THE FATAL ATTRACTION OF MEASURING EVERYTHING

BRAIN BULLETIN

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IT'S been said that not everything we count counts and not everything that counts can be counted. With the exponential growth of computing and the fascination with big data, the battle cry of many chief executive officers (CEOs) is to measure everything. You often hear the mantra "you are what you measure".

Really? Can everything that is important in a complex business be reduced to metrics?

Daily dashboards. End of day reports. Weekly review meetings. Monthly business reviews. Do any of these sound familiar?

Finance functions and information technology departments are being challenged to provide more and more real time data and analytics. There is a mad scramble to stay on "top of it". In some very limited parts of a business, such detail and frequency may be necessary.

In most other cases, employees are being terrorised by senior management who are afraid that they may miss something. Detailed decks are dutifully produced and managers are expected to explain the data in great detail.

But is this whole process useful?

MEASURING INFORMATION TOO FREQUENTLY CAN BE HAZARDOUS

Managers seek daily, weekly and monthly reports. For example, to measure sales and sales productivity or trading positions, such frequency can be useful. But even here there is a risk of not seeing trends.

And none of this ever answers the question of why a particular outcome has occurred. It is in the why where the insights rests.

There is a further issue of determining the right balance between measuring outcomes and the drivers or perceived drivers of those outcomes.

Most analytics look at the rear-view mirror and even that perspective may not be correct. Business, however, needs to be lived forward.

The attempt to measure everything reflects a notion that running a business is a science and that with the right data and analysis, you can answer why something happened and what will happen.

Unfortunately, reality is different. The bottom line is that managing a business is as much an art as it is a science.

THE NOISE OF AVAILABLE INFORMATION IS DEAFENING

Information is often mistaken for insight. Companies generate mountains of analysis in the hope and often mistaken belief that "the data will talk". It is hoped that by crunching data a hundred different ways, some insight will emerge. This rarely happens.

Furthermore, what you don't see is more important than what is visible. Human resources departments often produce mountains of data regarding people who leave such as length of service and which area is prone to turnover. What is often missing is why people stay, which is more important and insightful.

It's worth keeping in mind that even the most exquisite painting when viewed up close blurs. Perspective and distance are critical. The optimal distance will vary but there is no question that when things are too close you miss the contours, you miss the sharpness.

It is the same with data and metrics. When you get too much, you lose perspective. You may not know which makes it all the more dangerous. Trends become hard to spot. At different levels of management, different levels of information and analysis is needed.

When CEOs and boards get into too much detail under the false pretence of getting their hands dirty, what they are really doing is losing perspective and limiting their ability to distinguish between signals and noise.

FALLACY: MEASURING EVERY POSSIBLE ASPECT OF A BUSINESS INCREASES EFFICIENCY

Making every part of a car efficient does not necessarily increase the efficiency of the car because performance depends on how the car is constructed and how the parts are put together to work together.

A company's performance is not dependent upon how good each employee is or how good each department is, but more importantly how individuals and groups work together.

What really matters in a company is how decisions are made, how people collaborate and how risks and opportunities are calibrated amongst other things. Often this is called culture. Some of the most important things that drive success cannot be measured.

THE PRICE OF TRADING DEPTH FOR BREATH

Trading depth for breath narrows the vision and creates the false impression of getting to the root of an issue.

Most data analytics cannot measure the interaction between the different parts of an organisation where the true competitive differentiation lies.

A bank, for example, can measure how quickly complaints are handled. But what really matters is what was learnt about the underlying process that led to the complaint, and how a different part of the bank incorporated that learning. This latter more important aspect is much harder to measure.

INTERESTING LESSONS FROM NEUROSCIENCE

The brain is not good at processing a lot of information. It slows down and tends to avoid the effort. The greater the information, the lesser the retention. And with more data and information, the quality of attention and thinking diminishes.

Herbert Simon the economist wrote "... what information consumes is rather obvious. It consumes the attention of its recipients. Hence a wealth of information creates a poverty of attention".

HYPOTHESIS TESTING IS OFTEN A BETTER WAY TO APPROACH DATA

Insightful and effective managers who understand the business start with a series of hypotheses. The quality of the hypothesis depends upon the experience of the managers and the diversity of the team.

They seek data to either prove or disprove a hypothesis, rather than madly churning out data and analysis. This is a much more effective way to mine data and work with data. In practice, it is rarely done.

More importantly, the focus should be on extracting actionable insights which requires adequate time and emphasis. This too is rarely done.

CONCLUDING REMARKS

CEOs and boards must guard against the delusion that stacks of data and measurements are a substitute for intelligence, judgment and insights. Getting lost in the crowd of data and missing vital signals can be fatal.

Too much information, not enough insight; too frequent information, not enough reflection, is not good. Sometimes less is indeed more.

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