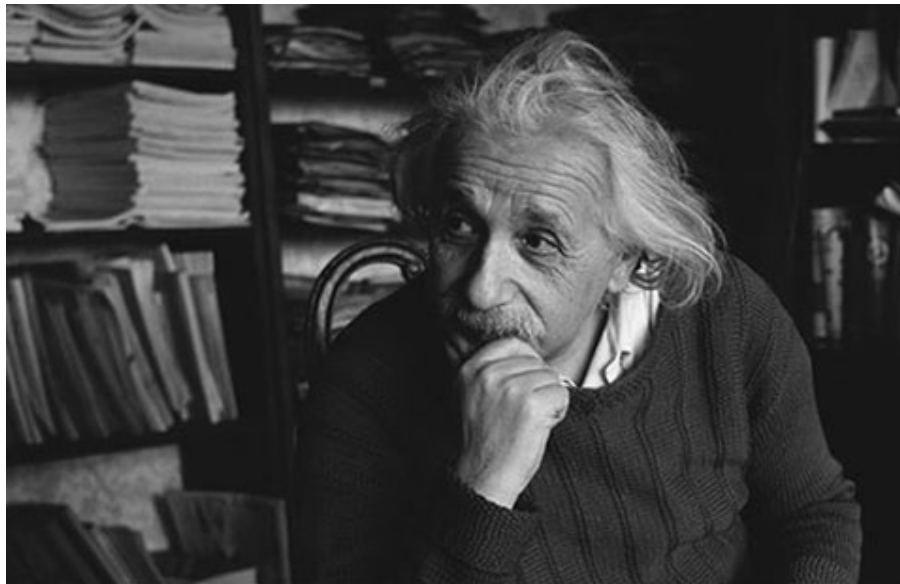

Thinking

About Management Thinking



David J. Abbott

aCatalyst
Consulting

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Introduction

“Logic will get you from A to B. Imagination will get you everywhere.”

Albert Einstein

In essence: this is a book about ideas, concepts and ways of doing things in management and is organised into six parts:

- Developing an insightful business strategy
- Being an effective manager
- Thinking economics
- Creating organisational change that sticks
- Dealing with the people factor
- Accounting.

In Lewis Carroll's *Through the Looking-Glass* that involves the Red Queen, a representation of a queen in chess, and Alice constantly running but remaining in the same spot.

"Well, in our country," said Alice, still panting a little, "you'd generally get to somewhere else — if you run very fast for a long time, as we've been doing."

"A slow sort of country!" said the Queen. "Now, here, you see, it takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!"

All of us at various times feel like we are beavering away, working quite feverishly, yet don't seem to be moving forward. These pages are set out to be an injection of insightful thinking that will get one off the treadmill and into action.

Everything starts with an idea. Each day it is fun to start with a blank slate and see what one can create. This notion of “business” being what we do 8: am to 5: pm five days a week or “management” being the practices that we follow during this time is a bit artificial. What we do in business is a reflection of who we are and what one stands for.

Our world has changed radically since the introduction of the internet, now one can Google and just about find out anything about anything. While it would be an exaggeration to say that knowledge -- the information about how to do things -- has become free, it often seems that way. Trick is to take the bright ideas and make them fly. That step of being in action, taking the risk and confronting the fear of failure takes courage.

Nokia was over taken by BlackBerry who was outdone by Samsung, with Apple hanging in there, and then transforing itself to become one of the world's most valuable companies. Heaven knows what's next when the latest smart phone and the internet are considered antiquated. With change being the only constant, corporate fortunes and the various players continually have their ups and downs in a Red Queen's race. Some ideas about management endure, which is why the articles in these pages can claim a life beyond the week in which they were published in the Tuesday business section of *The Daily Nation*. A light editing has been applied to remove passages that have been overtaken by events.

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Developing An Insightful Business Strategy

1. Strategy As Voodoo

Strategy appears to be everywhere in business, yet the truth is that genuine strategy is rarely to be seen. What most companies have is the corporate equivalent of voodoo. Instead of little dolls and statues with pins in them and reading chicken entrails the voodoo is in the Power Point slides and glossy reports that only serve to eventually gather dust.

What most companies and organisations have is not strategy, but an operational plan, a glorified to do list, a hopeful wish list of what one would like to happen, with solid diagnosis based on hard analysis and dash of creative thinking noticeably sorely absent. All those Power Point slides, glorious vision, mission and value statements based on some “fill in the blanks” approach are often naïve words on paper that have little or no impact. In recent years, the word strategy has become confused with ambition, leadership and basic operational planning. None of these is strategy. Ask a graduate with their newly minted MBA in “strategic management” what strategy is and they may give you a confused and wrong description equating strategy with planning and goal setting.

“Core work of strategy is always the same: discovering the critical factors in a situation and designing a way of coordinating and focusing actions to deal with those factors” notes Richard Rumelt. Good strategy has what Rumelt calls the kernel which has three elements: 1) the diagnosis, 2) a guiding policy which is the sign posts setting the direction, and 3) coherent action, the nitty gritty details of what is to be done by who, and when.

Just as you don’t need to be a Hollywood movie director to spot a bad film, once you understand the structure and fundamentals of astute strategy you can spot the bad and non existent strategy, the voodoo.

Often simple and obvious

Astute strategy is almost always simple and obvious in retrospect. Think back to how little David beat Goliath on 1030 BC, or how Alexander the Great with 50,000 men beat Darius with his army of 2 million. Both leveraged a strength and spotted the weaknesses of the competition. In September 1997, Apple was two months from bankruptcy. Steve Jobs who co-founded Apple and was let go, essentially fired, came back to revive the fortunes. His first step was cut Apple back to the core to get out of the financial nosedive and then waited to introduce the next big thing that revolutionised the industry, the elegantly simple iPod, followed by the iPad and iPhone, the rest is history. Coming up with that often simple kernel is tough, yet in hindsight often appears obvious. Safaricom became the market leader by focussing on the mass market, being the first to introduce the KSh 50 scratch card and then transformed money transfer with M-Pesa. Equity Bank that dominates the market with roughly half of all bank account holders in Kenya focussed on the “unbanked” that the big banks shunned and did not want to know about.

You can spot the bad, masquerading as strategy by the use of fluff, a lot of gibberish high sounding esoteric ideas used to create the illusion of smart thinking. If you can not define what the challenge is to the company you can not create a strategy. Just stating goals is not strategy, these are simple statements of desire, rather than solid plans for over coming pot holes and the road blocks. Often the objectives are wrong, they don’t address the critical issues or they are just not practical.

Back to basics

Setting strategy begins with diagnosis which includes understanding dynamics of the industry one is in. Useful here to go back to basics and apply Micheal Porter’s five forces analysis. Crunch the numbers, where does one make money? Which product lines and products are

most profitable and why? What do your customers want? What do your non customers want [given this is the majority of the market]? What variant of the 80/20 rule applies? There are all sorts of tools to diagnosis an organisation on the financial, operational and people dimension. Strangely the most common is the SWOT, a technique from the 1960's that is a bit like asking someone who is severely schizophrenic how they feel. Yes, they will tell you, but how they see the world is likely not a good description of reality that one buy into with any sense of confidence.

In essence: in diagnosis one is attempting to figure out what is going on. Diagnosis links facts into patterns where one has to pay more attention to some issues rather than others. Trick is to know which issues are critical and others less so. Wise diagnosis ideally transforms ones view of a situation, often bringing to bare a radically different perspective. Given the small "p" political nature of organisations it not uncommon that diagnosis may bring up some unpalatable facts that not everyone wants to hear.

Cut through complexity

Art and science of effective diagnosis is to cut through all the complexity and clutter and create simplicity that cuts to the crucial points that have to be addressed. One needs to create a simple model that allows further problem solving and sets out the area where one is going to act in the guiding policy – setting the direction.

So it is back to the drawing board with an effort to create an insightful strategy. One would be lying to say all this is easy, what is easy is create all the fluff and fine but empty words. What is tougher and essential is to question fundamental assumptions and make the distinction between what is a symptom and what is the root problem. You will know your diagnosis is right when it is simple, addresses the key issues, and transforms how you see your industry. Make the distinction between strategy and day to day operations. "Operational effectiveness means you are running the same race faster. But strategy is choosing to run a different race because it is the one you have set yourself up to win" notes Michael Porter.

And, no, all this will not [almost by definition] go how you expect it to. Trick is to keep adjusting, noticing what is happening and polishing the diagnosis and approach. As Napoleon, a great strategist [and not a fan of voodoo] said: "I have never seen a battle go according to plan."

2. Rain Dance Planning Or Real Strategy

“How do I work. I grope,” said Albert Einstein. Interestingly, he does not praise the virtues of inductive and deductive thinking, or the joys of the scientific method. Simply gradually groping to find answers, asking the right questions. Coming up with a distinctive approach, a strategy.

But how do companies find answers to their route to success? How does “rain dance” planning in organisations really work? And, what does this word strategy really mean?

How planning fails

Every so often companies and NGOs go on a retreat to plan for a hopefully better future with the word “strategic” thrown in, to add a wishful dose of intelligence to the proceedings. Yet what happens? Papering the walls is the proverbial SWOT analysis, probably the only approach out of hundreds that is mistakenly used, with all managers coming away still intoxicated, half believing that this time the firm will apply its strengths to take advantage of the opportunities at hand. Six months later it is not uncommon to find that the organisation faces a crisis that threatens its very core premises. “Ah, but this was not in the plan,” says the MD.

Somehow organisations have an addiction to planning where in practice it’s unclear the contribution planning adds to business success. As Mao said, “She who plans, must plan often.” Business planners will argue that what is important is the process of planning, forcing managers to engage their intellect, to think through issues rather than focussing solely on the product in the form of a report that invariably is tossed aside, only to gather dust. It’s not that planning is bad, but in looking out of the shadows of Plato’s cave into the harsh light of day business world in East Africa, one knows that formal planning can have a limited contribution to how decisions are made in practice.

Forget the theory, senior managers often make their decisions as much on random events, gossip in the hallway and just plain subjective impressions, with some wild intuitive guesses thrown into the mix. This is not wrong, no, it’s groping – it just happens to be how things work. Richard Neustadt, the Harvard University scholar who served as advisor to several US presidents comes to a similar conclusion: “It is not information of a general sort that helps a president, not surveys, not bland amalgams. Rather it is the odds and ends of tangible detail that pieced together illuminate the underside of issues”.

So before you shoot off on the next planning retreat consider the thoughts of the Dartmouth professor, Brian Quinn who notes: “A good deal of the corporate planning I have observed is like a ritual rain dance; it has no effect on the weather that follows, but those that engage in it think it does. Moreover, it seems to me that much of the advice and instruction related to corporate planning is directed at improving the dancing not the weather.”

Is planning wrong? No, it’s just typically poorly done, reflecting a naïve belief in simplistic views and approaches, that don’t take into account the limits of rationality. Insightful strategic planning combines hard analysis with creativity, taking into account the turbulent Kenyan business environment. Easier said than done. Just look at the business press that is littered with the names of firms that went belly up despite being addicted to annual planning retreats. So beware of rain dance planning and be strategic. Easier said than done.

So what is strategy ?

What is it that 90 percent of Kenyan companies talk about but don't have ? Answer: a business strategy. Having a clear "spreading the bets" strategy is one of the elements that drove Microsoft to its market dominance. In 1988 Microsoft's share price was 66 cents, at certain points in time it has reached \$ 120 plus range. In contrast, the absence of a clear strategy has been the downfall of many East African organisations and for the survivors, languishing share prices. What most companies have is glorified dull witted "to do list" that gathers dust. Having an operational plan with the naive intention to do better than the competition is not strategic, as the competition will soon catch up. Soon the organisation will have to run pretty fast just to stay where it is.

3. Forget SWOT Analysis

Ditching SWOT is the best thing you can do. For some strange reason in their forward planning, companies too often gravitate towards doing a near-sighted strengths, weaknesses, opportunities and threats (SWOT) analysis, confusing insight with the path of the least resistance. Trouble is there is typically no analysis involved, it's a bit like the Holy Roman Empire artificially created in Europe hundreds of years ago that was neither holy, Roman, nor an empire.

Up on the flip chart paper go the strengths, weaknesses, opportunities and threats facing the organisation. But let's think about this: are managers with the firm really in an objective position to identify their own strengths and weaknesses. Unfortunately, their perspective is more like a fish in a fish bowl. It's said that if a lawyer chooses to defend himself in court, he has a fool for a client. Inevitably, the so-called analysis turns out to be a mutual admiration society, the opposite end of the spectrum from an objective examination of the business from a number of perspectives.

So if SWOT is out what is in? First, there is no replacement for a comprehensive financial review, including financial ratio analysis over time, and ideally if you can get the information about the competition, benchmark with them. This, coupled with operational indicators will provide a detailed litmus test of the firm's performance. By definition, every firm exists in a sector where a Porter's five forces industry analysis should be an absolute requirement: the influence of suppliers, bargaining power of buyers, threat of new entrants, potential of substitute products, and intensity of industry rivalry. Break the business into segments, don't lump everything together. Your accounting system likely won't report on the business that way – but get the figures anyway. You will be shocked to find segments you thought were profitable are not and vice versa.

With this managers will have mastered the basics of understanding the business – then they can be a touch more creative. There must be at least fifty-plus insightful more strategic approaches. Here is just one.

Create a value chain for your business and each segment. For the product or service the company provides, map out on a large piece of paper each "chunk" of the process, everything that goes into it from start to finish. For instance, elements like design, inbound delivery of materials, manufacturing, distribution, sales and billing, and after sales service. Deconstruct this value chain, take it apart. Figure out the costs involved in each element. Is there scope for cost reduction? How much does it cost your competitors to do similar tasks? Then ask the most important, fundamental question: what is it that your customer really values most, in your product or service. Don't assume you know, ask them. Question your own fundamental assumptions. Trick is to both understand the details, do your calculations and develop a broader understanding of the business.

Perhaps the best business advice to managers comes from Sun Tzu's writing 2,500 years ago. He said: "When your strategy is deep and far-reaching, then what you gain by your calculations is much, so you can win before you even fight. When strategic thinking is shallow and near-sighted, then what you gain by your calculations is little, so you lose before you start."

4. Inject Some Organisational DNA

Ability to hold two conflicting ideas in one's mind at the same time is said to be a characteristic of genius, or is it madness? While on the one hand there is a need to be optimistic and think "what about this, and what about that", on the other hand it's a shame that many countries that showed a lot of promise ended up not doing well. Kenya, the long time potential California of sub-Saharan Africa – for instance – was not as upbeat as Rwanda was in early 2012.

"Business is tough" is what most folks in the streets and in the corridors of commerce have kept saying. Resulting from a drop in consumer demand, which was in turn caused by low economic growth, markets have gone soft, yet some businesses are thriving. The latter are businesses for tough times that are offering a product or service that is in demand, based on a lean, no-fat organisation and have a cost/revenue structure that is just right. In other words – they have thought through a distinctive approach to fit the business environment; they have a strategy.

Strategy should be about creating options and opening up new choices, not closing possibilities down. Business today is like walking on Mount Kenya and finding yourself in the fog, thinking you know the right path but you are really not sure, when you can see just a few feet in front, and the terrain keeps changing. Do you make one big bet, thinking you as the leader absolutely know the way? Or, do you spread the bets and send out little search parties trying possible alternative routes?

Fact is most companies, say 85%, don't have a strategy, what they have is an operating plan, a sort of long to-do list, but not an insightful distinctive way that they are going to stand out in the marketplace. Solid strategy is based on hard-nosed bottom-line analysis combined with a touch of creativity to come up with a unique approach about how your organisation is going to get a competitive advantage, leading to increased profitability. That's step one, then like good systems design on any plane, have several backup systems. Always be thinking 'what if'. What do you do if the first system - approach fails? Spread your bets; think about having a portfolio of strategies.

On the edge of the business be trying new things, new ways of offering your service, experimenting with new product offerings based on what the customer wants, not what you have on the shelf, or what you "imagine" customers want.

Inject some organisational DNA into the company. Just remember some of the Kenyan market leaders in the year 2018, may be firms that don't even exist yet. Remember predictable unpredictability. You can bet that the way you predict things will happen is, almost by definition, not how things will evolve.

As Napoleon, a meticulous strategist once said: "I have never seen a battle follow the plan." Don't frown, cheer up, in theory there is a 50% chance things could be unpredictably refreshingly good. If your firm does not inject some organisational DNA in the form of new ideas, tapping a variety of talent pools, all you will get is a lot of corporate inbreeding that is as destructive in nature as it is in business. Is this madness or smart thinking? Only time will tell.

5. Staying Ahead Of The Bear

Two hunters are being pursued by a large hungry grizzly bear in the forest. One stops to change into his running shoes. The other tells him he is crazy: "There is no way you can out-run a bear," he says.

"I don't have to run faster than the bear," replies the first hunter. "I just have to run quicker than you."

So in business, how does one out-smart the bear? First have a plan, but don't rely on it. Remember Napoleon Bonaparte: "I have never seen a battle go according to plan." Have all the approaches, creativity and crunched numbers and projections documented, but expect the unexpected. What is really going to power to your organisation forward are staff and managers, who can think on their feet and respond to the inevitable and the unanticipated.

This letter, which was written to *Fortune* magazine and relayed by Jack Welch to all his General Electric managers sums up this thinking. It begins with a reference to Carl von Clausewitz, a Prussian military strategist whose book *On War* was published in 1832.

"Von Clausewitz summed up what it had all been about in his classic, *On War*. Men could not reduce strategy to a formula. Detailed planning necessarily failed, due to the inevitable frictions encountered: chance events, imperfections in execution, and the independent will of the position. Instead, the human elements were paramount: leadership, morale, and the almost instinctive savvy of the best generals.

The Prussian general staff, under the elder von Moltke, perfected these concepts in practice. They did not expect a plan of operations to survive beyond the first contact with the enemy. They set only the broadest of objectives and emphasised seizing unforeseen opportunities as they arose. Strategy was not a lengthy action plan. It was the evolution of a central idea through continually changing circumstances."

Besides anticipating the unforeseen, focus on having competent switched-on staff. Four enthusiastic staff, leveraging ICT to the fullest, can often do the work of 16 (4 squared) who are just showing up on the job, hoping for the best. Part of the logic of this is based on networks.

The value of network obeys what is known as 'Metcalfe's Law' (named after Bob Metcalfe, the inventor of the Ethernet Standard that commonly networks personal computers). According to Metcalfe's Law:

The value of a network – defined as its utility to a population – is roughly proportional to the number of users, squared. An example is the telephone network. One telephone is useless, whom do you call? Two telephones are better, but not much. It is only when more of the population has a telephone that the power of the network reaches its full potential to change society. All of which explains the power of the introduction of cell phones in East Africa and their profound impact on economic growth.

Metcalfe's Law applies to people power. Pay ruthless attention to having on board a core of got-what-it-takes staff and managers. And, keep your running shoes close.

6. Architecture Of Getting It Done

In architecture, form follows function. In business, structure follows strategy. In essence: the company decides what it's [hopefully] unique approach to the marketplace is and structures an organisation that best fits that approach. Sounds easy, but in practice it isn't. In the old pre internet days it was often inevitable that some would want to create their own fiefdoms, more concerned with the grandeur [and illusion] of power, as in how many people they have in their department, rather than how productive the unit really is. However, in this ICT age it is not uncommon to find one can follow the maxim of the architect Van der Rohe where "one can do more with less".

One stunning example of the proof of this structure follows strategy idea is the incredible leap Rwanda made in the World Bank's 2010 Doing Business guide which ranks 183 economies on the ease of doing business based on ten factors that include, for instance, employing workers, registering property, getting credit and protecting investors. Ranked 143rd in 2009 Rwanda leapt to 67th place just ahead of the Bahamas ranked 68th. Just for the record, Singapore, New Zealand and Hong Kong, USA and the UK are in respectively in first to fifth place – where there is a clear correlation became economic prosperity and how easy it is to do business. [For the record, Kenya ranks 95 and just in case you were wondering the worst ranked at 183 was the Central African Republic, one step behind Congo Democratic Republic in 182nd position.

Rwanda's leap in the rankings was helped by the creation of the Rwanda Development Board which was structured to bring together a number of government agencies all under one roof – created a results mindset putting the "structure follows strategy" maxim into demonstrated use.

If you look at the architecture of an organisation in the private or public sector by looking at, for instance, the organisation chart you can pretty much guess about it's ability to get things done. A convoluted matrix structure with multiple reporting lines and several committees to steer this and that spell organisational paralysis. What often happens is that no one is empowered to make a decision, a lot of paper and committees with one boss passing the decision up to their boss, [who again does the same] which creates a situation where nothing much ever really gets done, except a lot of elaborate [and confusing] statements of blue sky plans and aspirations. "Everything depends on execution, having just a vision is no solution" said Stephen Sondheim. In theory [and in practice to some degree] we live in networked world where anyone can speak to anyone thanks to the profound levelling effect of the internet and mobile phones.

What works is flat ICT switched on organisations with the minimum of hierarchy that can with time turn out to be world beaters, the organisational equivalent of the biblical [BlackBerry clad] David defeating an over confident towering Goliath. Not to be forgotten, along with strategy and structure, the trick on the people dimension is to get the right people into the matatu in the right seats [and the wrong people off] with a driver, the leader with a sense of energy and direction. Ah, but if only things were as simple as the lines on an organisational chart which rarely shows who really talks to who and where the real influence lies. Remember you should not have to motivate your staff in the matatu, bring on board the already fired up and motivated who know how to play the game. Unfortunately, it is often the case in business that as Santhanam Shekar notes "by the time the rules of the game are clear, the windows of opportunity will have closed".

