

8

Avoiding Front-Runner's Bias

by

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In an uncertain world, managers should distinguish between good decisions and good outcomes, however defined. Let me explain. A diligent manager might make the most prudent decision she could, but through bad luck find that she is confronted with a bad outcome. A prudent decision is one taken in full knowledge of the probable benefits and costs of the alternative courses of action, and a bad outcome is one not desired by the decision-maker. On the other hand, a feckless or lazy manager might be fortunate: a poor decision might, through good luck, result in a good outcome (see Howard 1988). And, of course, it is possible, although unlikely, to have a run of luck, bad or good. For this reason, and because the quality of managers' decisions also will vary, not every successful manager is a paragon of best management practice. We can extend this insight to the firms and organisations that employ the manager: luck may play a large part in the success of an organisation over time, or, at any rate, there may well be an element of luck in an organisation's performance.

Many authors of management books have ignored this inconvenient conclusion, and have focussed on successful companies and their CEOs in order to deduce how they—both companies and managers—differ from their less successful peers. Such authors have attempted to deduce the reasons for this superior performance in order to derive prescriptions for managerial decision-making or strategy from the attitudes and actions of the managers. These prescriptions are

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then packaged in the latest breathless tome of advice for the ignorant-but-eager-to-learn manager. Implicit in this programme of research is the assumption that the causes of a firm's superior performance are deterministic and transferable. The results of these efforts includes the first of these books (and one of the most popular): Tom Peters and Robert Waterman's *In Search of Excellence: Lessons from America's Best-Run Companies* (1983), and there have been untold successors arrayed in airport bookstores since then.

But a famous article in *Business Week* in 1984 followed up the performance of Peters and Waterman's 43 exemplary, best-run firms and found that fully one-third of them were in some sort of financial distress five years after Peters and Waterman had first observed the performance of the managers and firms.

Perhaps this would not surprise Dennis Turner. At any rate, his impressive volume (with Mike Crawford), *Change Power: Capabilities that Drive Corporate Renewal* (1998), did not risk the same fate: Turner and Crawford based their findings on rigorous survey results as well as cases, as described below. This means that they included data from less-than-successful organizational changes, as well as successes. There are two footnotes to Peters' early fame: first, two years ago he possibly admitted that he and his co-author had 'falsified the underlying data' in the 1984 book (Byrne 2001), at least in the selection of the 43 front-running companies highlighted; second, in his latest book (Peters 2003) he seems to have abandoned his earlier research programme: a recent review (*The Economist*, 2003) opines that the book 'aims to make an impact more by how it looks than by what it says.' Moreover, the review summarises the book by quoting from it: 'A strange world awaits. A world in which defining 'excellence', let alone 'searching' for it (let alone achieving it!) will be more and more elusive. And more and more exciting. How frightening! HOW COOL! ARE YOU UP FOR IT?' (*sic*) Has Peters succumbed to pessimism about the secular, scientific approach to management? (A corollary of the rise of fundamentalism in many spheres of intellectual endeavour and emotional exercise?) Certainly Dennis Turner has not.

And nor have others. But there are other problems with the case-study approach. Apart from the gap between good decisions and good outcomes (confounded by good or bad luck), the challenge with the case-study method of research is trying to identify the principles underlying the particularity of the facts of the case, in order to be able to apply these to a different organisation or to the same organisation at a different time. What case studies can reveal is that, under *these* conditions (often incompletely described), *this* external stimulus will result in *this* corporate behaviour, which in turn will result in *this* corporate performance. That is, case studies (like simulations) can, with some analytical effort, allow derivation of sufficient conditions for corporate behaviour and performance. (The analytical effort is to describe and measure all behaviour- and performance-relevant environmental variables adequately.) But what is difficult if not impossible to derive from such case studies are the necessary conditions for corporate behaviour and performance under particular external stimuli and conditions. That is, using the case-study methods we predict that: if A, then B (so long as luck is even), but we cannot soon say what the limits on the domain of all As that will result in B are.

Turner and Crawford finesse these issues by not only including war stories from specific cases in a handful of organisations they are very familiar with, but also using the results of questionnaire surveys they conducted with managers (fully

243) who attended the residential executive short courses that Dennis Turner directed after his arrival as a Visiting Professor at the AGSM in 1981. The managers surveyed came from 141 organisation, including 94 firms and non-profits, and 47 government and semi-government organisations. This rigorous foundation in empirical evidence means that (barring any bias in self-selection of the managers who enrolled in the courses) the research reported in the book will not suffer from *front-runner's bias*¹—looking only at the most successful managers and organization—that bedevils many of the management primers on the bookstore shelves.

As the title—*Change Power*—suggests, the Turner and Crawford study focuses on one of the most important issues for managers today: organisational change. The need for such change has been driven by changes in the firm's external environment—the market—and in the government organisation's political environment. The two changing stimuli are not unrelated: government organisations have been buffeted by the demands for greater accountability and organisational efficiency that have come from the twin roots of the California taxpayers' revolt of the late 1970s and the privatisation campaign of Margaret Thatcher's government in London in the early 1980s. Changes in markets have accompanied the successive integrations of markets across frontiers, known as globalisation. So these changes have come from causes that are economic as well as political—indeed, as Keynes reminded us in *The General Theory*: 'Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist'.

As an economist—but not yet, I hope, a defunct one—I can say little further of value about the content of the book by Turner and Crawford. (I note that Merrilees (2003) believes that the report is very useful in confirming the need for companies to balance their operational capabilities with their change capabilities.) But Dennis Turner has not been as inhibited as I: one of his first academic studies was research he undertook with my old colleague from Ormond and Pembroke College days, the economist Neville Norman at Melbourne University, as a contribution to the Economics of Immigration Project of CEDA, the Committee for Economic Development of Australia. (1984). Turner undertook several studies with CEDA, all based on his interests about managers and management, but with at least one (see above) with an explicit economics theme.

Dennis Turner was for seven years an Associate Commissioner of the then Commonwealth Trade Practices Commission, a position in which he must have found himself rubbing shoulders with economists and lawyers daily. I cannot say how congenial he found the lawyers, but his approach to management research suggests that he would have had much to discuss with the economists at the TPC, and even a common language with which to converse. The AGSM was established to encourage practical, interdisciplinary research and teaching; Dennis Turner exemplifies the best aspects of the School's traditions.

References

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1. The editor, Robert Wood, has noted that what I have tentatively called 'front-runner's bias' is an example of sampling on the dependent variable, known as confirmatory bias.

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