achieve extraordinary performance we need extraordinary leadership. Leadership differs from management in that it seeks to lead the organisation to levels of performance never before achieved whilst management is about protecting the resources of the organisation.

Extraordinary leadership becomes more relevant and important as we move further from certainty. Obviously, the tools of mechanistic management become less useful as uncertainty grows. After all, those tools are designed to deliver certainty, which is not possible in a turbulent environment. The tools of extraordinary leadership deliver extraordinary performance, innovation, creativity, growth, care, willingness and responsiveness.

Instead of an absolute reliance on rules, regulations, defined procedures and structures, a reliance on robust relationships and networks is necessary. Where there is uncertainty, and therefore we are far from agreement as to how to respond, the vehicles used in the past may not be of use or their application may, in fact, become quite damaging.

Information is crucial when facing uncertainty. To reduce the risk to the organisation, it is essential that avenues are available for the collection, analysis and dissemination of information. Good business decisions need good information. It could be said that information to a business facing a turbulent environment, is as important as currency is to our economy. Appropriate responsiveness demands complete, accurate and timely information if the decision making that occurs within the organisation is to deliver the best business outcomes.

Having a corporate vision supports the creation of identity for those in the organisation, and generates energy to achieve that vision. People are energised when they can see a positive future ahead. It is important to be clear about the organisation’s purpose as well as the vision. Both need to be stated in such a way that employees and stakeholders can relate to them. Regrettably, most organisations present their mission statements or statements of purpose as to create shareholder wealth. Whilst that is clearly an outcome, and it drives Boards, but it has little effect on the employees. Apple’s purpose, as stated by Steve Jobs, was to challenge the status quo and give individuals’ power through technology. This is broad purpose, that almost all people can relate to, enabled that company to produce computers, telephones, TV’s, music players and revolutionise the music and communication industries, rather than being seen as a computer company only.

Rules and regulations give binary results and do not allow flexibility. Flexibility in responses is achieved when we decide using values. I am sure that some will cry out “how do we get consistency?” if we have flexible responses. What is essential is that the values by which we operate are shared and the each situation faces the same solution process. The outcomes may vary due to circumstances but the process and values against which judgements are made remain absolutely fixed.

Rules and regulations are costly. To operate by rules and regulations requires that people be paid to draft, promulgate and police them. Rules are owned only by those who created them and, certainly not by those whom it is intended will be controlled by them. All one has to do is to look at speed restrictions on the freeways throughout the country. Drivers do not own those restrictions - many spend considerable non-productive effort in avoiding the consequences of breaking the rules. Values are owned by individuals and one does not need to put time, money and energy in having them applied.

Paul Anderson, when he was the Managing Director of BHP, published his hand written statement of values and beliefs including corrections, with the purpose of making it clear that they were his personal values and beliefs. It was a statement by which he judged his performance and, invited those who shared those values and beliefs, to work with him. He wanted BHP to be driven by values and beliefs where possible.

Other aspects of extraordinary leadership include an absolute focus on customers, taking personal responsibility, a broadly based performance management process, guidelines and broad budgets and plans. It also recognises that as the businesses exist in situations that are far from certainty, single loop learning needs to be replaced by double loop learning. Here the targets that we are aiming for are constantly reviewed against the operating environment. In the previous example, knowing when to increase the target speed from 80kph to 110kph.

Real significant change occurs only at the point that is far from certainty and far from agreement. This point is referred to as the “edge of chaos” or the “edge of transformation”. This does not suggest that the organisation is spinning out of control; rather it is embarking on a new higher order level of performance. It is going to a place that it has never been and as a result there is usually some anxiety associated with the journey. Nature itself operates at the edge of chaos in order to continually adapt. Beyond the edge of chaos is disintegration. Organisations also have legitimate functions operating at that boundary. Functions such as exploration geology, research and development, marketing and the transformational side of human resources management are examples of activity at the edge of chaos.

The development of trust is essential. As people get further from certainty, they have a greater reliance on each other. The world of plans, prescriptions, rules and regulations may not useful, and in fact, attempts to apply them may cause significant damage, particularly if they limit responsiveness and adaptability by the organisation.

As we moved from village life to industrialised cities, we saw trust shift from individual informal contracts to institutions established to manage trust. We saw the rise of solicitors and legal contracts, we saw the rise of Banks and, we saw the rise of government authorities to regulate trust. Now we experience technology heralding in the rise of distributed trust where control and trust are now distributed to individuals and informal communities. Examples of distributed trust are Block Chain, Uber, Airbnb, to name a few and, even our electricity supply. This has major implications for organisations, both public and private, in terms of the work that they undertake, as well as their very existence.

People making decisions that are in the best interest of the business underpin extraordinary performance. Underpinning those decisions is technical competency and good information. The application of technical competency and the complete sharing of information require robust relationships that are built on trust.

Trust emerges from people doing what they say they will do. That is, people within the organisation need to behave in ways that are congruent with the expressed values, beliefs and honour their personal commitments, if trust is to emerge. The organisations systems also need to be designed and operate in ways congruent with the stated mission, vision, values and beliefs. For example, a performance management system that focuses on the individual may work against an expressed wish to create collaborative, supportive teamwork.

Again, there is no case for either/or thinking – we need to embrace both mechanistic management and extraordinary leadership. However, we need to be clear about what to focus on and what each can deliver in our pursuit of sustainable extraordinary performance. It seems that working in the area of mechanistic management is more comfortable for many as it seems a safer path to choose.

However, there are huge benefits for Boards and Executive Managers who embrace the idea of extraordinary performance through extraordinary leadership. It provides the opportunity to create sustainable, growing and profitable businesses. But it takes courage and the willingness to see the world with new eyes.

“To discover new lands, one must leave the shore”.

David Napoli

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