7. The Hazy NGO World

Non-governmental organisations (NGOs) operating in Kenya (numbering more than 6,000 by the year 2009) range from the extraordinary, those who have won the Nobel Peace Prize like the French *Medicins Sans Frontier* (Doctors without borders) through the ordinary, to those that were formed last week by two well-meaning individuals.

The heart of the matter for NGOs is to answer the question: what results must we deliver to be successful? Somehow one has to take the (often vague) broad mission statement and translate that into more narrowly defined goals to both attract support from donors, and detailed enough to decide what resources to allocate where.

One has to know the outcomes that the NGO wants to have by drawing up an ingenuous impact statement that likely revolves around, for instance, improving a target group's health or education status, or changing behaviour. Once one has defined what they want to achieve, with whom and when, then they can know what it will do and, most importantly, what it will not do with the limited resources available. This gets emotionally tricky because what the NGO won't do involves a needy and worthy cause. In all of this, it is not as though one can be bean counter hard-headed and analytical and clearly draw the lines – it is often that there are no clear-cut “right answers”.

In business, the data for decision-making is generally quite clear; for instance, sales and even profitability per product line, or by each business unit. In NGO work there is often not the clear-cut quantitative indicators so that one can clearly compare programmes and the work of peer NGOs. Yes, if you are running an emergency feeding programme for children in an MCH clinic in the dusty and hot settlements for the displaced in the desert on the edges of Khartoum, gains in infants' weight and height are easily measured, but most NGO work is tougher to evaluate.

What works and what does not work? Thankfully, today, just sitting in a café with a WiFi connection and a laptop one can Google and the world of information, including more academic research pops up on one's screen. Why reinvent the wheel? A wise NGO leadership looks for proof. What elements of programmes have shown effective results – creating real impact? Formal mid-term and end-of-project evaluations are often costly. Thankfully, with a search engine, a decision maker can access a wide body of research on just about any topic under the sun. (But funny how with all this universe of information one does not feel any smarter?)

Despite the reports and research, boards and staff of NGOs are often constantly pulled in all sorts of directions trying to serve many interests, including satisfying the latest donor flavour-of-the-month whim. Paradoxically, an NGO's success in an area may give the donor a reason not to fund them.

An all-over-the-map ‘scatter gun’ way of doing things is often how the NGO sector is organised and how many non-profits operate. In a company, market demands set the direction – in the NGO world leadership and consensus-building are required to address the questioning of fundamental assumptions and tough questions described here. In the crowded backstreets of the NGO community, the issue is not so much where the organisation is now, but more whether it is moving in the direction of clearly defined results it can be accountable for. For many NGOs, the writing is on the wall: be explicit and detailed about the results to be delivered, then design the approach and organisation around that.

8. Manager As An Artist

“Making money is art and working is art and good business is the best art of all,” were the thoughts of pop art icon, Andy Warhol who surprised the world by painting a can of Heinz Beans and calling it art. Art is a lot like work. What is good art, what is bad art? It comes down to a blend of guiding principles and ultimately, personal taste. A bit like what is a good investment?

Perhaps managers would be better off thinking of themselves as artists. Are you a realist, surrealist, or an impressionist? Do you add value, or destroy value? Until the recent introduction of international accounting standards in East Africa, even year-end financial statements were largely a matter of perspective, stressing the profitable points and glossing over the disturbing.

Somehow we label this segment of our lives and call it “business” as though it was distinct. We wake up in the morning and say: “We are off to work”, as though work is what starts at 8am and ends at 5pm. But it’s all made up. It’s all artificial, it is just a creation, we create the distinction (work), just like we create the distinction (art). We know good business when it happens, based on financial ratio analysis and bottom-line profitability. Good business is also an ability to ‘just do it’. So wonderful when someone says I will do tasks A, B and C and get this to you by 4pm on Tuesday and this will be the result. And, *voila*, it happens, no excuses. Now that’s an art.

Fundamental to good business is the notion of value added. A product or service has all the fixed and variable costs that go into it, which a management accounting exercise would determine, yet there can be a big difference between those input costs and the selling price. The difference is the value added. The flip side of this is value destroyed, creating negative value, making a product or service less valuable than all its component costs. It happens all the time and we just don’t create the distinction: value destroyed, value subtracted. How do you do this? Add in a dash of inaccuracy, lack of competence, arrogance, just plain not paying attention, slow response times and a business has value destroyed. In other words, bad management.

Think of value destroyed like a computer virus that just erases precious files – in a second or so, and there goes all the hours of hard work. One of the world’s most successful investors, the realist Warren Buffet, bases his investment decisions on determining a company’s intrinsic value, defined as the “value determined by the facts” not likely the same as the market price. Facts being a company’s assets, earning and dividends with the most important factor being determining a company’s future earning power, which is really what Buffet is interested in buying into, at a low or bargain price. Interestingly, when asset values are low, with businesses being sold at bargain prices for the astute investors, they are the ones who see a light at the end of the tunnel. That’s the art; seeing business opportunities that others miss.

9. The Butterfly Effect

Can the flapping of a butterfly's wings in Singapore affect a thunderstorm in the Rift Valley in Kenya? Possibly, yes. That's the simple theory put forward by scientist Edward Lorenz in 1963, which has come to be accepted. In essence, small actions can have big consequences. In business we often tend to think that, "Ah well, we can fix that mistake, perhaps it's not so serious." Really? In contrast, those staff and managers that pay a Zen-like attention to detail realise that perhaps everything matters. "God is in the details," as Albert Einstein said.

One English new "red brick" university academic recently tried to create a mathematical equation that defined the strength or weakness of a business relationship. Trust turned out to be tops with a coefficient of 0.77 followed by respect at 0.51 and communication at 0.17. While the idea of trying to quantify the strength of the glue in a commercial bond is controversial, and one could argue over the figures, any business person knows in their heart of hearts that the decision to do business with someone is based on one factor. Trust. Do I trust this company to deliver? Can they keep their agreements? The same goes for personal relationships; a major factor being: do I trust this person? Would I hire this person?

"A world class organisation is a high trust organisation. Trust is one of the ageless elements of every peak performing company. If your people don't trust you, their managers, their co-workers, there is no way they are going to go the extra mile to give you their best efforts. Without trust, there is no commitment. And without trust, there is no company," notes Robin Sharma, author of *Leadership Wisdom*.

American comedian Woody Allen once said, "80% of success is just showing up." (One might add to that, given the at times grid-lock traffic situation in Nairobi, "80% of success is just showing up -- on time.")

We often tend to think the business world is what engineers refer to as the stochastic variable, the bummer factor, the chance that things will go wrong. It's easy to blame others for a bad business situation that has befallen us. Few of us have the guts to take personal responsibility for events. But imagine that "there are no mistakes, no coincidences. All events are blessings given to us to learn from", as Harvard academic Elizabeth Kubler-Ross says. Is the business world a mirror? "We receive from life not what we want, but who we are," notes Sharma.

"After keeping your promises, listening aggressively, and being consistently compassionate, the final cornerstone of human relations and communications competency is truth telling. The best leaders, those who win the hearts and minds of those they lead are open and honest. They share information with everyone and make it one of the highest priorities to keep their people informed," states the business coach.

In these times of political turbulence, we all need to dig deep within ourselves and question our fundamental assumptions. And create new possibilities in our thinking that are truly fresh. Each of us should create our own butterfly effect, learning from the previously unthinkable tragic events.

As Sharma reminds us: "It is only within the realm of the unknown that new possibilities live. Nothing new lives within the realm of the known, because if it did, it wouldn't be new."

10. Ecology Of Kenyan Business

“Grow the top line. Look at the bottom line.” That’s the jargon of business. And, like most flippant lingo it conceals more than it reveals. What Neanderthal bean counter can think that the one dimensional bottom line just happens?

The paradox of business is that good judgment comes from experience, but unfortunately experience comes from making bad judgments.

Let’s look at things differently, on a number of dimensions. Often it’s helpful to see business through the eyes of other disciplines to get a richer, more in-depth perspective. Imagine there was such a thing as a business ecologist practicing their way of looking at the world, ferreting out commercial activity in marshes, hot spots and more moderate climes.

In essence, ecology looks at distribution, abundance and association and tries to discover how an ecological niche thrives, or just survives. But would you eat a tomato that had just survived?

Certain individual businesses and commercial communities tend to thrive in Kenya. Why do some tend to blossom and others wither on the vine? Success leave clues on the ground. One of Abbott Consulting’s current research suggests that Kenyan market leaders thrive because, for instance, they understand their basic business model and focus, focus and focus.

Understand the basic business model

“Making money is not hard, too many managers try to apply what they learned in a workshop last week and muck up the business plan,” are the words of one petroleum company executive based in Kenya. In many ways he has a point. For instance, in successful banks like Citigroup, CBA and the fast rising entrant, KREP Bank, managers know the business model, how it works and what the indicators of performance are. But in truth, this understanding of the business basic model is rare. Ideally, sales pitches would hit the customer -purchase buttons right on. Products would have features the customer wants and investors would get a strong return on capital. Even competent managers in successful firms have trouble explaining the organisation’s business model. One Accenture study found that 71% of executives do not understand how their firm makes money. Then it is no wonder the staff feel a bit lost.

Focus, focus and focus

It’s not uncommon to find that a business person who has been successful in a flower farm, then decides to go into tyre retreading and then open a bookstore. Not understanding the business, armed only with drunken good intentions, inevitably financial performance turns out to be lacklustre, the enterprise eventually fails, with the deflated entrepreneur blaming the marketplace. Enter the once friendly bank out to auction what assets still remain. Look around at successful businesses like Farmer’s Choice. Thanks to focused management, the company has stuck to it’s core meat processing business, beginning with pork products and then expanding the menu to include beef and chicken products.

How does the *duka walla* make money on Nairobi’s Biashara Street. Absolute six-days-a-week focus, year in, year out selling textiles with tight financial control, with a constant eye on the cash register. Focus, focus and focus.

11. Drawing On 3,000 Years of Experience

Sigmund Freud, the father of psycho-analysis once gave a lecture to his medical students stepping up to the podium with a cigar in his mouth. Holding the cigar up in his hand he said: “You see this, it is a phallic symbol.” All the adoring students nodded their heads knowingly. Freud paused for a minute, and then said, “But you must never forget, it is also a cigar.”

Often in management something has a meaning at the surface, but it’s real influence is at the subconscious level driving behaviour, in a subtle yet powerful way. The best of effective advertising is like that. Something touches you deep inside, there is an association there in your mind, yet you may not even recognise it. Yet you find yourself walking out of Uchumi with the product in your basket.

At one level, how we approach management is unduly simplistic, and we know it is, but go ahead anyway. For instance, your boss says, “The March revenue target was Sh10 million, but your unit achieved Sh8 million. We have to do better.”

Is this management, or cowboy comments? The problem is that the pool of management thought and practice we draw on is too shallow and limited.

“He who cannot draw on three thousand years is living from hand to mouth,” were Goethe’s thoughts. Same goes for ideas about management and business. It is a bit Neanderthal to think that concepts about management began in the early 1900s with Frederick Taylor’s ideas of time and motion and the best way to shovel coal. For example, one of the last big management ideas was business process reengineering, a fancy way of saying: when looking at how organisations function, focus on the set of key tasks at hand that drive the enterprise, and not what departments they cut across. Then redesign the company to fit those 3 to 5 core business processes, meaning the key tasks.

But don’t you think that someone on the East African plains stalking antelope for dinner 5,000 years ago understood the business process at hand: stalk, aim, kill, cook and celebrate. Not to mention the paramount importance of giving the customer (in this case the family clan) what they want?

Pablo Picasso, the painter “reengineered” image by introducing the synthetic and analytical cubism technique in the 1930s when he took the form of, say, a woman and broke it down and recreated the representation – upsetting segments of the art world because his painting were not “realistic” in the way of, for instance, French impressionist painters or British rolling landscape painters.

More than 2,300 years ago, Alexander The Great, a brilliant “business” strategist died at age 33 having conquered most of then known world and being the only person ever to be called “great” in their own lifetime. Was he a good manager? Yes, because he was able take an army of 50,000 men and defeat Darius’s army of 2 million, by questioning a fundamental assumption and reconceptualising the “business” problem.

But why is it that we find it difficult to think “out of the box” like Picasso or Alexander the Great. It is because our thinking process relies on patterning; resorting to the familiar.

12. Simple Is Best

There is elegance in simplicity. Architects for the last 3,000 years have known this along with 21st century clothes designers like Christian Dior. It is the same in business. Simplicity means results.

A study by the management consultants Bain & Company surveyed 960 executives around the world, where 70% reported that complexity was raising their companies costs and getting in the way of growth. Other researchers looked at the impact of complexity in 110 global companies in 17 different sectors. The finding was that the least complex companies grew 30% to 50% faster than those with average levels of complexity, and 80% to 100% faster than complex companies. In one startling case, a telecommunications company that was offering customers one-fifth of the options, as offered by a competitor, was growing ten times faster.

You don't need a Harvard MBA to realise that complexity is a killer in making fast (most of the time) accurate decisions. If a decision has to go through four or five levels before anything gets done, chances are it won't. Inevitably, complexity of decision-making grows over time. In some organisations, often in the public sector, managers rate themselves and are paid on the basis of the number of people reporting to them. With time, the manager acquires two deputy managers, who in turn have two associate deputy managers and this thinking cascades down, leaving everyone with an inflated ego and an exotic mobile phone, but nothing else. While it may be painful to contemplate reducing all these levels of hierarchy, a convoluted reporting structure just clogs up the organisational plumbing.

In architecture: form follows function. You decide what type of function the building will be carrying out and create the form around that, whether it's a Mombasa five-star hotel, or a rural health clinic in Kajiado. Same logic in business: structure follows strategy. Senior management decides what they want to do and designs the company to best fit the strategy. Ideally, in essence; the strategy should be fundamentally simple, which would be reflected in a flat as possible structure, which dovetails with the networked ICT information age we live in where anyone can speak to anyone.

The Catholic Church has understood this for over a thousand years with five levels of hierarchy from the village priest to the Pope. The Kenyan public service has 23 levels of hierarchy, 23 job groups in 7 bands. Imagine that the level of hierarchy was reduced (in a sensitive way) by half. What would be the likely impact on service delivery? Would you want to be operated on by a surgeon who was making critical decisions based on a diagnosis trickling down from on high, through several levels of paper pushing bureaucratic hierarchy.

The best way to assess the level of complexity of decision making of your company is to ask the users, your customers and suppliers. How long does it take you to respond? Within the hour, next day, or never, with the enquiry getting lost in cyberspace, or in the trashcan. Ask your staff whether they feel supported and comfortable with the company's management structure. A recent customer service audit by Blackrock Research involved 19 banks (45% of all Kenyan banks) that were highly concentrated together, mostly within a 1 km radius, in Nairobi's Westlands district. The banks were emailed a simple question on fixed deposit interest rates. About 47% of the banks responded to the email. The fastest was 15 minutes and the longest took 2 days. The rest offered no response. Hum, what was that banks always say about their customer service?

13. Feeling Frugal?

Frugal is a word that is not often used, particularly in business. Yet it turns out that a frugal approach to management may be a strong predictor of success and profitability, whether in Kenya, or further afield. In a survey of management, *The Economist* cited being frugal as one of three characteristics of effective business. In the four years since September 11, from Mombasa to Mumbai to Montreal, frugality has been forced on most organisations, but the truth is that cutting unnecessary costs is always a wise business practice.

Frugal does not mean being stingy, or cheap. It means being thrifty with resources, being sure to remain economical, and not with a Dickensian “Please sir can I have some more” nastiness, but with a shrewdness of where value for money lies.

“Everyone knows the price of something, but few people know it’s value,” were Oscar Wilde’s thoughts.

One Kenya Charity Sweepstakes lottery seller put his children through school and university through sheer perseverance with daily small margins. A Kenyan chairman of a 1,400-person market-leader company shuns a driver and any extra assistance, preferring frugality over any appearance of extravagance. Another very successful, MD, barely in his forties, collects the pens after each company workshop, saying: “I paid for this.” The writing is on the wall – that there’s no waste there.

Warren Buffet, one of the world’s richest men doesn’t travel with a conspicuous high-consumption Mercedes’ dealership on wheels; he drives his own car, does his own taxes and lives in a house in Omaha, Nebraska that he bought for \$35,000 in 1958. (His financial organisation, Berkshire Hathaway, was recently ranked fourth in terms of market capitalisation, just behind Citigroup, AIG and HSBC Holdings.) In Kenya, while the economy has been stuttering along, NGOs have been a growth industry. It is always amusing to see an NGO supposedly “serving” (nay the politically correct term is “empowering the poorest of the economically active”) by cruising around in a fleet of the latest Sh12 million four-wheel drives that get ten miles to the gallon. Who is kidding who?

Wal-Mart, the largest retailer in the USA, with a market capitalisation of \$250 billion, operates from an austere head office in backwater Bentonville, Arkansas, where managers are encouraged to take out their own garbage and pay for their office coffee.

In contrast, Enron, that the complex financial derivatives firm, with an energy pipeline business on the side, was on the other end of the consumption spectrum. Phyllis Anazalone, who sold electricity supply contracts for the firm says: “The company never did pay much attention to expenses, and it always bothered me.”

Enron Energy Services could easily send 75 top performers for a four-day holiday in the West Indies at a cost of \$1.2 million, splashing \$16,000 on each couple.” Helena Payne of the Enron expenses department saw costs skyrocket: “Mostly it was entertainment. They’d take hundreds of people to a concert. We always thought that was a lot more money than should be spent on company business.” Being frugal, being economical with resources is a behavior. It becomes part of company culture as “just the way things are done around here”.

When you see conspicuous consumption in an organization, it often means someone is being economical with the financial truth. It is not uncommon to find that some companies have management expenses that are all out of proportion to what they should be, thus jeopardising their long-term staying power and the jobs of their staff. Interestingly, jobs are more secure in frugal organisations. For instance, after September 11, while British Airways announced its first loss in years, no-frills budget airlines like UK-based EasyJet and RyanAir and South West Airlines in the USA laid off no one and in the process maintained their profitability. British Airways later appointed the former head of a no-frills airline as its new chief executive.

Family-owned and run businesses have some “ying and yang” about them, some good things, some bad things. BDO Stoy Hayward, a firm of accountants analysed the family effect where family-run businesses had an essentially conservative nature, longer-term perspective and less desire to take on debt financing. Hands-on, this-is-mine ownership leads to an avoidance of careless wastage.

The extent to which a family holds a large block of shares often explains why they outperform firms without any large family ownership. Over a 20-year period, in the UK, Stoy Hayward estimated that the family effect helped to explain why 30% of firms outperformed their peers. In the USA, in the same time period, the family effect explained over 80% of strong performance.

What about Kenya? While most firms are not publicly listed and therefore do not have to publish their accounts, the “family effect” goes a long way to explain the strong performance of, for instance, Bidco, Comcraft Group and Sarova Hotels.

Away from the corridors of commerce, the last thoughts on being economical come from philosophy, where frugality is associated with the Cynic school of thought. Today the word cynic has come to mean something totally different.

In 400 BC, cynics believed that true happiness did not lie in external advantages like material luxuries or political power. Diogenes was a cynic who lived in a barrel and owned nothing but a cloak, stick and bag for bread. One day sitting inside his barrel, basking in the Athens sunshine, the emperor Alexander the Great came to say “Jambo” and ask if there was anything he could do for him? “Yes,” said Diogenes, “stand to one side, you are blocking the sun.”

14. Flywheel Effect And Improving Performance

Everything you know and have heard about how to change business performance may be wrong. Wrong, wrong, wrong, totally wrong. It just does not happen that way. Real operational and financial change often relies on a flywheel effect. Get this right, and you won't be running very quickly just to stay where you are.

A landmark five-year study by Jim Collins and researchers that tracked 1,435 established companies over 15 years pointed out some remarkable commonalities of what it took to go from good to great; commonalities that have implications for your business. In the study, great companies had to have stock returns that exceed the general market by at least three times over 15 years – and they had to have made a performance leap, independent of market trends.

The strange thing is that the results that Collins found contradict everything you have probably ever read or heard about what it takes to create great business performance. His team found that in good-to-great business transformations, there is no miracle moment. Turns out that all the prescriptions about how change and turn-arounds happen may be bunk. But when you look around at successes on the Kenyan business scene, the principles make sense.

Flywheel effect

Imagine a huge metal disk, eight metres in diameter and two metres thick, weighing 20 tons mounted one metre off the ground. Sitting there at rest, that flywheel is your organisation. It's going nowhere. You walk up to it, push and it does not move. No surprise. You try harder and miraculously it moves less than a centimetre, then it moves a metre, then another. Eventually it makes one rotation, then two. After a tremendous amount of effort in getting things rotating, with others joining, momentum kicks in. Successful firms have that discipline and stamina to create a flywheel effect. When staff begin to feel the delight of momentum, when they see some tangible shifts in how things are done, then they begin to put their weight behind things; a push ensuring momentum.

A prime example of the flywheel effect would be the Nakumatt supermarket chain. From humble beginnings in Nakuru, the firm has gone on to dominate Kenyan retailing. Flywheel effect can also apply at an individual level. Someone may face a job that seems too much for them; they are overwhelmed, yet by sheer persistence and diligence they make few hesitant steps forward, get supportive feedback, and voila, they become management's equivalent of football star David Beckham. Flywheel effect relies on at least trying, making an attempt which can be scary because one risks failing, looking stupid.

Often real life can become an inspiration for business. One of the best examples of stepping out comes from Sam, barely out of his 20s, a street kid in Nairobi's Westlands business district. From age nine, he was hooked on drugs, but finally took the courage to enter a three-month residential drug substance abuse rehabilitation programme in rural Busia at the age of 23. Triumphs in business and life often begin with small often-unnoticed steps.

15. Focus And Simplicity

Focus and simplicity have their own elegance. Are you a fox or hedgehog? In the Greek parable, the wily cunning fox knows about all sorts of things, and will do anything to get an advantage over the hedgehog.

In contrast, the hedgehog knows only one thing; when it is being challenged, it simply rolls up in a ball with sharp prickles sticking out in all directions. No match for the fox, the hedgehog fights off all the tricks every time, based on one simple approach.

Hedgehog companies have a single unifying principle or idea that guides everything else in the organisation. Nakumatt focus strictly on consumer retailing. It outsources non-core areas and does not get involved in the real estate issues that confused the once dominant Uchumi supermarkets. Unga Group at one point diversified out in all sorts of directions – today it sticks to the mastery of the core business of grain milling and distribution. Directline Assurance, now a few years old, took the bold step of focusing strictly on motor vehicle insurance, including PSV.

Having a single-organising concept that everyone understands and can rally behind makes business sense. There will always be the temptation to wander off into areas that on the surface appear to be flavour-of-the-month attractive, or trendy, but are not the core competence of the company.

While the hedgehog concept is intuitively appealing, it is tougher to decide what should be the single-minded focus of the company. The starting point is to ask three questions and be brutally honest.

- 1) What can our company be best at?
- 2) What can we focus on that we get excited about, that staff have a real passion for?
- 3) What drives the economic business engine?

Sounds simple, but it can get tricky. For instance, just because a company is competent in a certain area does not mean it can be the best at it. And, in a few remote cases, what an organisation can be great at, is maybe something it is not even doing at the moment. It is important to know that despite all sorts of blue-sky hopes, one can never be the market leader at offering these products or services. What management and staff get excited about in their heart (and gut) is easier to determine. Looking at the bottomline, on the financial dimension, try and identify your company's "economic denominator" ?

"If you could pick one and only one ratio (for instance, profit per x, or cash flow per y) to systematically increase over time, what would that variable be that would have the greatest and most sustainable impact on your economic engine," asks Jim Collins in the management classic, *Good To Great*. This could be, for instance, profit per customer, or profit per employee, profit by segmented product. There are all sorts of possibilities, but try and come up with one financial ratio that is an indicator of what the company is about and wants to win at.

These are three tough questions that cut to the heart of the matter. But if a company can come up with the right answers and more action, business success is likely around the corner. Not having hedgehogs in mind, the writer Alexander Pope said, "There is a certain majesty in simplicity."

16. Illusions

“There are three kinds of companies: those who make things happen; those who watch things happen; and those who wonder what’s happened,” are the thoughts of one Kenyan manager. It is not uncommon for businesses to often fail to see that their markets have changed. What made a company successful five years ago may not work today. A case in point is Kenya’s stock market. Is the NSE proactive in creating investment products that would perk the interest, imagination and pride of the middle-income earner, or reactive in the mode of “Oh, times are tough, what can we do?”

In more difficult economic times around 2000 and 2001, the Nairobi Stock Exchange often had a daily turnover of less than (what was then) a busy Uchumi supermarket (pre Nakumatt growth and dominance). This meant there was more neighbourhood demand for foodstuffs and household items than there was nationally for taking an equity ownership stake in one of roughly 55 companies. What does one do, complain about the depressed economy? This is the equivalent of what sociologists call “blaming the victim”. Pre IPO boom, one of the fundamental issues for the NSE at that time was asking: do we have a product, do we provide a service for which there is a demand in the economy? There are all sorts companies that need to raise capital that do not meet the current criteria to be listed on the exchange.

Why not create a portfolio of easily accessible investment vehicles where the notion of risk is allied with the financial return? And, what about genuine venture capital funds, where Kenyans could buy into a high-tech fund, or a agro-business fund, or a mixture of both. Often in business, to solve a problem one has to start with the desired outcome and work backwards. As in, if we are going to have these products – services with this level of profitability – what does it take to make things happen? On a broader level, a case in point is industrialisation in Kenya by whatever year, is it 2020 or 2030? Readers of history would note that the Industrial Revolution in England was coming to an end by 1860. To say industrialisation by the year x is to misconceptualise the problem. As economist Paul Hoffman points out: “One illusion is that you can industrialise a country by building factories. You don’t. You industrialise it by building markets.”

And where are the markets today and for what? There is no doubt about the importance of agriculture, coffee, tea and horticulture to the Kenyan economy. But it is interesting to note that the second largest coffee producer after Brazil is now Vietnam, a country that a few decades ago was being bombed into the Stone Age by Uncle Sam. It shows you the value of will power. Kenya is full of managers and entrepreneurs who do and can make things happen. The success of those in the Information Technology sector is a case in point; where the local ICT wizards are today’s equivalent of some iron forge owners of 100 years ago. One of the greatest business coups in the decade is Microsoft’s Windows and Office product where you buy your computer and their software is automatically part of the cost equation. Now that’s industrialisation on another dimension. And, yes, good old-fashioned drive with a touch of imagination based on “what does the customer want” still counts. Just look at the bordering-on-the-astronomical growth of Equity Bank.

17. Knowing You Don't Know

What do you do when you just don't know? Imagine in the domain of business knowledge that 20% is made up of the facts and data we know. And 30% is composed of what we "know we don't know". But the biggest chunk, 50 % is business knowledge "we don't know, we don't know". In other words – it is in this 50 % of insight that we don't even know exists. Paradoxically, recognising our ignorance here is the beginning of understanding. And, the beginning of breakthroughs – that often appear initially as breakdowns. In advertising, one often hears that ad agency people say that only 50 % of their clients' advertising is effective. Trouble is that they don't know which half.

And so it is in business – we don't know what the future will bring. Unless you're a well-off Rolex-wristed Swiss goat herder living high in the Alps, degrees of uncertainty are everywhere, just as per the course. For instance in Kenya, what will happen to the already lacklustre economic growth, as the disparity between the rich and the poor continues to grow, with top 10% per cent of households controlling 42% of total income while the bottom 10% rake in less than 1%. All of which ranks Kenya among the top-ten most unequal countries in the world and the fifth in Africa. What will happen when another mobile phone provider enters the market or Telkom Kenya is privatised? What will happen when the long awaited banc assurance materialises with the merging of banking and insurance sectors. Will the 38 insurance companies survive ?

Often, one has to admit "I don't know the answer, and no amount of analysis will tell me". Here, traditional business planning tools break down, just don't despair, and the place to start is to identify which of the four levels/stages of uncertainty one is in.

- Stage 1 is where it is possible to make a useful prediction about the future. Uncertainty exists – it always will – but one can still confidently set a clear route to follow. For instance, resource-based industries like Magadi Soda and Bamburi Cement.
- Stage 2 means one can identify a few definable scenarios – not sure which one will occur, but at least one can anticipate and perhaps spread the bets. As in the banking, insurance, hotel and hospitality sectors.
- Stage 3 is the case where continuous uncertainty exists – where analysis cannot reduce matters to a set number of scenarios. For example, investors in Russia in 1998 at the time of the default and financial crash.
- Stage 4 is true ambiguity, meaning uncertainty on every dimension. Nothing seems constant, even the ground seems to be forever shifting underneath the foundations. Turbulence.

In stages 2 and 3 uncertainty situations, firms have to begin to develop a variety of options, and place small bets. Have not just one strategy, but several on the back burner – have a portfolio of strategies. Think through the scenarios – anticipating what to do in a what-if fashion.

Given this uncertainty, a company can take a number of stances.

- Adapting is the most common, where the mindset is the *status quo*; accept the business environment as it is, hopefully taking advantage of opportunities and responding to threats. This is what most of the close to 50 banks operating in Kenya today do.
- Shaping involves trying to change the environment, big or small, in a direction that would benefit the company. Shapers rely on their ability to change the circumstances to what offers the highest rewards, but also the greatest risks. All wealth creators are shapers; from Thomas Edison, Microsoft, through to the Kenyan horticulture success, HomeGrown and even Safaricom.
- Reserving the right to play means making no commitments, doing the minimum, keeping open the possibility of becoming a strong player later. Is this what Equity Bank and supermarket chain, Tusker Mattress did in the past ? Place your bets.

18. The 80/20 Rule & Creating Business Segments

“A man who knows the price of everything and the value of nothing”, as stated earlier, was Oscar Wilde’s definition of a cynic. Creating the distinction between what Warren Buffet calls “intrinsic value” and simply the price tag makes for the beginning of both a smart manager and an NSE-astute investor.

One of the most wonderful insights about business that will make you look like a management wizard to your boss is the application of the 80/20 rule. 80% of the value of any activity is likely to come from 20% of the inputs. For instance, 80% of your company’s turnover (and hopefully, profitability) comes from 20% of the customers. Who are these, what do they want, how can you strengthen the working relationship? These are points you might want to act on. 80% of the value you generate at work is likely to come from 20% of your time. Knowing what tasks these are will make you a more productive manager. Let us take this line of thinking to the next step and apply it in your business.

Look at your company’s financial statements, on the income and expenses page you will see revenues, a break-down of expenses, and a bottom-line profit before interest and tax (PBIT). It is not uncommon to find company revenues consistently going up and profitability lagging, or even dropping. What’s going on? No one took the time to ask what business are we in, and with who – and put the results under a microscope.

If you ask senior management to tell you which business segments they are in to generate the stated turnover, they will give a vague definition of say four clusters – four lines of business. Yet, with some probing it should be no surprise if you find that the four clusters are, actually, ten distinct business segments.

What do we mean by business segment? Anything that makes up a separate product, service or activity. A business segment is created any time you are dealing with one group of customers, rather than another, or when the main competitors are significantly different. Try to break your business down to segments and examine the profitability per segment – you will likely be in for a shock. Lines of business you thought were profitable may actually be loss-makers, and some lines you thought were lagging may be cash cows, or at least cash goats. Asking the accountant to restate the aggregated accounts in a way that gives you this information may be difficult. They may say, “... it will take weeks”. Do you wait for the bean counter, or just plain give up? Take courage, and go ahead.

Try and estimate segment profitability as best you can with the accounting information available; for instance, sales per segment and the gross margin (sales less cost of goods). The trick is to make an allocation of all the business’s overall fixed and variable costs to each of your newly recognised business segments.

After some number crunching you will have a rough estimate on each business segment’s return on sales and ideally return on capital employed. The result of this exercise will probably be that conventional wisdom has been turned on its head, making senior management think about what really is the best business strategy. Or, having them realise that the business is really made up of distinct segments, each with their own profitability and market share. It will likely make the corporate bosses appreciate that what they need is not just one overall “hope for the best” umbrella strategy, but a portfolio of strategies.

Assessing profitability per segment and applying the 80/20 rule will be some wise Solomon-like first steps on the journey to creating a profitable business strategy. Don’t feel bad that no one recognised this before, chalk it up to experience. As Oscar Wilde remarked: “Experience is the name everyone gives to their mistakes.

19. Non-Stick Minds For Sticky Situations

“Mind that does not stick,” is how Konosuke Matsushita, the Japanese founder of global brand names like Panasonic, National, Quasar and Technics described his business success. This is a clue for modern business leaders especially where there is a need to rethink approaches, see things with fresh eyes.

It helps one notice opportunities for making money in familiar businesses. After the 1970s’ war, when the Americans tried to bomb North Vietnam off the face of the earth, a number of Vietnamese visited Kenya to learn about varieties of coffee. Today, Vietnam is the world’s second largest coffee producer, next only to Brazil.”

How is it that Japanese products dominate our roads and our consumer electronics ? Is it that they just got lucky? Or, that their way of approaching the market represents a fundamentally different way of doing business from that we in Kenya can learn from?

Somehow we are all concerned about coming up with “the” smart answer. However, the typical group of Japanese managers working on a business problem will spend less time to come up with the answer – than they will spend focusing on asking what the right solution-oriented question is. Coming up with the answer is nice, but if you are answering the wrong question, you are travelling at *matatu* like speed in the wrong direction.

Kenichi Ohmae, the Japanese management wizard, defines strategy as “creating sustaining values for the customer better than the competition” -- with a focus on meeting real customer needs. That may sound similar to traditional approaches, but it’s radically different.

Traditional approach is – if your competitor is offering a product or service at Sh5, 400, drop your price to KSh 4,900. Or if they differentiate themselves on quality, convince the customer that your product has even better attributes. Ohmae believes the success of the Japanese lies in often avoiding toe-to-toe competition, learning from Sun Tzu, who wrote in 490 BC: “To fight and conquer in all your battles is not supreme excellence; supreme excellence consists in breaking the enemy’s resistance without fighting.”

The trick in many business cases is to avoid toe-to-toe competition, which just drives everyone’s profit margins down, but instead go back and ask the customers questions that challenge fundamental assumptions. Do not take business systems and definitions of customers needs for granted; rethink them on a regular basis. Take them apart in your mind. Use a mental process that deconstructs things, restructuring the product or service from scratch. Ask, ask, and ask. Keep asking why?

For instance, why do people attend computer training colleges to learn software packages like Word, Excel and PowerPoint? No, the real reason is that they want to better themselves and in the process earn a higher salary. Why do patrons drink beer, is it for taste, or how it makes them feel? Then sell the product based on the feeling. The ultimate trick to creating profitability and having a larger share of the market is not to beat the competitors, but to deliver value to the customer.

Ultimately, developing a good business strategy is a mix of hard analysis, creativity and intuition. Forget elaborate market survey reports, go out and talk to customers and ask about not what you think is important, but what they value.

20. The Black Swan

What do the credit crunch, the rise of the internet, the success of Harry Potter books (and, perhaps even Kenya's 2007/8 post-election crisis) have in common? They are almost random events with a huge impact that were nearly impossible to predict. Of course, after they have occurred someone can always rationalise that they saw it coming. Reading Nassim Nicholas Taleb's 2007 book, *The Black Swan* will shake any Kenyan manager's worldview and cause one to think again about uncertainty and the chances of accurate prediction. This provocative book which the influential *Economist* newspaper referred to as "deeply intelligent" is must read, a level above the genre of *The Tipping Point* and *The Wisdom of Crowds*.

The title of the book comes from the past belief that all swans were white, and then it turns out that a rare Black Swan was spotted in Australia. Black Swan events as defined by Taleb are what he calls an outlier, lying outside regular expectations, where nothing in the past can point to its possibility – where the event carries an extreme impact. Strangely enough, as he points out, the Black Swan phenomenon is a fact that we tend to ignore, because we do not even recognise it exists.

This book written by the Wharton-trained financial economist makes you think. It is the kind of book you go back a few pages to make sure you really understood earlier ideas. The Black Swan logic makes what you don't know far more relevant than what you know. His thesis is that "contrary to Social Science wisdom, almost no discovery, no technologies of note came from design and planning – they were just Black Swans."

Taleb is brash and pulls no punches when he writes: "Go ask your portfolio manager for his definition of risk and the odds are that he will supply you with a measure that excludes the possibility of the Black Swan – hence, one that has no better predictive value for assessing the total risks than astrology ... dressed-up intellectual fraud with mathematics."

In Systems Theory 101, a simple system has a boundary called the interface, which exists in an environment with an input and an output, where if there is no feedback mechanism from the output back to the input, and from the environment, the system eventually breaks down and fails. For Taleb, the situation is far worse than that as he believes that "we don't learn that we don't learn".

Taleb writes about the land of Mediocristan [type 1 randomness] and Extremistan [type 2 randomness] where Black Swan social phenomena lie. For instance, if you randomly got 100 people to line up shoulder to shoulder on a street in Nairobi you would get an excellent (statistically correct) picture of the average height of Kenyans. Even if you brought in the tallest person in Kenya, who is, say, more than eight feet tall, it would not significantly effect (by less than one percent) the average height of the group. In other words, when your sample is large, no single instance will significantly change the aggregate, the total, or the overall average. In other words, in Mediocristan (a place of physical measures) a single event does not contribute much individually, only collectively.

In the land of Extremistan, filled with mostly social phenomena where the Black Swan events lie, things are totally different. Take another randomly selected group of 100 hard-working Kenyans and compute their average income, now bring in the richest individual in the country. It is not hard to see that their income would be many times the income of the total group combined. "In Extremistan, inequalities are such that one single observation can disproportionately impact the aggregate or total," notes Taleb. The lesson for Kenyan managers here is to know how to make the distinction between the two worlds of manmade social events and the physical world (like measuring waistlines). Stop trying to predict everything and recognise (and hopefully be able to take advantage of) uncertainty. Maybe we can even come to the shocking self-awareness that we not even aware that we don't learn.

21. Getting The Sauce Out Of The Bottle

Imagine you are sitting for a long-awaited tasty lunch. Though you should not have, you have rewarded yourself with a juicy cheeseburger, with salad on the side, just to be healthy. You reach for the tomato ketchup, open the top and give it a tap, nothing, despite the bottle being full. Another tap, zilch. Given you like to think of yourself as a manager who can produce results, this is starting to look embarrassing. Another tap, a little harder this time. Still nothing. Another tap and the ketchup floods out all over your plate, almost submerging the hamburger.

Voila, you have just discovered a non-linearity. Things in life, in business (and apparently, lunch) do not happen in a linear, predictable and straight-forward way, yet in our planning we treat things as if they do – as though we know what will happen next. As in 10% more money spent on advertising in this month will generate 15% more sales. And, putting more production staff on a shift will increase output. Yet, secretly, we know things do not work that way, yet we persist and carry on anyway. Hoping that either no one will notice, or that, “Hey, we might just get lucky.”

“Our brain is not cut out for non-linearities. People think that if say, two variables are causally linked, then a steady input in one variable should always yield a result of the other one. Our emotional apparatus is designed for linear causality,” notes Nassim Nicholas Taleb, Professor of uncertainty and author of *The Black Swan* and *Fooled By Randomness*. Taleb pinpoints the weakness in business planning thus: it is assumed that if actions x and y are done, they will produce the results a and b. Intuitively, one suspects this is not the case, but given that it is difficult to think about how to express things in any other way, or we are too lazy, we leave things simply as they stand.

Somehow in planning one has to be able to take into account randomness and the cascading nature of events. Problem is that when all is said and done, these non-linearities are too difficult to predict and trying to model them is interesting, but does not provide a framework one can count on.

How fads and fashions start and how epidemics spread was popularised by Malcolm Gladwell’s book, *The Tipping Point*, which looked at the dynamics of networks. All of a sudden a type of mobile phone or brand of sneaker is a “must-have” item, yet there was no advertising and very few of the items were on the shelves to be sold. What happened? Somehow items or ideas get popular, spread by word of mouth, or the internet, then reach a critical point and then just seem to take off, to tip, and spread like wild fire. What should one do faced with all of this unpredictability – all this upsetting randomness. Don’t give up entirely and conclude that it is impossible to predict and do nothing.

To start with, go down the conventional business planning route, but at least be open to the possibility that things may not happen the way you think. (If you notice, they rarely do.) Keep your corporate eyes and ears open and be ready to respond.

Smart business planning is as much a process requiring flexibility of mind as it is about producing a product, often a plan that just sits on the shelf, gathering dust. Think of the ketchup bottle and follow the wisdom of one revolutionary Chinese statesman who said: “She who plans, must plan often.”

22. What Is Your Ideal Customer ?

“The customer is always right,” is a common business maxim, but is it true? Is there such a thing as an ideal customer? Does karma exist in business – is there such a thing as corporate karma?

While one always wants to treat customers like royalty any experienced business person knows that, in a few (hopefully rare) cases, despite putting in one’s best efforts and going that extra mile, it doesn’t seem to matter. For example, some clients can have wheeler-dealer mindsets, based on agreements they don’t keep, making them tough to deal with and hard to pin down. The type of business transaction one just wants to end and get out there alive.

As opposed to chasing after any and all customers, it is worth taking the time to look at one’s clients list and put down on paper the more specific characteristics one would like to have in customers. For instance, for an architect, an ideal client might be someone who is looking for an innovative eco-friendly design and ready to pay a premium for professionalism.

“Most businesses put significant time, money and effort into attracting more customers. But simply serving more customers is not nearly as critical to your success as serving the right customers. When you match your business with the right customers, they will not only buy your product, they will serve as your advocates and ambassadors, sing your praises, tell the world about you—and bring you new customers,” write John Assaraf and Murray Smith in their book *The Answer*, which makes worthwhile reading for any SME business owner. They define an ideal customer as someone “who not only buys your product or service, but one who buys it with passion. Your ideal customer is the one who really wants what you have to offer”.

In order to understand your customers, it is worth figuring out their hot buttons. Hot buttons are understanding customers’ problems, issues and frustrations that they are faced with as they consider who to do business with. How do you find this out? Well ask them, both your existing customer base and those that are not your customers, as, after all, this is where the great majority of the market is.

Take your customer list over the last 12 months and you will likely find that some variation of the 80/20 rule applies (it may be 75/25 rule). For instance, 80% of revenues (and hopefully profitably) comes from 20% of the customers. Who are these clients? Why is it that they chose to buy your product or service? What are their likes and dislikes? What else can you offer them? What do you have to do to retain them and “wow” them? It is likely that you are going to find that this 20% of customers match the profile of your ideal clients.

Karma is not a word used much in business circles, but it is likely there in every commercial transaction, from the purchase of a Sh50 scratch card to a billion shilling deal. “Like gravity, karma is so basic we don’t even notice it,” remarked Sakyong Mipham. This idea of karma is there in many religious traditions, for instance, in Hinduism, Sikhism and Buddhism. In Christianity the notion of karma could be considered to be “reaping what you sow” as described in the book of Galatians.

The notion of karma can be simply stated thus: performing positive constructive actions results in an enjoyable refreshing condition in one’s experience, in contrast to negative actions resulting in unpleasant effects. Want to generate good karma for your business? Find those ideal customers, delight them and see what comes flowing back.

Being An Effective Manager

23. Mythology Of Management

Rational, focused and diligent. Are these the words that describe the ideal manager; someone who shows insight beyond their years, and can cut through the piles of figures and loads of bumph to discern the critical issues and then magically act? Is this fact or fantasy? Or is it romantic, chest-thumping drivel? Do such managers really exist?

We have a tendency to idolise managers like Donald Trump or Richard Branson and heaven knows, whoever the wanna-be Kenyan equivalent is (possibly complete with a fabricated been-to-America accent.) Away from the rhetoric, in the hard light of day, we know we are not the rational creatures that eighteenth century rationalists made us out to be. Since the days preceding Sigmund Freud's research, we know human beings are deeply irrational. Irrational impulses determine what we think about, what we do and what we dream. We know we are ruled and controlled by our subconscious, not our conscious. The conscious mind is a bit like the tip of the iceberg, with the all-powerful subconscious mind imitating the programming language that really controls how the software operates. Freud's work, dating back almost 100 years, shows the conscious mind constitutes only a small part of the human mind, with all those unpleasant, nasty and embarrassing experiences repressed to the subconscious. Hidden, but still present.

When you are at a meeting with your co-workers and things get a bit boring, just ask yourself where your thoughts are straying, and those of your colleagues. Isn't it interesting that we all know the answer, yet we repress it? Advertisers have capitalised on this for almost a century, using sex to sell products, with the more sophisticated using subliminal advertising. Next time you see an ad for an alcoholic drink with ice cubes in the glass, have a closer look at the ice cubes. What do you see?

When you are listening to someone at work, just let them relax and talk and see what pops out. This can be particularly effective when interviewing; letting the candidate relax and chat on about themselves. Often, they will along the way make a Freudian slip, something that pops out of their subconscious that expresses what they really think and feel – not part of the false imagery they are hoping will impress– which they try hard not to consciously project. Essentially, the unsuspecting job candidate will find themselves saying or doing something that they tried to repress.

All of us take on personalities that psychiatrists tell us are strongly influenced by events early in life up to the ages of three or four, where personality is certainly determined by the late teenage years. Going against the grain and all psychological research, we often keep trying to change staff, by sending them to training sessions, aiming to have them become something they are not. More like trying to get Sam, the outspoken, abrasive logistics manager to become a caring listener and an all-round sensitive guy. Forget it, it will never happen; Sam is Sam, all he can achieve is become self-aware; know who he is, build on his strengths to help in just getting things done, and making things happen, and beware of the effect his shouting and ranting can have on co-workers.

Conscious or subconscious, what are you thinking about?

24. Management Insight

How do you tell genuine management insight from mindless public relations babble? Just as the menu item is not the meal, and the spot on the map is not the territory, how do you tell if what a manager says demonstrates real understanding, or is simply spewing out a litany of trite management jargon?

One way to do it is to test for insight or babble. As the randomness guru Nassim Nicholas Taleb points out, “Rhetoric can be constructed randomly, but not genuine [scientific] intelligence”.

Turing’s test, which was created by the British mathematician Alan Turing, seeks to define the degree of artificial intelligence. He stated that a computer can be said to be intelligent if [on average] it can fool someone into thinking that the computer is really a human being. Taleb imaginatively points out that the reverse can be true and can be used to test intelligence, about say business and management matters.

If one could randomly produce a statement for a CEO speaking to shareholders, or to a management meeting that in reality is random nonsense, then it is not worth the paper it is printed on. Let’s try and see if this is true. Let’s try to produce a speech for a chief executive officer and see whether it has real value, or is just tattered-up business jargon. Randomly select and mix up all the phrases in the three passages below and then join them together with a dash of good grammar to make it coherent. See if you can create a dash of [artificial] intelligence and pass Turing’s Test.

“Ahead on the learning curve / We continually exceed client expectations / Our customers are treated like royalty / Staff are our greatest asset and we cherish their contribution dearly / Creation of shareholder value drives us forward / Defined by good governance / Tailored client-centric solutions are our unique strength / Continually energy-conscious with a deep concern for the environment / Teamwork is our standard operating procedure /

Kaizen – constant improvement / We are committed to excellence in all we do / We go from strength to strength even in these challenging economic times, which only serve to make us stronger / Solid balance sheet / Following an incisive carefully crafted strategy / Well positioned in the market to provide outstanding service / Managing risk with Solomon-like wisdom / Win-win mindset in emerging markets / Zen-like attention to detail / Innovation through imaginative technology is our way of life / Committed to corporate social responsibility / Upbeat about the future, despite the storm clouds on the horizon / Responsive with a warm and human touch / Despite the challenging year we overcame great obstacles / Your business initiatives transformed our sector / Reengineered our business processes / Dynamic energised switched on staff / Striking leadership by my committed management team / Aiming to be globally competitive / Deliver total quality at sigma six standards / Aspiring to be world class”

If the speech you randomly constructed sounds like the words you just heard from your boss, you might want to start surfing the web and checking the papers for a new career opportunity.

25. Lessons From The Ant On The Beach

Imagine you are looking down at an ant making its way on a Mombasa beach. As you watch, the path the ant takes looks totally crazy, zigzagging all over the sand, first this way, then the complete opposite direction. Totally irrational! What happened to the idea that the shortest distance is a straight line between point A and B?

Your top-down aerial perspective from 5 feet up in the air is not the reality the tiny ant faces on the ground. From the ant's perspective, it encounters massive craters and mountains you did not even notice. Ever listened to a workmate or friend's conversation that seemed totally off the wall, and not in your real world at all? What you may miss is the empathy to appreciate their life experience. You end up making assumptions about how people and the world are – and the juice about what is really going on with them, their operating principles, eludes you.

In business we can learn a lot from the ant on the beach in these tough times. See and understand your business sector through the ant's eyes and antennae. That ant is your customer. One of the key points in business strategy is to try and get inside the competition's head and see things from their perspective. Understanding how others think and how they are likely to act in a situation is key to business decision-making. Your in-the-box thinking is the booby prize; you need to think about how both the customer and the competition think.

Perhaps we get too tied up in what we know and forget that some of the real business insights are not only in 'what we don't know' but more in 'what we don't know we don't know'. That sounds a touch philosophical and even crazy. How does that help one in business? One thing you can safely predict is unpredictability. Pretty much how you think things will work out is often not how they will. One only has to look at the business and the (inter-linked) political environment in Kenya between 2007 and 2010 to see that. In early to mid-2007 it looked liked the economy was taking off. The McKinsey & Co-inspired Vision 2030 document proposed world-beating average annual economic growth, starting from a base of 6% to 10% from 2012 onwards for Kenya. By 2012, the country was back to a humbling prediction of 2%. He who predicts must predict often.

Why is it that we don't see these events unfolding? Part of the operating principle of being human is that our brains are programmed to believe we are right (most of the time). Perhaps it's time to be right by recognising how wrong we can be. In business it takes courage to recognise that our ignorance and fallibility is the beginning of understanding. Coming up with the right point-A-to-B answer is nice, but if you have the mistaken perspective and are answering the wrong question, you are travelling at *matatu*-like speed in the wrong direction. Kenichi Ohmae, the Japanese management wizard defines strategy as "creating sustaining values for the customer better than the competition".

Don't wait for another crisis to jolt managers' thinking, take business systems and definitions of customers' values and needs for granted, don't always think you are right, rethink them on a regular basis. Take them apart in your mind. Use a mental process that deconstructs things, restructuring the product or service from scratch. Ask, ask, and ask. See things from the ant's point of view.

The last word goes to the disillusioned manager who said: "Anyone can come with a few bright ideas, but it takes real management to leap from crisis to crisis".

26. A Drunk And His Car Keys

A drunk looks for his car keys at night under the only available street light. Not because he thinks that's where the keys are, but that is the only available light.

So it is with many management decisions. We know they are probably wrong, but we can't think of any better alternative. "We just keep doing the same things, expecting different results", which was Albert Einstein's definition of insanity.

In a Newtonian world of cause and effect – things would be relatively simple. For instance, if company A introduces a product or service, with features K, then the results will be P and the sales will be up by Z%. Unfortunately, in the modern world, predicting cause and effect is difficult. What is absolutely predictable is only unpredictability and uncertainty. In the turbulent business world we live in, all the variables seem to be shifting, and even the ground underneath seems to be rocking. For instance, skyrocketing food, energy and electricity costs and severely constrained economic growth stifled by the (largely unpredicted) tragic political upheavals are the order of the day. Remarkably, the world's largest insurance company, AIG, got bailed out by the US Federal Reserve with loans amounting to US\$85 billion, in effect nationalising a private company. It's often hard for a business to place all bets on one course of action, perhaps better to consider having a portfolio of strategies, and take a spread-the-bets approach. At one extreme, one could choose to bet on every horse in the race? Or be a touch more conservative and behave like a shrewd policy maker.

Research suggests that effective policy makers focus on a few actions that they will be able to take, rather than the wealth of options possibly before them, as Yale University's Charles Lindblom noted in 1959. While this may be a simple approach, it allows policy makers to make a choice amongst options on the table quickly, and make decisions that meet the requirements of their constituents. Lindblom called this "the science of muddling through" and found that effective government policy-making involves continually make small policy improvements, a sort of policy-making Kaizen, aiming to improve something just a little every day.

Senior managers who are responsible for company planning find turbulence more than a touch upsetting, but a bit like the drunk searching for his car keys, they choose to ignore certain factors. Some believe that they just need to pass their magic wand over the scenarios and number crunching and, voila, they will have a five-year plan (almost right out of Stalinist central planning of half a century ago). But no company can predict what will happen five years down the road – yet business stills pretends it can. (Think back to September 2007 in Kenya, for instance. Who would have anticipated inflation at 20% in 2008 plus less than half the level economic growth? Who would have predicted that there would be GSM-enabled cell phone services two decades ago?)

Yes, one can make elaborate statements and set out blue-sky visions, but that's part of the problem. Anyone can, and most people, do with the credibility of each additional statement decreasing logarithmically. "Everything depends on execution, and having a vision is no solution" notes Stephen Sondheim.

Business planning is a process, not a product. What is more important is having managers anticipate what may possibly happen in the market, and continually staying on their toes? Your biggest competition in three years may be from an outfit that does not even exist at the moment.

27. Be An Opportunist

How do you balance the organisation's long-term vision focusing on growth, with the news that you have a third-quarter drop in income of 30 per cent? For the moment, forget the blue-sky inspiring statements, today the company is fighting for its very survival.

That is the essence of the art of insightful management. Being able to think in two contradictory directions at the same time. Dealing with paradox. Being able to deal with today's crisis on the daily to-do list, and not lose sight of the organisation's reason for being. For instance, after a spirited attempt at reviving the fortunes of British car maker, Rover, where BMW invested millions of pounds, the latter wrote off their investment and disposed of the firm to an investment group for 10 UK pounds (KSh1,120).

Traditional theory suggests that management is a systematic, structured, linear mental activity with goals formulated with precision that are then achieved through prescribed actions. But descriptions of orderly process are unrealistic and don't reflect the real business world. Forget the theory, the truth is that managers never have enough accurate information, and often notions of structure and systems go out the door.

"I think what you find when you get out into the cold cruel world of business is that you never have all the information and there's always a bunch of facts missing. A manager is always faced with getting pieces of the puzzle, never really having all the answers that you need, and yet being forced to make decisions," notes one captain of commerce. When you are up to your ears in an hungry crocodile's gut, it's easy to forget your objective was to drain the swamp.

In practice, management is a process of questioning, sometimes focussing not so much on the answer, but more on asking the right questions, not knowing what the answer will be. How useful is the right answer to the wrong question? For managers, reflecting, musing, debugging one's own mental programming is time well spent. Reflecting, using the hard data you have, plus working on hunches is what cognitive scientists call "reasoning plausibly", in other words making logical guesses. In taking a decision, no business can take into account all the thousands of factors and come out with the right answer. This view is supported by Herbert Simon, the 1978 economics Noble Prize Winner who viewed classical economic theory as "a ridiculous view of what goes on". He believed that in reality, business tries to make a decision that was "good enough". He called this "satisfying" and in the process created the theory of bounded rationality – rationale within defined limits.

So how does one deal with these new management truths that you probably already intuitively knew? There is a lot to be said for management by wandering about (MBWA), getting out talking to staff, customers, suppliers in a informal friendly sort of way, picking up titbits of hard data and gossip. Then taking this flotsam and jetsam of management information and popping it into a mental map that allows one to fit existing needs with new opportunities.

Then you won't have to wait till October when you hear the first quarter results are bad, you will have known something is wrong, three weeks into July. Simply sitting in the office all day, basing decisions solely on reports, staring at a computer screen, is a bit like driving down a highway at 100kph, looking only in the rear view mirror.

Every so often, do the mental equivalent of climbing up to the top of Mount Everest. Get out the frantic ant hill-like activity, see it from a broader perspective, think about the longer term, all the time assuming you have handled those urgent crisis items on the to-do list. Is that your mobile phone ringing?

28. Being In Action – Just Do It

Six birds were sitting on a branch. One thought about flying off. How many were left?

Yes, you would guess five, but the correct answer is six. The bird had only “thought about” taking to flight and was not in action yet. Sounds familiar? Often we think about doing something in business, we put it in the plan, discuss it in meetings, yet it doesn’t happen. In many ways thinking is the booby prize, having an idea about something is in a very different universe from actually doing it. In the entire world of business training, including MBA courses and executive education programmes, some of the key skills that make an effective manager are almost totally neglected.

“Just do it!” Nike’s famous tag line says it all. We have all met and perhaps worked with the business co-worker who seems to have the knowledge, skills and at times upbeat positive attitude, yet despite the smooth talking and “looking good”, they just don’t deliver.

Eventually, senior management realises this, they are shunted out of the decision making loop, and out of the company, still not any wiser as to what actually happened. Globally, successful business people and managers are often not the best educated, nor the most polished in their speech – but they can get tasks done, first time right, with no soap opera-like stories.

In the last 15 years, a lot of increasingly revealing research has come to light on how the human brain actually functions. This began in the 1980s and 1990s with magnetic resonance imaging (MRI) and now far more sophisticated techniques that allow scientists to better understand the workings of the remarkable human brain, in real time. For instance, a new school of economists called neuro-economists are using insights from neurological research that shows how emotions and decision making activity is actually accomplished. All of which challenges the conventional idea that people make decisions in a rational, self-interested, and utility-maximising way.

Away from the science of economics to management, business people are beginning to use techniques world-class athletes have used for some time. For instance, a runner imagining how they feel when they cross the tape in record time, or Tiger Woods visualising how it feels to tee off and make the shots well under par and win the tournament. In their subconscious mind, these athletes are constantly setting out a neural map, hard-wiring connections, programming what it looks and feels like when they succeed. Increasingly, winning business people are doing the same, recognising techniques of visualisation and affirmations works. Business books like *The Answer* by John Assaraf and Murray Smith make for interesting reading popularising these techniques.

The conscious mind is used to define goals, but research suggests it’s the subconscious mind that follows through with the actions needed to actually achieve those aims. It is as though the conscious mind is like your computer’s keyboard and icons on the screen, but it’s the subconscious mind that runs and writes the programming languages that controls everything.

Perhaps it’s time for managers to “think about how they think” remembering the words of Albert Einstein: “Imagination is more important than knowledge”.

29. Business At The Speed Of Light

Business at the speed of light is now possible with the Seacom fibre optic cable link in use. Yet we know intuitively that despite the fastest speed (286,000 miles per second), decisions in organisations can be painfully slow. If only peoples' behaviours could be understood like the laws of physics; if only the general principles of matter could follow things as happens with the gravitation pull.

In Kenya in mid-2009, some sort of organisational inertia set in. Perhaps, all this was made worse by a climate of political uncertainty compounded by basic infrastructure delivery problems, like inability to consistently deliver water and power and traffic problems that made getting from point A to point B quickly and safely very hard. In physics, inertia exists when a body of a certain weight and mass is at rest. It takes a certain amount of kinetic energy applied to the body to get it moving up to a certain velocity, possibly starting from a barely perceptible crawl. Hopefully, this does not sound like your company?

It is strange how information can move at the speed of light yet when it reaches certain managers it is as if it has hit a wall. It just stops dead in its tracks. Almost like a planetary black hole, a sort of anti-matter that sucks everything into it, as described by the theoretical physicist, Stephen Hawking.

Remember the joke: How many psychiatrists does it take to change a light bulb? Only one but the light bulb has got to want to change. Perhaps the truth of it is that as managers we don't want to change? We hope doing things the same old way will at one point work out; that the gods of randomness will favour us. In essence, we hope to get lucky. Yet it rarely happens. "Doing the same thing again and again and expecting a different result" was Einstein's definition of insanity.

There is that magical quality in a manager who can just get things done, on time and as discussed. They keep their commitments and agreements. For example: "The report will be delivered to you by 9am" or, "I will be there at your office at 2 pm" and that agreement is kept with no excuses. Ability to keep commitments – for a manager to understand that they create their world in their speaking – is a powerful thing. More like a source of the proverbial "competitive advantage" brought down to the level of an individual.

Stephen Hawking describes reality on two interconnected dimensions: physical space and time. If one has not mastered time in this [almost instant] information ICT age we are in – it creates an air of unreality in a manager's behaviour – the person is unreliable. That unreliability factor in business is a killer, often made more painful by the fact the manager lacks the self-awareness to realise their behaviour is hurting them, until it is too late.

What oils the speed of business is determined mostly by the trust factor. Can I trust this company, or manager, to deliver as promised, with no soap opera-like stories? In this business-at-the-speed-of-light world, people deal with others based on a bond or relationship, where the dominant factor is trust.

Hopefully, your trust has not gone bust?

30. Cog In A Wheel

A good worker is someone whose job was to do “just what he is told to do, and no back talk”. When “the foreman tells you to walk, you walk. When he tells you to sit down, you sit down”. These are the words of Fredrick Taylor, one of the fathers of management thinking in the 1900s.

Would this approach work today? Humm, in most places no. The biggest chunk of the world’s economy is dominated by the service sector, at 54% of GDP which in part relies on “intellectual labour”. Treating staff as cogs in a wheel just won’t work, which doesn’t mean that many organisations still try to do this.

Although a little authority may work well on the factory floor, attempting to run a large organisation by command and control is a futile task. It’s costly in terms of time, requires a tremendous amount of information and drains the initiative of staff and managers. An ideal situation is to have coordination within an organisation, without being dictated by top-down leadership. When there are too many layers of management, or people have to order others around because they have nothing else to do, a big upset is around the corner.

Chances are the car in front when you were coming to work today was a Toyota. How did once humble Japanese Toyota come to dominate the auto industry and bring Ford, Chrysler and GM to their knees? In the 1970s, Ford had 15 layers of management, separating the chairman from the factory-floor supervisor. Toyota had just five. The biggest problem with rigid hierarchies, multi-layer corporations is that they discourage the free flow of information. So with so many layers separating the executive suite from those on the ground with the customer, it is hard for top management to know if their picture of their own organisation resembles reality.

Vimal Shah, CEO of Bidco in East Africa explains their David and Goliath like success over the global multi-national Unilever thus: they saw what was happening in the Kenyan market, and acted quickly before Unilever managers had the opportunity to table a board paper in the London head office – on what to do next in East Africa.

The only reason people come together in a company is so that they can be more productive together; much more than they would be while working apart. To make that happen they need to get accurate information and be able to act on it. Ah, but here is the catch. Imagine you are an up-and-coming manager in one of Kenya’s top five most profitable banks. You are eyeing the next-floor corner office with a panoramic view of the city, with all the perks that come with it. How do you get ahead? Imagine there is some bad news to communicate to your boss about worse-than-expected second-quarter earnings. What do you do?

A study of young executives found that the more anxious they were about moving up the corporate ladder, “the less accurately they communicated problem-related information”. In another research focusing on 52 middle managers, there was a link between upward mobility and not telling the bosses things had gone wrong. Most successful executives tended not to disclose information about disagreements and budget issues.

Chris Argris, one the gurus of organisational behaviour believes that “inauthentic behaviour” is often the norm in many organisations. What gets in the way of the exchange of real information is a deep-rooted hostility from bosses to opposition from sub-ordinates. So there often is an illusion that the top-down decisions are perfect and those below are encouraged to play along. This problem is compounded by the fact that managers are often paid not based on how they perform, but rather based on how they perform relative to expectations.

So how do you get around this problem? Well, the theory is that the performance-based management begins with clear two-way communication to ensure targets are understood and accepted.

Also, creating multiple feedback channels so that staff can let the managers know of any problem areas in their work helps. You can't make good decisions without facing the truth.

Research has shown that a company's top performers in mid to senior level jobs can have a major impact on corporate performance. In Kenya you will find that some high flyers are 50% more productive than their average performing counterparts. The trick is to identify who these are right away and nurture their skills. Donald Trump writes about a property manager who could do more in five hours than most could in five days.

Some staff have a knack for getting things done. They intuitively understand what the leverage points are in any process that will produce results. In contrast, there are others who just tell "soap opera-like" stories about why this did, or that didn't happen. Being focused and using information communication technology, one can find "Ux3"; in other words a focused switched-on team of four can do the work of 12 staff just telling stories, going through the motions. And, of course, saying all the right things.

31. Creating A Competitive Edge

How do you think your company will fair next year? Hopefully, you are not cynical about the future. Here are some ideas about how to go for it.

But first, it's only fair to point out that cynics have been somewhat confused. As a school of thought founded in 400 BC, cynics believed that happiness is not found in outside advantages, like material luxury, political power or good health – but in simply being content with one's lot. Diogenes was a cynic who lived in a barrel, owned just a cloak, a stick and bag to carry his bread in. One day sitting beside his barrel, basking in the sun, Alexander the Great popped by to say hello and ask if there was anything he could do for him? "Yes," said Diogenes. "Stand to the side, you are blocking the sun."

As contented as ever, he had everything he needed.

But presumably your aspirations are somewhat higher than Diogenes'. Here's what to think about in the coming year to gain a touch of the often illusive "competitive advantage".

Think about how you can "add value" now, where you are. What can you do to make things, for instance, faster, more accurate, easier to understand, more profitable. Look at a business process (the chain of tasks) you are involved in that cut across departments and map out the steps. If doing something like stamping an already dated voucher with a rubber stamp does not add value, drop it. It is just wasting your time. There are even tasks that have a negative value, that destroy value. Get rid of them.

Do it now. Don't wait till some time in the future, when you have, for example, an MBA. Past and future don't exist, all you have is this moment, so act. Think about touching a piece of paper only once and make a decision – not endlessly shuffling bits of information back and forth, thinking something is really happening.

Identify the leverage points in any business process. Ask what is really important here? What factors really make a difference – what are the key items to focus on that will have a significant impact on, for instance, production, sales or customer satisfaction. Understand the 80/20 rule: 20% of the tasks add 80% of the value.

Focus on asking, "what does the customer want?" Not what you have for sale. The word "marketing" is a bit like the cynics' world; it has been confused. Marketing means researching what it is that the client would like to see in your product or service. Sales is telling. Marketing means asking. Most people buy a product based on how it will make them feel. Do you know what they want to experience?

Pay attention to time, be fast, and responsive. It is not only the medium that is the message. Time is the message – and a neglected source of competitive advantage. When you book a workshop at a hotel, who are you going to book with? The hotel that gave you a quote in 5 minutes, or the one that took two days, and then got the spelling of your name wrong.

Never stop learning. You can learn from anything, whether it's the bamboo tree swaying in the wind, or that pain in the butt, down the corridor. Business is just a name we created for an aspect of life. Have fun, smile and don't block my sun.

32. Working Harder And Smarter

“She who plans, must plan often,” said a Chinese statesman. If you thought last year was a surprise with all its upheavals, ask what next year will bring. Who would, for instance, have predicted that the Americans would have a president who has visited relatives in Mathare Valley in Kenya, hopped in and out of numerous ramshackle matatus and had a few beers and danced into the night at Nairobi’s Garden Square restaurant? US President Obama displays intellectual candour and emotional honesty in his 1995 book *Dreams From My Father*, almost a third of which is about his search for his roots in Kenya.

Obama’s election shook mindsets and demonstrated that creed or colour cannot hold one back. Hopefully, his “yes we can” attitude will apply to your business in this time of new beginnings. And now, what’s that phrase – ‘work smarter, not harder’. Suppose there may be some clever people out there to whom this applies, but for us mere mortals the truth is likely that we will have to work harder (and hope our few illusive ideas bear financial fruit).

One of the operating principles of being human is that no one likes to look stupid. Everyone wants to look good. Just ask any smartly dressed person lusting after a trendy Blackberry or I-Phone. Yet one of the laws of management physics is that one has to be ready to ask stupid questions. As in: Why not? Paradox being that to be smart, one has to risk looking stupid.

Our thought processes can be quite mechanical, largely based on recognising patterns, as in, “I have seen this before, therefore this must mean that...” Thankfully, this works quite well when you see a STOP sign, or a red light, but often closes us off to business possibilities. We can see things that are not there, and miss what is in front of our nose, simply because it does not fit the pattern. When one looks at the structure of the Kenyan economy, the services sector dominates, making up roughly 54% of the GNP pie. Then one has to ask, what does the services sector largely depend on? Skilled, switched-on staff to compete and deliver the service. And how does one create that? Education. Which is why in public administration, an investment in primary, secondary and tertiary education makes absolute Nobel Prize-winning economic sense.

If one was going to invest KSh10,000 now you would find that in 20 years time the social (benefit to society) and private (benefit to the individual) returns from education are highest in primary school education, then secondary and tertiary. All of which makes education a prime way of creating jobs, which in turn creates demand in the local economy, and in the process lessens income inequalities. Well, that’s the theory that will hopefully become reality. Just like no economy can develop without infrastructure, the infrastructure of companies depends on the 46 chromosomes of their staff.

Packard’s law of management physics states: No company can grow revenues consistently faster than its ability to get enough people to implement growth and still become a great company. If your growth rate in revenues consistently outpaces your growth in people, you simply will not – indeed cannot – build a great company.

Technology and markets are wonderful but when all is said and done, it is all about the organisational DNA – people, with Obama setting an inspiring standard for both primary school students through to captains of industry. And all of us in between.

33. Difficulty With The Impossible

“There is no use trying,” said Alice. “One can’t believe impossible things.” “I daresay you have not had much practice” said the Queen. “When I was your age, I always did it for half an hour a day. Why, sometimes I’ve believed as many as six impossible things before breakfast,” are the thoughts in Lewis Carroll’s book *Through the Looking Glass*.

It is not uncommon to find that managers talk about the need, the possibility for change in their company, NGO or donor agency – yet secretly they believe it is impossible. And they are not going to take the risk of embarrassing failure.

It won’t come out that way, they will be spouting all the corporate looking-good shiny suit, high-tech jargon, yet they don’t believe in their heart of hearts that a shift is possible. And, more fundamentally, how can one expect an organisation to change, gear up in performance if key managers, the leaders, are not ready to shift their mindset. This shift in perspective has nothing to do with age. One can find some pretty “same old, same old” almost on the thinking death bed of 25-years-olds, and those in their 70s can be young thinkers, open to possibility.

Despite Kenya being “relatively” set apart for the dynamics of the global credit crunch, caused in part in by the application of complex financial instruments, which few people had the courage to say, “I don’t understand”, the impact on foreign exchange earners like tourism and horticulture (and most importantly, their forward and backward linkages) is being felt. If ever there was a time to think about the practice of thinking about the impossible, it’s now. Remember mid 2007 when the economy of Kenya appeared like it was set for lift-off, and nothing could stop the dynamism, embodied in the optimism of Vision 2030? (Rule 1: Expect the unexpected, but be thankful, the unpredicted is not all bad. Hopefully, the unexpected good things are en route.)

Neuro-science research in how our brains operate tends to suggest that our thinking process is like paths through a thick forest. We tend to think in the well worn path of least resistance and having a new thought and following it through is difficult. It is easy to demonstrate that managers can see things that are not there, and miss the obvious. Why? Because they are continually taking the same cerebral routes that they use when going about their work. In other words, there is no possibility. Buddhists would stress on living in the present, the now, as the past is gone, and the future is not here yet. If a manager is constantly harping about the past business good old days, they are past their sell-by date and have gone sour.

While on the one hand change seems a simple concept, in reality it can be a little more complicated. As individuals we know the difficulties of making changes in our own lives even when we can see that there are clear benefits to the change. The routines we have now are familiar and comfortable and changing them would take an effort. We are usually too busy or tired to imagine even putting in any more effort than we now do. Change is usually scary too. Even when we know the end result will be worth it, the process of getting there is often uncomfortable and difficult. We tend to see change as huge and think it involves taking big steps.

This all seems so daunting that we don’t know where to start, but the fortunate news is that change begins with simple things and just doing things differently, perhaps in a process of gradual improvement, what the Japanese call *Kaizen*, making improvements each and every day. (Hopefully with two steps forward, and only one step back.) For a start, practise believing in at least one impossible business decision before breakfast.

34. Getting The Cow Out Of The Ditch

“When everything gets really complicated and you feel overwhelmed, think about it this way: You have got to do three things. First, get the cow out of the ditch. Second, find out how the cow got into the ditch. Third, make sure you do whatever it takes so the cow doesn’t go into the ditch again,” is the sage advice of Albert Black.

Remembering a simple common sense story like this is a good way to stay grounded, in a back-to-business-basics sort of way. Sometimes, it is just about survival. Being stuck in a rut is the first problem, and the next is understanding how the company got there. Second, one has to ask: what happened? Then learn from those lessons and make sure there is a plan in place to recognise the signs of the cow wandering off towards the ditch. A prime example of getting the cow out of the ditch has been Unga Group, which after an eight-year financial drought, turned a profit in the first half of the year 2008.

In finding out how the cow got into the ditch, one has to begin by questioning the fundamental assumptions. This is as much about trusting your gut, trusting your intuition, as it is about hard fact-finding rational analysis. At the end of the day, what is required is a balance between good old-fashioned show-me-the-numbers hard analysis and a touch of creative lateral thinking. In determining “how the cow got in the ditch”, when a company’s sales are stagnant it helps to make the fundamental distinction between marketing and sales. It is also a shock to see that many students of business can’t give a clear definition of the difference between the two.

Marketing is asking “what does the customer want?” Sales is all those little tricks of persuasion to try and get the person to buy your product or service. Chances are that when you see the word marketing on an office door, it really means a tired old, more of the same sales function. The two are radically different processes, each requiring a special mindset. In marketing, you are inquiring on what the customer wants, what needs are unfulfilled, what features they require. Ask your customers, ask the people who don’t buy from you. After all, that’s where the real market is. Then come up with an initial product and pretest it in the market. Then it’s over to the sales staff to try and generate the turnover, and hopefully profitability.

Both NIC Bank, with its “move” products and Equity Bank asked the “what does the customer really want” and focused on a section of the market, formerly thought to be unprofitable; an area that big, not particularly imaginative banks, mostly controlled from a regional office in South Africa, neglected. Now the big sharks are in the game of catch-up, and in a copy-cat way, offering banking products to the lower and middle income segments.

Do you ever wonder why roughly 80 % of the affordable used cars coming into Kenya are from Japan? How is it that Toyota was able to overtake US-based General Motors as the world’s number one automaker? Takeo Fujisawa, co-founder of the Honda Motors once observed that “Japanese and American management is 95 % the same and differs in all important respects”.

In a George Bush Jr sort of way, the typical American manager will pride themselves on making a quick “just do it” decision even if they don’t have all the facts. Despite being the first American president with an MBA degree, this cowboy-like decision making only helps to put the cow in the ditch, as one can see from the Vietnam-like mess that the invasion of Iraq has become. In contrast, the Japanese manager will take the time to dissect a problem or situation into its constituent parts. The initial focus is not on coming up with the quick macho answer, but more of: are we asking the right “solution-oriented” question? Coming up with the right answer to the wrong question is useless. No doubt, French philosopher Voltaire knew a few things about ditched cows when he said: “Common sense is anything but common.”

35. The Myth Of The Optimal Decision

The next time you hear one of your co-workers, or your boss use the word “optimal”, fire crackers should go off in your head.

How often have you heard a manager who believes they are the modern day equivalent of the Delphic oracle say something like: “Given the challenging situation we have made the optimal decision”. Can one really make the absolute best optimum decision? Is a mathematical optimum decision that one studies about in university ivory towers present on the nitty gritty reality of River Road in Nairobi?

How managers ideally describe the way they make decisions is not really the way they go about it in the real rough and tumble world of business. But do we have the self-awareness, the acuity of mind to really see ourselves as we are? And, if we lack self-awareness of our behaviour in thinking, what does that say about us as humans, for those who have the word ‘manager’ on their cerebral identity card?

“For a long time we had the wrong product specifications when we thought of ourselves. We humans have been under the belief that we were endowed with a beautiful machine for thinking and understanding things. However, among the factory specifications for us is the lack of awareness of the true factory specifications. The problem with thinking is that it causes you to develop illusions,” writes the professor of uncertainty, Nassim Nicholas Taleb.

If there was a manual to your grey matter you might believe that your brain spends a lot of time analysing and considering every possible option, down to the smallest detail. In other words: it does not take shortcuts. Read the newspaper and you might notice that decisions in both the private and public sectors are often based on expediency. Herbert Simon, Nobel prize laureate in economics was one of the first people to point out this fact.

Imagine that for every decision you had to make as a manager you believed that you had to optimise, to make the absolutely perfect decision. No room for the second best phenomenon. Not only in the area of big business, but for the smaller details as well, like what to have for lunch. Should you write with a black or a blue pen, or like an auditor, pull out the green one? If this ‘optimising’ was really how the human brain functions you would spend an amazing amount of time and energy making even the smallest decision. It would be analysis, but you would be in a state of paralysis. Nothing would ever get done.

Herbert Simon based his research in artificial intelligence on psychology and the dismal science of economics. He came up with the word “satisficing” to describe how we really make decisions. (Satisficing comes from welding together the words satisfy and suffice.) Satisficing means your decision-making process stops when you get a near satisfactory decision. (One that may not be great but does the job.) He went on to state that although we are rational, our rationality is limited. He went on to coin the idea of “bounded rationality”. Yes, we attempt to be rational in making decisions, but these are made within a defined bounded box. The question you have to ask yourself as a manager is where those bounds are. (To know the answer you would have to possess Solomon-like wisdom.)

Have some fun. The next time you make a decision, which could be right about now, try to make the optimal choice. When you get tired, try the “quick and dirty”, a little satisficing. It will be no secret which route you took. Which feels better? Point is: it is not enough to think, think about how you think.

36. Don't Have Your Trust Go Bust

Do not kid yourself, the majority of new business start-ups quickly go bust. Why? Well could be all sorts of reasons. What distinguishes the winners from the losers?

Whatever new business it is, for instance a restaurant, computer software services, legal practice, insurance brokerage or garage –if you can't write down in 25 words, or less, how business is going to stand out you are in trouble. If you can't show to the person walking down Kenyatta Avenue how your enterprise is distinctive then problems are around the corner.

Just saying something is “special” or “the best” or “great customer service” isn't helpful – in fact, is there anyone that does not say this about their product or service? “Ho hum, here comes more of the same craziness,” must be the message that goes off in any consumer's brain.

Coming up with a strong business concept is one thing. Somehow you need to be able to grab your target customers' attention. Sure there will be the inevitable mistakes that come with every start-up. If you are not making mistakes, by definition there is no learning. No learning and you are like a tomato on the vine, slowly going rotten, from the inside out. At the end of the day what will sustain your business is Zen, like paying attention to detail and close-to-flawless execution. Well, that may be a bit much. There sure may be moments when things get a bit sloppy, but generally polished presentation should be business as usual. If you can make your work, your passion, your play, then you will be a happy person. We all have a sixth sense that we don't talk about. We can feel when someone has a delight for what they do. In the process customers feel drawn to them – like metal shavings to a magnet.

In 2011, there were about 43 active banks in Kenya. It's easy to lose count, but how do you tell one bank from the other? Financial products and services, even the clusters of charges were roughly the same. The biggest genuine innovation in recent years was probably the NIC Bank with it's Move concept, with the banking hall looking more like someone's living room, with a friendly relationship manager approach based on 8am-to-8pm banking. Then next came Equity Bank who radically shifted perceptions in the marketplace – by focussing on the lower income segment that big banks just plain did not want to know existed. Now they are all me-too copycats following in the leader's footsteps. Sooner or later, there will be a merging of banking and insurance with banc assurance, and perhaps even financial services. Forget your traditional bank branch, aren't you now able to do your banking at your one-stop supermarket – serving financials products and tomatoes, all under the same roof?

Some banks are implementing this, while others, true to form, are rather dull-witted and slow in acting. For better or worse, what distinguishes winning business are switched-on, focussed staff. What CEO writing in the annual report in a vacuous public relations style does not say something like “our people are our greatest asset and we cherish them deeply. And, we thank them for their commitment to our success ...”? Most bosses say this, though few actually believe it.

Donald Trump writes about a property manager of his who could do more in five hours than most could in five days. Some staff have a knack for getting things done, they intuitively understand what the leverage points are in any process that will produce results. In contrast, one has others who just tell stories.

Want to have your business stand out and have character? You get no character without characters.

37. The Closing Door Of Opportunity

“By the time the rules of the game are clear, the windows of opportunity will have closed,” notes Santhanam Sekar. Kenyan business has always had to contend with change. More than 2,000 years ago, Heraclitus said “the only constant is change itself”.

All businesses are on a learning curve. A few are a touch ahead of the crowd, with some not even realising a learning curve exists. It takes a special art of “take all the complexity and ambiguity and identify emerging patterns”. Some companies create wealth by possessing knowledge or having insights that others lack. Their knowledge may be scientific or technical expertise (Nakumatt’s informed moves in supermarket retailing and HP’s superiority in printers), pattern recognition (the ability of some banks to make consistent profits by taking short-term positions on forex) or sheer creativity (Walt Disney’s success in animated films).

From World War II up until the mid 1990s, to a large extent the process of change could be considered to have been relatively predictable; an arithmetic linear process. However, it now seems exponential change is the norm. We have all witnessed the rapid growth of China, and India bouncing back quickly despite the ebbing global credit crunch. We tend to look backwards for a reference point we can understand in order to be able to move forward. But sometimes previous patterns and cycles are tough to spot. China is not like Japan in the 1970s. The internet is not like jet transportation, and a pager is not like a mobile phone.

One possibility is to go on a holding pattern until the signs are written in the sky. Then we act. Some won’t act till the pattern is clear and others are already in action. At the other end of the spectrum are those who make daring moves when the terrain is quite foggy. They are off and running with any signs that reinforce their beliefs. But it’s likely that the prize will go to the insightful few who can spot the key variables amongst the complexity. At the end of the day, spotting changes in the external environment and linking them with the positioning of a company is the essence of business acumen. There is a lot to be learned from a normal curve; two standard deviation units out to the right will be the roughly 2 per cent of leaders in an industry. For instance, in both the banking and insurance sectors in a country like Kenya, there are three to four companies who are ahead on the making-it-happen curve.

Technology and regulatory change can move at a rapid pace. Don’t feel bad, sometimes even the big blue corporates get it wrong. In 2000, British Telecom invested billions of dollars to get licenses for new technology that management believed would put them ahead of the competition. The market and the technology did not materialise and the entire amount had to be written off, bringing the company to the edge of bankruptcy.

How all this change is perceived is a function of an individual’s psychological make-up. Some fear it, while others thrive on it. One way to spot emergent patterns is to be an active listener. Don’t have your cup of tea too full that it can’t receive more. In every conversation look out for ideas you have never heard before. Initially, the screen will be fuzzy but a search for the nuggets will create clarity. Paradoxically, sage business advice in 2009 comes from Marcus Aurelius, the emperor of Rome two millennia ago: “Accustom yourself to give careful attention to what others are saying, and try your best to enter the mind of the speaker.”

38. Think Outside – Or Without – The Box

“Change is a door that can only be opened from the inside,” goes an old French saying. Why is it that companies, large and small, follow safe familiar patterns of “business as usual”, lacking the self-awareness of being able to transform themselves, to meet the demands of the moment, and anticipate the future? Don’t despair, as part of the answer may be to better understand how our thinking process works.

Most new businesses go bust within the first 18 months of starting up. How come we don’t see most start-up businesses thriving? Isn’t that the essence of switched-on management – taking a concept and making it fly? Why is it that there is a lot of copying in the business marketplace? More like a “sheep complex” where all are followers, rather than taking an entrepreneurial path not trodden before? Don’t worry, it’s not a solely Kenyan phenomenon, it happens everywhere, and the roots are biological, based on how our human brain functions. In our brains there are an estimated one million, million brain cells. The possibilities for all sorts of different thoughts and ideas are limitless. Each of the ten billion neurons in the human brain has the possibilities of connections of one with twenty eight zeros after it – so you can see why neurologists say that the potential of the human brain is unlimited – yet we don’t use it.

Every time you have a thought, the biochemical – electromagnetic – resistance along the path carrying that thought is reduced. So it’s like trying to clear a path through a forest. It may be tough the first time, due to the undergrowth, but after a few trips it becomes quite easy to move along. The same goes for the brain – the more you repeat patterns of thought, good or bad, the less resistance there is to them. The more times a mental event happens – the more likely it is to happen again. So our brain works by patterning – we feel comfortable using patterns we recognise. This is both good and bad – you know how to stop at a stop sign, but it can also lead to the “sheep complex”; that is simply imitating what you see others doing in the business world. If there are five people at the side of the road selling tomatoes – you will join them as the sixth seller. The same happens, for instance, in the 53 Kenyan banks, 42 insurance companies and the hotel and hospitality industry. A lot of imitating, following a familiar safe pattern – with predictable, often mediocre results.

So what’s the solution? How does one add a spark of imagination, creativity and profitability to business? Begin by doing something differently. The next time you have something to drink, pick up the cup with the hand you don’t normally use. Feels odd, doesn’t it? That will remind you of the need to break away from your usual thinking. Start to think about how you think – the box-like patterns you have imposed on the business. No, I am not suggesting wild abandon. Whenever a new possibility comes up – crunch the numbers, do the hard analysis – then be ready to step out and be uncomfortable. Insightful business thinking is a bit like a work-out at the gym. No pain, no gain. If you are not feeling uncomfortable and straining in your thought process, perhaps you are not challenging yourself enough? Do you begin to see a pattern ?

39. Species Among Managers

See if you can spot your work mates. Just as species of flora and fauna roaming the plains are diverse, so are managers roaming the corridors of the work environment in East Africa. Sample these:

Delaying Manager (*Interuptus Delayus*) is typically jovial, friendly and at first glance appears capable. Widely found in all environments where time is of the essence. After patiently waiting for a report for six weeks, when you finally ask where it is, this species will say “I will have it to you tomorrow at 3pm sharp for certain. Sorry, I did not know you were in a rush.” Tomorrow and tomorrow never comes and neither does the report. When observed in the field they appear quite active, which should not be equated with effectiveness, which they are not. Despite being a likeable species they create interruptions and constantly delay any sort of decision. Once recognised for their inability to get anything done, they quickly migrate to less threatening climes, like stating: “I needed more of a challenge.”

Jargon Spouting Manager (*Jargoönitus*) is unique and prefers solitary settings in offices at the end of a darkened corridor. They are not so much identified by their plumage but more for their management jargon-filled cries like, “based on a Unix platform management we will re-engineer and ring fence in an integrated gender-sensitive way.” Common in the UN and NGO settings, they frequently take to seasonal flight, are expensive to feed and house, travel in flocks and are addicted to talking about direction and mission, but often appear lost.

Manager Who Knows Only Procedures (*Proceduritus Paramountus*). Commonly found in hot air habitats where no vision is required. Slow moving in activity, their favourite wail is “procedures are there to be followed”. *Proceduritus* species believes creative thinking is an American rap group and lateral thinking will make one go blind. Risk averse, this species has survived down the centuries, often appearing when you did not think things could get any worse.

Think Only Computers Manager (*Compureum Bootumoften*). Whatever the management problem, from poor or no analysis, to an ingrown toenail, this species believes information technology (IT) is the one and only final solution. It does not matter if there is no manual system or no data, this manager will quip, “With 6th generation software I will create the answer.” Do not be offended if they ask you “How many megs have you got?” or “How do you feel about downloading now?” In activity this species tends to be fast moving and often intelligent. There is a world filled with Windows with no glass and bytes without *kachumbari*. Widely spread, they are beginning to dominate the planet.

Disordered Manager (*Disorderum Entropyitus*). Looking like a herd of buffaloes that spent the last night in the office, their work space is covered with files and papers, often sprinkled with cigarette ash. “Don’t touch anything, I know where everything is” will constantly be heard. Often their behaviour can be moody, particularly in early mornings. Often computer literate, this manager despite self-imposed chaos can be effective when pushed.

Perfect Manager (*Perfectum Nofindum*) is an endangered species the world over, or perhaps like the Dodo Bird, do they exist?

40. Business Fired Point-Blank

“Life cannot wait until the sciences have explained the universe scientifically. We cannot put off living until we are ready. The most salient characteristic of life is its coerciveness. It is always urgent, ‘here and now’ without any possible postponement. Life is fired at us point blank,” wrote Jose Ortega Gasset.

So it is with business; urgent. Everything is fired at point-blank range. Where is the line between 8am to 5pm business and life? When you drive to work in the morning, what does that reveal about you as a manager? Are you courteous and rule-abiding or wild and careless? Whether you are, for instance, an accountant, engineer, salesperson, market researcher, or selling tomatoes by the side of the road you are an artist of sorts. Your vocation should be your passion; the reason you get up in the morning. You can see this in someone’s work, whether they have done that little extra bit and paid attention to the fine details that most people will never notice. The point is, they notice.

Theoretical physicist Stephen Hawking, author of *A Brief History of Time* suggests that there are two dimensions to reality. Physical space and time. It is often on the time dimension where businesses fall down. How often have you had a product or service delivered on time, as promised? Time is coercive, it is threatening. Trouble is, it does not stop, it just keeps ticking. You don’t get to vote on it. Yes, our perception of time can be slowed down or speeded up. When you are rushed off your feet, with everyone making demands, time rushes by. When you are bored and disinterested waiting for the clock to tick five, it slows down.

Mastery of the time dimension is usually an indicator of a successful venture. Many businesses compete on the basis of time. The most obvious ones are couriers, money transfer services and airlines, which are rated on their ability to take off and land on time. In financial services, insurance companies develop word-of-mouth reputations on how quickly they can pay fair and just claims. Contrast an almost instant M-Pesa money transfer with the lumbering slowness of the electronic funds transfer [EFT] which takes two days, or cheque clearance that takes three working days.

Medium is the message, time is the message. Velocity of thought and the velocity of circulation of money in an economy send a message.

The time to get a product or service from the design stage to up-and-running and to the customer is a litmus test. You can bet that at each point on the customer–supplier chain, that time will be wasted. Time is money and being on-time is a service. The total time that a business takes in a chain of activities determines costs, and is also a clear indicator of a company’s responsiveness to customers. Over “80 per cent of success is just showing up”, is a classic line by Woody Allen.

Interestingly, manipulating time in the form of responsiveness can be an abuse of power. An example is a bureaucrat slowing down a process that takes two minutes to two days to two weeks, to two months or never, as a sign of demonstrating who is in charge. In contrast, it is often the case that the more senior the manager is, the faster they respond. It may be that they have their Blackberry on hand, or more likely that responsiveness is just part of their mindset, and a function of the reason they have progressed in their career. Got the message: here and now time means everything. Your pace or mine?

41. Fly By The Seat Of Your Pants

“You better start swimming or you will sink like a stone,” are the words of one Bob Dylan song. Often the only trick a manager has is their ability to fly by the seat of their pants. Armed with a tool box of concepts and techniques and ability to just get things done, some managers stand out in the MBA crowd.

Some management ideas on strategy and organisation have been around for thousands of years, others like reconceptualising the roles of government and privatisation for almost forty years. How chaos theory fits with Porter’s five forces industry analysis is relatively fresh off the drawing board. Whether you are an aspiring entrepreneur selling cabbages, or running a parastatal, here is some food for thought.

- Management is a like a work out at the gym. No pain, no gain. If you are feeling comfortable for days on end, chances are you are stuck in your corporate box. Before long, like the inhabitants of Plato’s cave, you will confuse the smoky shadows on the wall with the real world of what is really going on. Be ready to stretch yourself, do something you don’t normally do, be uncomfortable. Get out from behind the desk and wander around. Value the stochastic variable, what engineers call the “bugger factor”; that odd, unexpected thing that pops up from nowhere. What is it really telling you?
- Ask dumb questions. Why isn’t there a vehicle on the Nairobi Stock Exchange that young start-up companies can use to raise capital? Why isn’t there a venture capital market in East Africa? Socrates, the philosopher whose ideas of governance and democracy influence us up to the present day, never wanted to appear like he was instructing people. Instead of lecturing like a school master he discussed. Socrates began by asking questions, as though he knew nothing. What today in management jargon is called “zero-based thinking”. His mother was a midwife, so he copied her approach by seeing his role as giving birth to the delivery of concepts. Asking, not telling.
- Keep it simple. Simplicity has its own elegance.
- Be ready to learn. Always leave your glass half empty, ready for refill of insight from whoever is offering it. Don’t think one learns about management only in a classroom, doing a B.Com. or MBA degree programme. Can you learn how to swim in a classroom? Everyone is trying to show you something; sometimes we just miss the lessons because we are so filled with the rightness of our own opinion. You can learn sales skills from a street kid. Or the value of curiosity from a cat. We say these great things about the virtues of learning, but the paradox is to learn you have to risk looking silly. “We see that to learn we must be willing to look foolish, to let others teach us. Learning doesn’t always look so good any more. Only with support, insight ... can we face the dangers of learning meaningful things,” notes Peter Senge.
- Return phone calls immediately. Credibility comes from being a manager that can be counted on. What better way than to build your reputation than by answering your calls. You will be in good company. Sam Walton, the founder of Wal-Mart, the world’s largest retailer, returned calls instantly, without the buffer of a secretary.
- “Medium is the message” were the words of the Canadian media guru Marshall McLuhan some forty years ago, who predicted the information age we now live in. Transaction times are the message, if it takes you two days to respond to your emails, you have missed the point. If Karl Marx were alive today he would probably have two mobile phones and his own website. And, an email address like full_marx@yahoo.com

42. Jargon Hides More Than It Reveals

How many times have you gone to a business presentation and heard an endless barrage of management jargon? Performance management, competitive advantage, reengineering, streamlining processes, collaborative networks and diagnostic templates not to mention KPI, SKU, and on and on and on. When I was doing a master's degree in what now seems the Middle Bronze Age I had an advisor called Tim who received a DPhil degree from Oxford University in his twenties. He would tell me "Whenever you use the word 'clearly' David, we know you are in trouble." And, he was right. Next time you are listening to a long-winded business presentation just let the person rattle on. Eventually, they will make the equivalent of a Freudian slip, words that pop out from their subconscious mind saying what they really mean.

In business we put on a social mask. We too often use words to hide, to suggest a greater level understanding and insight than we really have, hoping to impress. End result is that it's all considered part of the general business. It's all part of the verbal fog and cloudiness of failed communication in business. Today just about every Kenyan company says they are the best, extraordinary, or ahead of the pack, but does anyone believe it? In 2007, there was an awards ceremony for the 42 Kenyan banks where almost half of them got an award. That's like having 50 percent of the 70 runners that enter the 10,000 metres in the Olympics go home with medals.

Whatever happened to the words reliability, responsiveness and frugality? Strange that one does not hear the word reliability more in the corridors of commerce, as in, "Sally is reliable, you can trust on here to deliver her promises." Reliability, that wonderful yet rare quality, when someone says they will do tasks A, B and C they just do it and don't give stories about why it was not possible. Even if they have to work into the night, or over the weekend they just plain get things done. They just keep their agreements, even if it's uncomfortable. Next on the list is responsiveness, that magical ability that a staff member responds to verbal requests, letters or emails like they were an SMS. Bingo, they don't waste time pondering about this or that, worrying about what they are going to have for lunch. They respond just about right away, or if they don't have an immediate answer, let you know when they can commit to responding.

Marshall McLuhan, the Canadian academic foresaw the information communication technology (ICT) age we live in the 1960s, when he talked about "the medium being the message". Strange that with the speed of an email that travels over several continents in seconds, it can just lie dormant unanswered in someone's inbox. Dormant is the unresponsive manager's message, just plain out of the loop. Staffs' response times speaks volumes about them.

Frugality, an essential quality of good management can be about as rare as hearing one of Mozart's sonatas in a matatu. Being economical with resources and sparing is a valued quality of top private sector managers. While an accountant's sometimes tiresome mantra is often how to cut costs, it does not hurt to try and do more with less, and continually try and trim the fat to contribute to bottom-line profitability.

When all is said and done, jargon-free clear speaking suggests clarity of mind. Don't clog the heart of the business with conspicuous consumption-fatty cholesterol expenditure even if you think it makes you look good. Sensible perhaps, but as Voltaire noted, "Common sense is anything but common."

43. The Basics Of Being A Good Manager

“Excellence is rarely a function of a one-off achievement, but rather is a result of repeated practice and incremental improvement,” notes Marcus Buckingham. If as a manager you are going to be effective, aspiring to create that climate of excellence, what are the four basics that you absolutely must master? In his book, *The One Thing You Need To Know*, Marcus Buckingham sets out four prerequisites that have been divined from his years and years of research with the Gallup Organisation.

But first it’s important to point out that not everyone should be a manager. Some of us don’t have the aptitude and personality for attempting to manage frustratingly complex human beings. Who wants to attempt to herd cats? Often we give someone the title of manager, but that is not really what they do. Perhaps they just show up and hope for the best, in effect mismanaging.

Being a successful manager rests on four pillars. If you are to succeed here is what you need to do.

First, spend the time to select the best staff. Everything starts with getting the right people onto the bus and in the right seats. Human beings are intricate; bringing all sorts of baggage with them in terms of talent, attitudes and emotions. Somehow you need to get people who are fit for your organisation. It is often the case that someone can be quite adept and polished at an interview, yet fail dismally on the job. Trying to make a square peg fit in a round hole is time-consuming and upsetting. In a selection interview, ask open-ended questions and listen carefully for someone’s spontaneous responses which are going to be indicators of what is really going on with them.

The second basic is to define clear expectations. Research shows that 50% of people don’t know what is expected of them at work. Have you ever met a confused productive employee? (No, neither have I.) Your job as a manager is to bring clarity to what staffs are supposed to be doing. In your own friendly diplomatic way, ask your staff: What is it you get paid to do? If someone has to look at their job description to know what they are supposed to be doing, something is profoundly wrong. Be clear about your expectations of staff and talk about it often, not just some yearend going-through-the-motions ritual performance appraisal.

The third basic is to give immediate praise and recognition for tasks well done. Here you need a delicate balancing act. On the one hand you don’t want to be overly gushy to the point of being insincere, as that is going to be counterproductive. You will look and be fake. But when someone has done an unusual job, call them by their name and let them know. Look at their facial expression and their body language; you will see them light up inside.

The last basic of being an effective manager is to show that you care for your staff. (If you really don’t care, then you should not be in a management position.) All sorts of studies show that when someone feels that someone cares about them at work they are far more productive. There is a link between caring and productivity. We humans are herd animals, we like to bond. We like to feel we belong, that someone cares about us at work and at home. Practise these four basics each day and the results will be self-evident.

44. Getting It Done

It is not where you are. It's where you want to be. And, can you get things done? What is that magical quality displayed when you just give someone a task to do and they get it completed. No stories about why the unexpected happened only to unfairly frustrate them in their mission. Only to come back with a long 20-minute soap opera-like tale about the forces that were out to disturb them. It is not what happened, but what the staff member does about it. Initiative is the key word.

But when one looks deeper, what stops the right things getting done right, at the right time in business? A giveaway indicator, almost like body language is the words a manager uses. Phrases like “facilitate processing”, “facing challenges” or “undergoing restructuring” or “empowering staff” are jargon that is vague and meaningless, particularly when there is no time commitment attached.

“One creates their world in their speaking,” noted Helen Keller. It is a bit like saying: “I will meet you under the big tree in the evening. (Which tree, which evening?) This fuzziness may be good in romance novels, but in business it leads to financial statements bleeding red ink. This “rounding up the normal suspects” gobbledygook expressions simply likely shows someone is going through the verbal motions, but their ability to deliver is severely in doubt. This ability to deliver the outcome is impacted by our personality which is formed largely in the first 3 to 4 years of life and pretty much established by late adolescence. Some staff have a personality preference for a work environment that suits action. They are the doers, the people who will just plain push tasks through and deliver, conscious of the time factor.

In psychometric profiles like Myers-Briggs or the Belbin team roles analysis those that can get things done are known as implementers or organisers. Psychologist Meredith Belbin takes things a step further and creates the distinction of “completer – finishers”. “The ability to finalise anything that is started and to do it with thoroughness is a quality important for every undertaking. Unfortunately these personal qualities seem to be in short supply. Enthusiasm to get things moving may easily be detected, but the ability to finish things off once started is much less evident,” states Belbin.

In any working group or management team it is important to know who plays which role best. With a keen eye just watch your co-workers over time. Some will be great at coming up with ideas, but lousy on following through and delivering results while others can take the idea, massage it and make it happen. Just as you would not expect a goalkeeper to play the role of a striker in football, at work it is critical to know what everyone's strengths are and put them into play.

In architecture, form follows function. In business, structure follows strategy. In other words, a company decides what its (hopefully) distinctive approach to the market is going to be and then creates an organisational structure to best deliver the differentiated customer value proposition to the market. You can often just look at an organisation's configuration and see whether staff will be able to get anything done. Long hierarchies spreading over many levels in information silos and convoluted matrix structures with multiple reporting requirements typically create organisational inertia. Yes, there may be great position papers with glorious sounding statements, but when all is said and done, at year-end one can find little has been accomplished at great expense.

45. Is Business Science Or Art?

“Imagination is more important than knowledge,” was the thought of Albert Einstein. It is funny how an inattentive university student could make such a profound impact on science, and the way we think about the world. Einstein started out as a lowly clerk in the Swiss patent office in Berne. (Perhaps this shows that university graduates should not be afraid of beginning their careers at the bottom.) Einstein’s genius, like Isaac Newton before him, was that he was not afraid to ask simple transparent questions. Perhaps what we could consider a silly question, one which if we asked in a business meeting our co-workers would think we were dim-witted. Never be afraid to ask stupid questions.

Is business science, or is it an art? Could there be such a thing as “management science” which in the old days used to involve such arcane techniques as linear programming and the queuing theory? Can one take all the facts and figures, fancy charts and projections, all the knowledge, and come up with the perfect solution to how we reduce our fast declining sales, with a competitor who has an ever growing market share? If management science rules then most successful businesses would be those filled with number crunchers. Conversely, if business were just an art, then a modicum of experience, sense of flair, and luck are all that matter.

Insights from chaos theory can influence how one thinks about business which is “fractal”, meaning the same pattern, but with infinite variety. Driving patterns of matatus, the Kenyan coast line, trees and leaves are all fractal. Yes, each one is distinct, different, but at the same time remarkably similar. So it is with business. One can’t apply a cookie cutter management science answer to each business on Enterprise Road in Nairobi’s Industrial Area, yet they have remarkable similarities in terms of issues of likely problems of cash flow, and hanging on to sharp staff.

If one look looks at the competitive Kenya’s financial sector of 43 banks, they may be found to be different yet saying and doing remarkably the same thing, using similar systems and staff. Funny thing is that the CEO of the bank does not see it that way, they see themselves as distinct. All banks’ senior management have access to almost the same pool of knowledge, yet those who have leapt ahead, and stood out with a more innovative approach like NIC Bank with 8am to 8pm banking, or Equity with a focus on the unbanked had imagination. And, the rest, in a me-too fashion, just followed.

Media houses do not fair much better. Kenyan TV breakfast programmes use the hot interactive medium of television, with its limitless imaginative possibilities and formats to report on the cold medium of print. If as media guru Marshall McLuhan said “the medium is the message” then this is a hot medium gone cold. This is a bit like employing a gifted neurosurgeon to slice up your nyama choma.

It’s wonderful to explore theories. “Nothing is as practical as a good theory,” said George Bernard Shaw. But inevitably in business, there needs to be a balancing act between number crunching, research of the facts and figures and good old fashioned gut feel, a balancing act between what the theory of competitive advantage suggests and intuition. Inevitably, though, wise business decisions are generally made by intuition. “Were that not true”, as Bruce Henderson noted, “all problems would be solved by mathematicians.”

46. Organisational Inertia

Everything depends on doing. Just talking about it, or seeing words on paper is the booby prize. Implementation, execution, is where the real art of management lies in both public and private sectors. Companies are like people. Some have an ability to get into action and deliver. Others will be comfortably stuck in foggy climate of policy papers, filled with ambitious intentions. At the end of the day they are ineffectual, and probably lack the self awareness – that they have an inability to come up with the goods. Alfred Sloan's creation of GM - General Motors (now really US 'Government Motors', given the 60% ownership stake) is a case of organisational inertia, based on a 101- year-old company that continued to produce gas guzzlers, when the market demanded smaller fuel-efficient quality vehicles.

It's a shame companies are not assessed on their degree of, on the one side, responsiveness, and the other, the degree of organisational inertia. (Inertia is defined in the Pocket Oxford Dictionary as "property by which matter continues in its existing state of rest.) While media guru Marshall McLuhan said "the medium is the message" about forty years ago, anticipating the almost instant ICT age we are in today, in part, response times are the message. Often you will find that the more senior the manager, the faster the response time, as in you send an e mail and thanks to their Blackberry in the pocket one gets a reply in the next five minutes. Voila, and then one can be in action. Compare this with getting a reply in 5 days, 5 weeks, or 5 months, or never. Disturbing if no answer is the answer.

In contrast to being at rest, it is not that one wants to act like a single celled amoeba in a simple 'stimulus response' fashion. As in push this button, do this, do that without thinking. Generally mulling about things overnight can yield new insight by the morning. One of the qualities of an effective manager is just someone who can get (the right) things done, without telling long dramatic tales about "challenges". Managers' response times are probably a result of a matrix of factors, some of which are mindset, inner confidence levels and their own company's organisational culture and even the culture of the country in which they live. For instance, American managers are famous for their George Bush Jr cowboy-like shoot-from-the-hip responses, while the Japanese tend to be a touch more reserved and thoughtful. All of this responsiveness, or inertia, collectively affects the velocity of a nation's economy.

Imagine a lot of people wondering if they should act, almost like a deer paralysed in movement, when it sees headlights. There was a time when a financial deal was just sealed instantly on the basis of a handshake. Someone's worth was based on their integrity – their ability to keep their word. Needless to say, in most circles that is gone.

One point that is rarely mentioned about management and never talked about in MBA programmes is the caffeine-propelled energy level and drive it takes to be an astute manager. While undoubtedly there is no stereotype as to what a first-class manager is, one has to be sharp, attentive and have the personal get-up-and-go drive to make things happen.

Any reading of Nassim Nicholas Taleb's fascinating 2007 book *The Black Swan* will convince the reader of the world of uncertainty and unpredictability we live in, yet we don't recognise it, and (sadly) can't budget for it. Current State budgets may be responding to events like the global credit crunch and other upheavals that no one saw coming; Black Swan-like events in their own way. And this process of significant profound yet unanticipated events popping up will continue to shake economies and the business world, yet we plan and budget like they never happened.

47. Business Leadership: An Elusive Quality

“When faced with two dangers, one behind you and one in front of you, it is always better to go forward,” notes an old Zulu proverb.

Leadership is a word that has become part of Kenya’s management jargon. But what is it? Are leaders born, or can they be made? Consider the old saying: “Managers do things right, but leaders do the right thing.”

Kenya’s private sector has many impressive leaders, from Patrick Obath, former country leader of Shell Kenya, to Michael Waweru who came from Ernst & Young, where he was an audit partner to transform KRA. In the public sector, leadership qualities are being analyzed, micron by micron, under the management microscope, locally and internationally.

The good news is that a leader can be created and does not automatically inherit the title of leader by virtue of birthright. Qualities and principles of leadership have been studied for more than 2,500 years going back to Thucydides and his *History of the Peloponnesian War*. Today if you used the Google search engine to look for material on leadership you would have over 123 million references. (First on the massive list is from Wikipedia, the online collaborative encyclopedia.) Perhaps knowledge of the booby prize? Yet, how come with all this wisdom and understanding of what leadership is, it can be rare?

Theory on paper is one thing, bringing meaning to the words in practice is another reality. In many ways, there are no stereotypes of leaders in business, they come in all shapes and sizes. A good leader is not the one with the loudest voice. Many powerful leaders direct things often unseen from the back of the line. Just as we talk about “creating value”, the flip side of the coin is that those with the word ‘senior manager’ on their business card can also destroy value, with the company bleeding red ink all over the balance sheet.

In practice, leaders generally appear in a difficult situation and step forward to accept the mantle of leadership. Like any set of skills, leadership is developed by practice, some success, some failures. That is, practising again and again.

Good leaders are reliable. With integrity, they make promises carefully and can be trusted by their word. They walk the talk. Unlike the glossy-suited questionable Sunday TV cleric on the stage, they don’t preach water and drink wine. If today the business has been forced to cut back to reduce costs and make staff layoffs they don’t go out tomorrow to get a shiny new gas guzzler on a company loan. They rarely practice ‘do as I say, not as I do’. They lead from the front, through actions.

Ability to make decisions and act boldly in the face of setbacks and adversity is the key to greatness in leadership. Many leaders are born out of adversity, from Nelson Mandela, Mahatma Gandhi to Winston Churchill. Leaders have the courage to make decisions in the face of doubt and uncertainty. They have to be able to step out when there is a big chance of failure. “If you want to be successful faster, you must double your chance of failure. Success lies on the far side of failure,” stated Thomas Watson, the founder of IBM.

In business there are two types of leadership: transactional and transformational. Transactional leadership is the ability to manage staff and material resources and just get things done. As in: just do it. However, what is more valuable is transformational leadership, which means the ability to motivate, inspire and bring people to higher levels of performance. To get staff and managers from where they are to where they have never been (and did not think possible). Want to be a business leader?

If you want to move forward and take a risk, remember Peter Drucker’s words: “Whenever you see a great business success, someone took a big chance.”

48. Management By Herding Cats

Are you in a state of mystery over why certain managers can't perform? Imagine taking the talented captain of a field hockey team and giving them the role of play-making centre half on a football team. They fail miserably and we wonder why. Sounds like an obviously stupid thing to do, yet that is exactly what happens every day in Kenyan companies, NGOs and the donor community. We give people roles that they are totally unsuited for, then we are in a fog as to why they don't succeed. The flip side of this is that a manager can be desperately fading in one company, move to the next organisation in a similar position and blossom.

What happened?

Not so long ago, just about every organisation was run by a "chief" – who was in every sense the paramount unquestioned almighty boss. Now days successful East African companies are run by management teams. Someone may have the name tag "manager" but the word has lost its original meaning in the ICT world we work in. It no longer applies to an authority figure and may just refer to someone holding a position of responsibility. The climate of our networked times is that power and authority shift from an individual towards a management team.

What we often fail to recognise in our fellow co-workers is everyone's innate abilities and where they are weak. And the strange thing is that an avid football fan can give you a detailed sophisticated analysis of their favourite team members' talents and pathetic points. Yet, when it comes to the office playing field, we often assume managers are interchangeable. What happens if you put together a bunch of star quality critical thinking, intellectually sharp managers all in one team?

Putting together a bunch of bright people in a management team is like herding cats. In psychologist Meredith Belbin's landmark research, he created what he called Apollo teams composed of clever managers and put them through several management exercises with other less intellectually gifted teams. "Apollo team members spent a large part of their time engaged in abortive debate, trying to persuade the other members of the team to adopt a particular, well stated point of view. No one seemed to convert another, or be converted. Each seemed to have a flair for spotting the weak points of the other's argument," notes Dr Belbin. Apollo teams consistently lost to their less gifted competitors. Does that sound familiar?

"A team is a small number of people with complementary skills who are committed to a common purpose, set performance goals and approach for which they hold themselves mutually accountable," is the working definition Jon Katzenbach and Doug Smith of McKinsey & Co give. The art of having a team that delivers is to identify everyone's strengths and weakness and understand that no collection of individuals ever becomes a team, unless it can hold itself accountable.

Do not be like a fish and in a fish bowl seeing no further than the bounds of the glass, thinking that is all there is to the real world. Start by noticing what each of your co-workers excels at, and what they are not so good at. Start by observing in an open-minded, non-judgemental way. Seeing what you never saw before. The trick is getting them to better understand themselves as managers and what tasks they are best suited for in a non-threatening and diplomatic way. No, you will never be able to change someone's personality but you can match their personality to their team roles. Remember the joke: How many psychiatrists does it take to change a light bulb? Only one, but the light bulb has got to want to change. How's that for enlightenment?

49. Mr Bean's OBM – Order Of Bad Management

Imagine that Mr Bean, the British comedian, had some thoughts on management. From watching his many skits and performance in "Four Weddings And A Funeral" and "Mr. Bean Goes To America," here is what he might suggest if one aspired to win the OBM, Order of the Bad Manager award.

Next time you are paralytically drunk, making an absolute fool of yourself in public, just get up on a table and loudly broadcast to everyone that you work for a competitor's firm. Enrol in the bean counter's Arthur Anderspin's degree programme (www.cookthebooks.com) and learn how to make a massive liability appear as an asset and see how decimal points don't really matter. Courses include: "Off The Books, Off The Hook" and "Taking The Counting Out of Accounting" and "Paper Shredding To International Standards". Upon graduation you will be a Certified Public Accountant, with the status of almost an accountant and the financial rewards of a rob-em-blind bandit. And, be able to write off tuition costs as an absolute loss.

Never do today what you can put off to maybe do tomorrow. Delay and procrastination are a reflection of your busy schedule. When pressed to deliver what you promised, always say, "Sorry, I have a board meeting that day." Remember, there is no problem too big that you can't ignore and walk away from.

Show your mental acuity and desire to learn by saying in a loud voice in a packed elevator: "I took a course in speed reading and read Tolstoy's *War And Peace*. It's about Russia." Jazz up your management vocabulary. Change nouns into verbs. Spout out trite mindless sayings like "Do lunch, or be lunch" or "Let's reengineer the paradigm, incentivise, ring fence it and consult laterally." Translation: "I am completely confused; don't know it and I'm a danger to myself and staff." Forget "business@the speed of thought" and the medium is the message. Don't respond to e mails. Never return telephone calls, if you do your peers might think you are not important. If someone calls and you are hesitant to speak to them, have them told that you are on an international video digital uplink conference call with your colleagues in Hong Kong, Silicon Valley, Brazil and Buru Buru Phase III. Display your knowledge of fifth generation information technology by stating that you soak your clothes in Microsoft to keep them fluffy and soft. And, that you write your shopping list on those handy yellow sticky Lotus Notes.

When speaking to staff, use as many words that begin with the letter "E". For example, "Our challenge at the leading edge, exceeding expectations is to strive to be effective, efficient, ergo empowered and eradicate equivocation." If someone says they don't understand the jargon --- just ask how they feel about a good audit. Despite the fact that the staff in your department are constantly back-stabbing, directionless and disillusioned, always refer to them as "my dynamic and cohesive team". Though staff development and welfare is totally ignored in your organization, constantly refer to "our people, our human capital are our greatest resource". Like Mr Bean, never take off your tie and always insist on being called "Mr" (Doctor is better) as a captain of industry and heaven forbid that someone should call you by your first name, or realise that you do not always take yourself very seriously.

Given the stress on high technology and innovation --- in a discussion about what is the world's greatest invention, forget the discovery of the wheel, the identification of DNA, or the Wright brothers' discovery of flight. Suggest that the world's greatest invention is the thermos. "It goes in hot and comes out hot, it goes in cold and comes out cold. How does it know?" When writing a memo or report and you feel completely lost and abandoned and don't know what to use as a title, simply call it: "The Way Forward." In a job interview, despite the fact you were fired from your last job for incompetence (and perhaps verbal incontinence) or you robbed the firm blind, just say, "I want to share with you what I feel like a greater challenge."

If a problem is simple and can be solved in the next three minutes, sit on it for three months and make it as convoluted and complex as possible. And, hope that it goes away by itself. Delegate authority and responsibility upwards, always waiting for your boss to make a decision, who will in turn wait for his or her boss to make a decision. That way, nothing will ever happen.

At every opportunity, demonstrate your human relations' skills and ability to get the best out of people and influence them. Just remember the story of Lady Astor, the first female member of the British Parliament in the 1920s and Winston Churchill. One day after a long grueling session in Parliament, the members retired for a drink.

Churchill, a bit tipsy, passed by Lady Astor and said: "Lady Astor, when I look at you closely, I see that you are very ugly."

Lady Astor replied, "Mr. Churchill, you are completely drunk and a great embarrassment to the House Of Commons."

"Yes, that may be true," said Churchill, "but the difference is, in the morning I will be sober."

50. One Day At A Time

Things are often never what they appear to be in business, or in arithmetic. These days it seems almost everyone wants to get conspicuous consumption rich. Preferably, quick. Imagine on a Monday, let's call that day 1 you started with an income of one Kenyan shilling, on day 2, Tuesday, you doubled it to KSh 2 and day 3 your income was doubled to KSh 4. If you kept going and doubled your income each day in a row for 21 days how much would you have?

Would this slow seemingly *pole pole* incremental income growth be worth your effort? Here, the power of diligence and consistency comes into play. After 3 weeks, on day 21, your daily income would be Sh 1,048,576 and your accumulated revenue would be just over Sh 2 million. If you kept going your daily income on day 30 would be Sh 536 million (US \$ 8.13 million) Sh 536,870,912 to be exact.

You might get lucky in business and have the cosmic experience of the big bang, but it's unlikely. Nakumatt, the market leader supermarket chain, Kenya's closest answer to Wal-Mart (the world's largest retailer) began from humble beginnings slightly over four decades ago as a family shop in Nakuru. It's likely that the market leaders in 40 years time in, for instance, banking, financial services and manufacturing may just be starting operations now. There is a lot to be said for taking things one day a time, taking one step forward every day with diligence, humility and conscientiousness.

Aiming to do things just that little bit better each time, in a spirit of continuous improvement, what – as we have said elsewhere – the Japanese call Kaizen. There is a lot to be said for small wins that accumulate with daily compound growth. Eventually, a tipping point happens and the enterprise appears to take off. What we forget to see is that long slow grind that got them to their tipping point.

All sorts of organisations aim to transform themselves into better performers with wordy mission statements and a balanced scorecard approach that focuses on the dimensions of something similar to: finance, operations – internal business processes, people and customer satisfaction. How many succeed? Often, the problem is all the commercial PR in place, with senior management feverishly preaching with sweat on the brow, and saying all the right corporately correct things, yet often nothing happens ?

Everything depends on day-to-day execution, having a vision and a balanced scorecard is often no solution. In both the public and private sectors, top management typically expect their staff to change, to work harder, improve the quality of their output, yet the big bosses have not shifted their approach (same old, same old). So why should the rank and file do anything different?

If you more closely examine Kenyan business transformations that have happened, one sees that there has been a bottom-up shift in mindsets. For staff to do things differently, they have to feel something inside, thinking has to shift. People have to be ready to step out and take a risk, to do things differently.

All the high-tech commercial PowerPoint preaching in the world will have little, or no impact. Everyone will nod their heads and smile and say all the right things, but inside there has been no shift. Adults learn mostly through imitation. If we see someone doing something different and it works for them, then we might be ready to try it ourselves. That's how change usually happens, one opening for possibility at a time. Just imagine you could improve, double the quality of your work and productivity each day for 21 days. The rest would be history.

Thinking Economics

51. Econ 101 – Old Foundations In Doubt

There are three different types of economics, according to economist Paul Krugman. Up and down economics as in “stocks are up, inflation is down”. Airport bookstore economics “How To Become A Dot Com Millionaire Overnight” and Greek letter economics of the mathematical sort, practised in universities and published in learned journals. Greek letter economics rewards mathematical wizardry over any reflection of what is actually happening in the real world. Core theories it has produced based on rational expectations and a closed system (all inputs are known) with perfect equilibrium and elegant calculus, but that is all.

“Anybody looking at these models would say they can’t provide a good description of the modern world,” observed Joseph Stiglitz, chairman of the US President’s Council of Economic Advisors. The recent global credit crunch brought into question the efficient markets hypothesis: “That the price of financial assets reflects all available information that is relevant to value,” as stated by Prof Eugene Fama.

The old foundation is beginning to be in doubt, with strong implications for management thinking. Many of the strategy tools used today, like Porter’s five forces framework, cost demand curves and ideas of competitive advantage have their origins in the industrial organisation theory of the 1950s, which in turn is based on micro economic theory, having its origins in the 1870s. This intellectual lineage affects the way we approach management today.

Most economics assumes a closed system in equilibrium (everything balances) then something changes and it eventually establishes a new equilibrium. Problem is that such an approach makes three assumptions: that the industry structure is known, diminishing returns apply, and that the firm’s management is absolutely rational. But what happens when production costs and consumer preferences are uncertain? What if there is not a situation of diminishing returns (where each additional acre of maize is planted on less fertile land, giving a lower yield). What if there is a situation of increasing returns, as in, that for each internet-enabled cell phone using a telcom provider in turn gives a higher return on value of the next batch of phones sold? What if firms lack perfect information, or interpret information differently? Eventually, the equilibrium model of economics falls apart. Today, what is in vogue is recognising that the real world is more like an open system, what economists of the Santa Fe school call an adaptive complex system where uncertainty and sometimes chaotic behaviour are more the norm. Now doesn’t that sound more like the real world? Problem is, in the complexity-based view of economics, and in turn, management, the old tools don’t do the trick and new ones need to be developed.

Yes, you can use traditional strategy models to explain the success of companies after the fact – but they are not much good at prediction. All of this is pleasing news for modern business in Africa; today one can be not be certain about much. What counts is having a perceptive and resourceful mental map, recognising complexity for what it is. What if there was a push to double maize yields in Kenya, impacting the great majority of small holders in agriculture? What if a ring was put around the Nairobi Industrial Area, then it was called a productivity zone and infrastructure, power, roads, security and water services were raised up to South African standards? You don’t need an economic model to predict the result.

52. Complexity Economics And Business Planning

Human beings are rational. If one has just enough information and the right techniques and analysis one can know the clockwork workings of the economy. This is the teaching of traditional economics and by implication its cousin, business planning. As history has shown, the most recent, Act II, Scene 3 being the credit crunch: “The economy is too complex, too non-linear, too dynamic, and too sensitive to the twists and turns of chance to be amenable to prediction over anything, but the very shortest terms,” writes Eric Beinhocker in *The Origin of Wealth*.

This is another wake-up call, yet we continue to go on like we are able to predict and know the future, confusing the need for the (hopefully insightful) process of planning, with the mythical product of an ideal of planned certainty. Economists are supposed to be able to predict the fiscal future, CEOs to know which business strategy is better, and government policy makers to foretell which policies will serve the citizenry best.

Beinhocker’s 2007 book, *The Origin of Wealth* with a scope of *War and Peace* is a must read for managers. It applies the ideas of adaptive evolutionary systems including complexity economics to a number of areas. One of his messages, like that given by like Nicholas Nassim Taleb, is that it is naïve to believe that one can plan with any sense of certainty. So what does one do – give up and just stop planning, and leap from crisis to crisis, (or better yet windfall, to windfall)? Beinhocker’s message is that while one cannot predict, they have a type of lever in being able to create firms and organisations to be better adapters. “We may not be able to predict or direct economic evolution, but we can design or institutions and societies to be better or worse evolvers,” writes Beinhocker.

Let’s look at his thinking on business strategy. A strategy review in a company should cover the current situation in terms of the company and the industry. And then go on to look at trends affecting, for instance, customers, competitors and technologies – attempting to predict scenarios of what will likely happen and trying to pinpoint attractive positions. Finding that best place to be in, that position, is said to lead the company to gain the holy grail of business planning; the sustainable competitive advantage that Michael Porter of Harvard has written about in describing the wealth of Kama Sutra-like positions a firm can take to gain that illusive advantage.

Another element of gaining a competitive advantage is what Pankaj Ghemawat calls commitment, which involves making strategic decisions that are difficult, or costly to reverse once made. When you have eggs and bacon for breakfast, the chicken was involved and the pig was committed. In 1519, the Spanish explorer Cortes landed his ships on the Mexican coast seeking wealth and fertile new lands. He ordered his reluctant men to burn their ships forcing them to march inland – in a word, creating commitment. Commitment is required in a strategy because if it was not there, then the competition can easily imitate it at little cost.

In business planning, we make two fundamental assumptions. One, that managers and a board can make intelligent predictions about what approaches and strategies will work best in the future.

Two, that one can make commitments that will result in a competitive advantage. Business invests billions of dollars on these assumptions constantly, yet, as Beinhocker believes, both assumptions are wrong.

Why this is wrong is that there is the possibility of a frozen accident, a small event that can shape the path of business history. For instance, in 1890, Annie Oakley successfully shot a cigarette out of the mouth of the future German Kaiser Wilhelm and IBM’s 1980 decision to approach Bill Gates to create a programming language for its soon-to-be new PC.

53. Conventional Wisdom – Tale Of The Scorpion And The Frog

The scorpion wanted to cross the river and he asked the frog. “Please Mr Frog, would you carry me across the river on your back?” “I would,” said the frog. “But under the circumstances you might sting me as I swim across.”

“But why would I do that?” asked the scorpion. “It’s not in my interest to sting you because you will quickly die and then I would drown.”

In the middle of the river, the scorpion stung the frog.

“Why did you sting me? It’s not to your benefit to sting me and now we will both drown,” said the frog.

“I know,” said the scorpion, as he sunk into the river. “I am a scorpion, I have to sting you. It’s in my nature.”

Conventional wisdom in business encourages us to think like the frog, but people’s nature does not change. Smart managers remember what the frog forgot, that each individual is like the scorpion and are true to their unique talents and personality. Your co-workers’ personality was set long ago, you might add to their skills and knowledge, but their talents are unique to them, and pretty fixed.

Each person is motivated differently, their own way of thinking and their own style of relating to others. Wise managers know there is a limit to how much remoulding one can do. Questioning conventional wisdom, the engagement-related research of Marcus Buckingham of the Gallup Organisation shows it is better to stop trying to change staffs’ weak points, and better to build on their strengths.

Conventional wisdom suggests staff leave companies for better prospects. In many cases they don’t; dig deeper and you will find people don’t leave good companies, they leave a bad manager, or supervisor, who they just can’t stand any longer.

It was John Kenneth Galbraith, the hyper literate economic sage, who coined the phrase “conventional wisdom”. He did not consider it a complement. “We associate truth with convenience,” he wrote, “with what most closely accords with self-interest and personal well-being, or promises best to avoid awkward effort, or unwelcome dislocation of life. We also find it highly acceptable that (conventional wisdom) contributes most to self-esteem.”

Economic and social behaviour, Galbraith continued “are complex, and to comprehend their character is mentally tiring. Therefore we adhere, as though to a draft, to those ideas which represent our understanding.” So the conventional wisdom in Galbraith’s view must be simple, convenient and comforting – though not necessarily true. It would be silly to argue that conventional wisdom is never true. But noticing where the conventional wisdom may be false – noticing, perhaps, the evidence of sloppy, or self-interested thinking – should alert one to start asking questions.

Conventional wisdom thrives in the business world when no one questions fundamental assumptions. For instance, in urban planning, why don’t we have a dedicated bicycle -lane network in many cities, patrolled by police on mountain bikes. It’s there in every major North American and European city, yet the conventional wisdom sticks to a preference for conspicuous consumption gas guzzlers. As a manager are you a scorpion, or frog.

Hopefully, your sting will be more a wake-up call, than one that is sure to drown your staff with more of the same old comforting, but wrong conventional wisdom.

54. Irrational Economics Takes Hold

In economics course 101, students are taught about the imaginary “rational economic man”, who only makes logical decisions to maximise own interests. But perhaps, this view of rationality has its limits, what has been diplomatically referred to as the ‘bounds of rationality’. What if our view of the rational economic actor is itself irrational? Behavioural economics is a relatively new field of the dismal science that severely questions the fundamental assumptions of economics 101.

“Drawing on aspects of both psychology and economics, the operating assumption of behavioural economics is that cognitive biases often prevent people from making rational decisions, despite their best efforts,” wrote behavioural economist Dan Ariely in the *Harvard Business Review*.

Behavioural economics questions the gospel truths long taught in university economics departments and business schools. The focus is on the real (not textbook) decisions people make, whether to have chicken and chips for lunch, munch at Java, or eat at some costly upmarket bistro. How much to spend for a cup of tea, whether to drive to work, take a matatu or hop into a taxi, or walk? For many years, the little cousin of behavioural economics was considered on the fringe. While traditional academics would admit that people behave irrationally from time to time, they have fundamentally stuck to their guns. And, they have a point, one has to question. For instance, if participants in a controlled experiment acted irrationally, should one then by the process of inductive thinking (going from the particular to the general) suggest that that the test results had a much wider application?

Then, in October 2008, behavioural Economics got a major boost from the banking guru Alan Greenspan, the former chairman of the US Federal Reserve when he admitted to the US congress that he was “shocked” that markets did not operate the way he expected.

Greenspan stated that he “made a mistake in presuming that the self-interest of organisations, specifically banks and others, was such that they were best capable of protecting their own shareholders”. In one behavioural Economics study that supports Greenspan’s thinking, people were offered a fancy expensive Swiss Lindt truffle for 15 cents or a cheap American chocolate for 1 cent. 73% of them chose the truffle. Even when people were offered the cheap American chocolates for free or the Lindt truffle for 14 cents, only 31% chose the free offering, suggesting “irrational exuberance”.

Where the results seem to have the greatest applications are in consumer behaviours where experiments tend to show that upset consumers can seek to extract revenge when they are upset. The point of all this is that for companies, it is worth taking a second look at the thinking process of how their consumers really behave.

A classic case of being shrewd and using smart psychology and behavioural Economics is when Apple originally introduced the ground-breaking high-tech iPhone. They did it at a price of \$600 and then within weeks reduced it to \$400, getting people to think they were getting a real bargain, yet for Apple this was the price that would maximise sales turnover and profits.

When all is said and done, findings in these behavioural economics experiments can be depressing and according to Dan Ariely, “Multiple findings demonstrate that we are emotional, myopic, and easily confused and distracted”. In a word, irrational. But so that we can have sweet dreams at night, don’t you prefer the fantasy ‘rational economic man’

Creating Organisational Change That Sticks

55. Change And The Da Vinci Code

The illusive Holy Grail of business has to be a corporate change that leads to improved financial and operational performance. Sounds simple, but in reality it is as complex and controversial as the Da Vinci Code.

Often these change efforts go fly under many flags: restructuring, turnaround, right-sizing, cultural change, reengineering and so on. Names are different but in every case the basic aim is the same: to make a fundamental shift in how the business is run in order to cope with a more competitive marketplace.

It took Unga Group eight painful years of bleeding red ink to return to profitability after a failed change effort led by a partner from one of the “final four” big audit firms. Clearly big does not always equal better. Bright ideas and business jargon are not enough. It’s better not to begin a change effort than to start and fail, as when the company does, it’s staff and management will just be more disillusioned than ever.

The difficulty of setting a strategic direction, making a shift in business performance in an organisation should not be underestimated. All sorts of companies in Kenya, and globally, try to fashion themselves into significantly better competitors. A few succeed like Kenya Airways, Serena Hotels or Bidco, but many fail, with the majority of the outcomes falling somewhere in-between, tilting to the lower end of the scale. In every case the prime goal is the same – to make a change in how the business is operated in order to cope with a more challenging market environment.

Two lessons stand out: a) The process takes time, at least five years. b) Skipping steps might create the illusion of speed but never produces the result. And making mistakes in any of the steps can have devastating effects later on and may negate hard fought gains.

On the one hand, as pointed out by the guru of corporate change, John Kotter of Harvard Business School, change has to be urgent. Staff and management have to see tangible “small wins” within weeks. They have to intuitively feel in their gut that something is different. On the other hand, intuitively, one knows that change takes time as written about by Jim Collins when he talks about the chick slowly hatching unseen in the egg and the difficulty of getting a massive flywheel weighing tonnes moving.

While on the one hand change seems a simple concept, in reality it can be a little more complicated. As individuals we know the difficulties of making changes in our own lives even when we can see that there are clear benefits to the change. The routines we have now are familiar and comfortable, changing them would take an effort, and we are usually too busy or tired to imagine even putting in any more effort than we now do. Change is usually scary too. Even when we know the end result will be worth it, the process of getting there is often uncomfortable and difficult. We tend to see change as huge and think it involves taking big steps.

This all seems so daunting that we do not know where to start, but the fortunate news is that change begins with simple things and just doing things differently, perhaps in a process of gradual improvement, what the Japanese call *Kaizen*, making improvements each and every day. (Hopefully with two steps forward, and only one step back.)

There are masses of literature on corporate change programmes, some of which is genuinely insightful. The trick is to take the theory and apply it in practice and have the results show up on the several dimensions in finance, operations and levels of staff engagement.

That's the good news, and here's the bad news. One deeply unfashionable but true conclusion you won't find in business and MBA textbooks is that 99% of successful change efforts rely on the leadership of one person; usually, a quite demanding character. Can anyone name a profitable corporate transformation that happened without one person being the initial spark plug?

56. Why Change Plans Flop

Everyone talks about change and better operational and financial performance, but very few companies turn the talk into the bottom line.

Corporate change efforts go under many names: total quality management (TQM), re-engineering, right-sizing, restructuring, cultural transformation and turnarounds. Remember re-engineering, which was deemed to be the Viagra of corporate transformation. Even the re-engineering creators, Michael Hammer and James Champy state that "about 50% to 70% of organisations that undertake re-engineering do not achieve the dramatic results they needed". Who will re-engineer the re-engineers? When it comes to change efforts globally a few have been very successful, a few have been utter failures, while most fall somewhere in between, with a distinct tilt towards the lower end of the scale. Why?

From our experience, here are some of the common mistakes we have seen and some reasons why change efforts fail to succeed.

Right people on the bus

Forget about blue-sky visions of the direction your company is heading in. The truth is that hard analysis shows that companies that genuinely outperform everyone in the market start by asking who are the competent enthusiastic staff who should be seating in the seats of the *matatu*. Forget about the direction it is heading in for the moment. Shuffle the seating around. Put people where they best fit, but if you don't have the right people you are going nowhere.

Issues of front-line staff ignored

Deal with the real issues that affect staff. What are the things that upset your people? What is bugging them? Some may seem significant, others trivial. Deal with them all and let people know they are being dealt with. Create genuine small wins to show progress is being made. A change effort will flop if the focus of the staff is on the managers' pockets, while line staff have nothing to gain, nothing in it for them.

Quid pro quo

"Do this for me and I will do this for you." You are asking staff to do things differently, up their level of diligence in work, and in return the company needs to be seen to be giving, not just taking.

So how about, for starters, having one of the Monday morning meetings with the cleaners and the messengers instead of the managers? Let them see the undoubted value of their cleaning and delivery efforts?

Management must change

Management cannot expect the change effort to work if they carry on exactly as they were doing before – in a do-as-I-say, not-as-I-do fashion. The same thing applies if the CEO, seemingly the guru of the overall operation, is not wholly involved in the entire change process. Desired change is bound to fail again if the managers do not understand the scope of the intended program or the business problems that need to be solved. They obviously will not know what to measure or look out for in this process or in which way to manage the staff.

A way to measure results

Having no standards in place to measure how successful the change efforts are, or have been, makes for a non-starter. How do we know whether anything has changed. For instance, have transaction times improved? So after some time, no way to know what the impact of the program has been and staff find themselves like lost sheep, having it drummed into their heads that "they have to change" but do not know how they are changing or really how they are supposed to. What should you measure?

Linking the change elements with the business

If the company focuses on various elements of the change effort like, for instance, staff, mission of the organisation, culture, skills, systems and strategy, but fails to do the most crucial thing, which is, link these efforts to the company's bottom line, or if you like, how these efforts finally show up in the numbers, then something may go wrong. And when the numbers show up, make sure an incentive programme is in place for everyone. The best way to demoralise managers and staff is to create an incentive programme where the staff have no influence on its outcome. It is a bad stimulus response set-up, if after you ring the bell the Pavlov's dog salivates and you never feed it. Eventually, the dog just goes back to sleep. No amount of corporate bell ringing will wake it up.

Don't despair, corporate change is a possible if well thought out, but at the end of the day, remember: "How many psychiatrists does it take to change a light bulb ?"

Answer: "Only one, but the light bulb has got to want to change."

Dealing With The People Factor

57. Human Capital

The human resources (HR) function is in a retreat mode. When the liberal thinking wears out, after a while one begins to wonder the impact the HR function has on the bottom line of business. Often HR, at best, works as a combined policy and procedures police and showing staff where to hang their hat.

Over the years the personnel function has changed the name on the door to human resources and now to human capital, or talent acquisition, but does that really change anything? After all, you can put lipstick on a pig, but it's still a pig.

Despite management having all sorts of tools at their disposal to control and account for resources, one of the most significant assets that a company possesses is often overlooked and never included in a balance sheet, except perhaps under the heading of goodwill. That asset is the staff and the organisation's corporate culture.

If you look at an income and expenses financial statement, it is not uncommon to find that staff costs can be a significant third of operating expenses, and sometimes the absolute biggest chunk of expenses. Yet the impact that massive cost has on business performance is rarely quantified.

One often hears CEOs and senior managers say: "Our staff are our greatest asset," yet few really believe it in their heart of hearts, or if they do, most have not thought through how to capitalise on their staff. And, it is not as though there is one corporate culture that dominates an organisation, the way things are done and the vibes can be very different from say a department like finance to, in contrast, sales and marketing.

One way to shift from the world of saying nice, politically correct, but vacuous things about human resources is to link it up in a balanced-scorecard way with the rest of the business. Say, using the scorecard dimensions of, for instance, finance, operational – internal business – processes, client satisfaction and people and engagement.

These dimensions can easily be tailored according to the nature of the business and the ways of measuring continually polished. What's that saying: What gets measured gets noticed. Yes, it's a yin and yang thing, measurement will not initially be black and white, there are all sorts of shades of gray in-between.

Given that we are talking about the complexities of human beings each with their own competencies impacted by knowledge, skills and attitude, one can't measure everything, but the process of being in action, giving it a try can be revealing. Currently, most HR managers quantify say, for example, the wage bill, staff turnover and training costs, but working with the finance folks, these old measures need to be linked closer to financial and operational performance. So that for instance, training costs becomes training return on investment. Imagine, what if the costs exceed the benefits?

What is important in starting to measure the impact of people in the business is to pick a few problem areas and figure out how to start measuring them. Try to come up with measures that are derived from a combination of hard analysis and out of the box creative thinking. Aside from the more conventional HR metrics, it is interesting that one of the biggest factors that determine the strength of a business relationship (and indeed a personal one) is never measured. How do you measure the trust factor in business? As in, can I trust this person to deliver?

58. Do Teams Work All The Time?

The value of teams is almost a sacred topic in management. Listen to any senior manager extolling the virtues of teamwork of his, or her, team even if in reality they are a disjointed upset group each shooting off in their own directions, with only their selfish goals in mind. Yet we keep calling this group a 'team', hoping that if we repeat something enough times it will come true. But at the end of the day, the map is not the terrain. You can put lipstick on a pig, but it's still a pig.

There is no doubt that at times a group of people can pull together with diligence and produce an impressive (almost magical) result in a very limited time. But is this the exception or the rule? Despite all the build-up of what we are told, any keen observer of teams in business realises that at least more than half the time they can significantly under perform. Why is this?

Yes, in a team $1 + 1$ can equal 3 when a leader is in place; who reaches consensus and brings together everyone's (sometimes conflicting) contributions, where the organiser truly creates value. In contrast, one can have the situation in a group effort where $1 + 1$ equals negative 2, with wrangling and no real leadership, characterised by soap-opera ego brimming with drama, where precious time is lost and nothing gets done.

"Research consistently shows that teams underperform, despite all the extra resources they have. That's because problems of coordination and motivation typically chip away at the benefits of collaboration. And even when you have a strong and cohesive team, it is often in competition with other teams, and that dynamic can also get in the way of real progress. So you have two strikes against you right from the start, which is one reason why having a team is often worse than having no team at all," says J. Richard Hackman, Professor of Social and Organisational Psychology at Harvard University.

The essentials of creating a team include having a leader who can bring together everyone's contributions. (Simply giving someone the title 'leader' does not make them a leader.) It helps if members of the group have the self-awareness to understand their own personalities, and that of their co-workers, simply what they are good at, and where they are weak. For instance, a creative, conceptual idea person may have awful people-upsetting skills, but their role may be critical for the team to be a success. It is best to stop trying to change people, but more importantly, understand where staff best fit in. Prof Hackman states that a 'deviant' is needed by every team, someone who will question what appears to be common knowledge and is "willing to say the thing that nobody else is willing to articulate".

The deviant person's role is to keep asking difficult questions, keeping everyone on their toes, and hopefully to stop the team drifting off to collective back-patting mediocrity. At the end of the day for teams to succeed, they need their membership clearly defined. One needs to know who is on, and who is off. To succeed, they need a clear focus, which should be given by the leader, so that different members do not each pursue their own agenda.

Despite what we might like to think, there can be problems when new people who have never met each other work together. For instance in aviation, "The US National Transportation Safety Board found that 73% of incidents in its database occurred on a crew's first day of flying together, before people had a chance to learn through experience how best to operate as a team – and 44% of those took place on a crew's very first flight," notes Prof Hackman.

Despite all the 'Alice In Wonderland' management hype, teams are great when they deliver, but there are some tasks that individuals can do better on their own.

59. Does Performance Appraisal Work?

There are “serious and widespread doubts about human resources (HR) contribution to organisational performance.”

“The activities of HR appear to be – and often are – disconnected from the real work of the organisation,” wrote Dave Ulrich of the University Of Michigan in the *Harvard Business Review* in 1998. “Indeed, if HR were to remain configured as it is today in many companies, I would have to answer the question with a resounding “Yes – abolish the thing!” says the professor of business.

What is the real contribution the human resource makes to an organisation’s operational and financial performance?

HR in most companies serve as a doorman and security guard combined; welcoming the new recruit into the firm, showing them where to hand their hat and then acts more the as the rule-making policy body and procedures’ police.

No there, there

Human resources function abounds with jargon and “business speak”, but when one digs deeper there is often “no there, there”. Over time, the personnel department has been renamed human resources and in some cases evolving to a fancier human capital unit and/or the manager of people and culture, but what is HR’s real impact? Somehow we continue to go through the ritual of saying all these nice things about the HR function but don’t see hard results.

Performance management is thought to be the domain of HR but when one delves down into what this really means it’s generally simply good old-fashioned performance appraisals. Whether they are done once, twice or three times a year the results are generally the same. There are severe doubts about whether performance appraisals work.

- Research shows that people are often more confused about where they stand in the organisation after the performance appraisal than before.
- Psychologist Douglas McGregor complained that the major reason appraisals failed was that “superiors disliked playing god by making judgements about another person’s worth”.
- “The appraisal situation gives rise to powerful, paralysing feelings of guilt that make it extremely difficult for most executives to be constructively critical of subordinates,” states Harry Levinson, clinical professor of psychology at the Harvard Medical School.

“Subordinates will inevitably be appraised on how well they work with superiors and help the latter meet goals.” And, “quality of performance frequently, therefore, loses out to quantification,” is Levinson’s disturbing critique.

Like a rat in maze

Often the performance appraisal process assumes the staff member is like a rat in a maze with a choice between two alternatives: the rodent will either choose the food or the reward. If the cheese is not selected, the rat is starved to make sure it wants food. Sounds familiar? Well, that’s one way to manage performance but people are not rats. Somehow what is forgotten is that staff are most deeply motivated by work that stretches and excites them while also advancing organisational goals.

For performance management to work, the approach has to be in direct alignment with the corporate strategy, unit business plans and all the elements of the HR cycle.

Research by aCatalyst Abbott Consulting suggests that roughly 5% of firms in East Africa have a real performance management system in place that links the elements of HR with business planning. Generally, these are market leaders like Citigroup or Sarova Hotels. Some imaginative and entrepreneurial firms in Kenya don't even have a HR function, they work more by having senior managers hire staff based on their energetic can-do attitude and leave the mechanics of signing on to administration.

So what is HR's role? To begin with, it is getting the right people on the bus and ensuring staff are engaged, switched on and excited about their role.

Accounting

60. Are You The Next Pacioli?

Breakthroughs involve questioning fundamental assumptions and looking at the world differently.

Each discipline attempts to more accurately describe its subject. For instance, our understanding of the cell has leapt from Gregor Mendel's garden pea experiments reported in 1866, to Watson and Crick's discovery of the structure of DNA in 1953, to close to cracking the human genome today. In information technology, computing power doubles roughly every eighteen months with no cost increase. Noam Chomsky, the father of modern linguistics states that unless one has a word for something it does not exist. Plus, due to the very structure of a language, it can either block or encourage the thinking process. In the last 500 years, accountancy has advanced to more accurately describe the financial dimension of business? Does accountancy have the ability to conceptualise or describe today's business at the speed of thought – where competitive advantage often relies in exploiting intangible assets, like access to information and brain power ?

Remarkably unchanged, the double entry accounting system we use today is a product of its time: the Italian Renaissance. Luca Pacioli, the father of double entry accounting was born in 1445 in Tusepolcro, Tuscany. Pacioli was no bean counter. A friend of Leonardo da Vinci, he wrote and taught in many fields including mathematics, theology, architecture, games, military strategy and commerce. At the age of 49, Pacioli published his famous book "*Summa de Arithmetica, Geometria, Proportioni et Proportionalita*". (The Collected Knowledge of Arithmetic, Geometry, Proportion and Proportionality).

Pacioli's method did not question fundamental assumptions, nor did he invent double-entry accounting. Instead, he described an approach used by merchants in Venice during his day.

Questioning fundamental assumptions

Born 28 years after Pacioli, Nicolaus Copernicus, a Polish humanist intellectual questioned a fundamental assumption, a worldview passed down from antiquity and the Middle Ages that the earth stood at the centre of an almost static universe. Copernicus realised that the path of planets looked complicated because we see them from the place we happen to be standing: the earth. Like other pioneers in perspective, Copernicus asked: why not look at the planets from another location: the sun? Response? "You have got to be crazy."

The representative of the imagination of the Renaissance was the Italian scientist and mathematician Galileo Galilei; a short, square, active man with more children than a bachelor should have. He was a genius who developed the telescope which enabled him to prove that Copernicus was right; the planets did not revolve around the earth. At the time, (1609), this was heresy for the Church of the day. Galileo, the dissident scientist was put before the inquisition, threatened with torture, publicly humiliated and confined for the rest of his living days in a villa in Tuscany. Questioning has its tangible costs.

Part of the attraction of Pacioli's system is the seduction of its simplicity, it is black and white, credit this and debit that, combined with the calming notion of balance, all things being in equilibrium. Nothing wrong with simplicity, but to view a complex system as simple is a recipe for disaster.

When wealth was physical and the costs included were mostly material and labour, Pacioli's system was adequate but today, how does one put, for instance, a value on research and development, the knowledge between the ears of staff, the value of a brand name, or labour unrest?

Perhaps it is time to question fundamental assumptions, question the value of value, and make an accounting leap like Pacioli did in his time. The more famous corporate deceivers of recent years, including Enron, WorldCom, Tyco and Xerox were each involved in their own distinctive style of accounting hanky panky and have provided a wake-up call for the accountancy profession. And, not to be outdone, countries like Kenya have the Goldenberg and Euro Bank but perhaps that is just the tip of the iceberg Kenyans may never see? For example, in 1995, Transparency International reported that 7% of Kenya's GDP was being siphoned off in corruption, an amount greater than the donor aid that was being requested at the time.

Turning debits into credits

Is the answer for accountancy simply to call the standards "international" and tighten up the loop holes, carry on back-patting, and hope for the best? It's not black and white. Arthur Andersen, Enron's accountant, was viewed by many as the most progressive of the once "big eight" accountancy multi nationals, now down to the remarkably similar "final four".

For instance, under 99% of corporate social responsibility criteria, Enron, the energy trading company, was a good corporate citizen, plus it even had an outside audit committee made up of global business leaders with a professor of accounting thrown in to credit the balance. Enron, like Euro Bank, got into problems when it had to meet unrealistic expectations. To cope, Enron had to play with the figures. It turned debits into credits, to disguise its liabilities. It wrapped them up in private partnerships and took them off its balance sheet. And, to satisfy the high earnings expectations of the market, it brought earnings forward by selling shares in other off-balance-sheet partnerships, and counting the proceeds as revenues. Who said accountants are not creative? (Between 1988 and 1995, Enron *reported* that it grew its sales 7 % per year and its shareholder returns by 27% per year.)

Perhaps the problem is that accounting tends to view a complex business enterprise with a flat one-dimensional view based on the past. An audit is a bit like driving down a highway at 120 km per hour looking only in the rear view mirror. The business community is rife with stories of fraud, often involving several levels of hierarchy (and sometimes the internal auditor) that went on for years, unspotted by the external auditors.

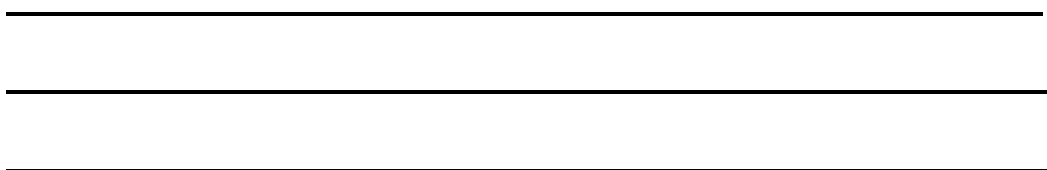
One proposed solution to compensate for inadequacies of conventional accounting, not to replace it, but to supplement it was created in 1991 by Robert Kaplan (a professor of accounting at Harvard University) and David Norton, who developed the balanced scorecard approach where one looks at the business from the perspectives of finance, operations, customer satisfaction and learning and growth. The scorecard gives managers the ability to exploit intangible assets that have become more important than their ability to invest and manage physical assets.

One can play with the balanced scorecard metrics, the measures applied to suit the nature of the business, where the starting point is the corporate strategy (hopefully) in place through to unit business plans.

That's the theory, to implement it is not easy plus in many ways it is confronting, forcing senior managers to address assumptions about the business, then show in a transparent way how they are adding value of the firm. A few organisations in East Africa, like the Sarova Hotels, have begun to implement the approach, where the idea is to put the all the elements of the business in alignment from, for instance, corporate strategy, to unit business plans to a monthly managers' incentive system.

Interestingly, some schools of economists have moved away from static equilibrium, from “everything balances” models of enterprise and more towards seeing business as complex systems. Perhaps the reason is that economists have been asked to predict behaviour and place value on intangibles, while accountants traditionally report tangibles based on historical data. But what happens when senior management needs a model of the world where innovation, change and uncertainty, rather than equilibrium and balance are the natural state of things? After September 11, we live in a clash-of-civilisations world where months of budgeting can become meaningless in the next five minutes. Unpredictability has become standard operating procedure.

It is time for accountants to make a Copernicus-like leap in perspective to see and report on business performance on three inter-dependent dimensions: finance, operations and engagement. To some, this may be heresy, but to the new generation of Pacioli’s it will be the gospel truth.



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