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Evidence-Based Management

Key ideas from the Harvard Business Review article By Jeffrey Pfeffer, Robert I. Sutton

The Idea in Brief

Managers have tough jobs: Under intense pressure to make decisions with incomplete information, even the best among us make mistakes. The good news? Evidence abounds to help us make the right choices. The bad? Many of us ignore it--relying instead on outdated information or our own experiences to arrive at decisions. Some of us fall victim to hype about "miracle" management cures, or we adopt other companies' "best practices" without asking whether they'll work just as well for *our* organizations.

Result? Poor-quality decisions that waste time and money (at best) and risk your company's future (at worst).

To avoid this scenario, start an **evidenced-based management** movement in your company: Every time someone proposes a change, ask for evidence of its efficacy. Clarify the logic behind that evidence--looking for faulty reasoning. Encourage managers to experiment with new ideas--rewarding those who learn from these efforts, even if an experiment itself fails. And insist that managers stay current in their field--and provide continuing professional education opportunities to help them do.

Your reward? You and your colleagues face the hard truths about what works and what doesn't. You expose the dangerous half-truths that mar much conventional business wisdom. And you make smart decisions on the most pressing issues facing your company.

The Idea in Practice

To start an evidenced-based management movement in your firm:

Demand evidence. Whenever someone makes a seemingly compelling claim, ask for supporting data.

At DaVita, an operator of kidney dialysis centers, facility administrators use disciplined measures to evaluate patient care quality and operational efficiency--and to make confident claims about DaVita's performance. Reports and meetings begin with data on patient health as well as operational efficiency--as measured by metrics such as treatments per day and employee retention. Formerly teetering on the edge of bankruptcy, DaVita now lays claim to the best patient care quality in the industry.

Examine logic. Parse the logic behind evidence presented to you, looking for faulty cause-and-effect reasoning.

A manager who has benchmarked top-performing companies' best practices recommends adopting a particular practice. You ask him: 1) Does the benchmarked company's success clearly stem from the practice you want us to emulate? 2) Are our strategy, business model, and workforce similar enough to the benchmarked firm to enable us to learn from that company? 3) Precisely how did this practice make a difference? 4) What are the downsides to implementing this practice, and how might we mitigate them?

Encourage experimentation. Invite managers to conduct small experiments to test the viability of proposed strategies.

Gaming giant Harrah's offered one control group of customers the company's typical promotional package worth $125 (a free room, two steak dinners, and $30 worth of free gambling chips). It offered customers in an experimental group just $60 worth of free chips. The $60 offer generated more gambling revenue than the $125 offer did--demonstrating that Harrah's didn't have to spend nearly as much as it believed was needed to boost revenues.

Reinforce continuous learning. When managers constantly expand their knowledge, they acquire increasingly more reliable evidence with which to make decisions. Encourage use of inquiry and observation to gather evidence about causes and potential cures for business problems. And provide resources for the continuing professional education of managers.

At one computer manufacturer beleaguered by poor sales, top managers initially blamed the firm's corporate sales staff--initially dismissing their claims that weak revenues were a result of poor product quality. Then senior managers were encouraged to further investigate the problem. When managers posed as customers at retailers who carried their computers, store salespeople dissuaded them from purchasing their company's product--citing the computer's excessive price, weak features, and clunky appearance. By practicing inquiry and observation, company managers learned that they needed to reexamine product quality.

- Purchase the full-length Harvard Business Review article here.
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Further Reading

Articles

Decoding the DNA of the Toyota Production System

Harvard Business Review

September-October 1999

by Steven J. Spear and H. Kent Bowen

Toyota relies on hard evidence gathered from continuous experimentation to makes its production system shine. Rules rigidly specify how every activity--from the shop floor to the executive suite, from installing seat bolts to reconfiguring a manufacturing plant--should be performed. Workers who spot deviations from the specifications have the flexibility to respond immediately with real-time experiments to remove obstacles to following the specs or change the specs to improve work quality. Result? A disciplined yet flexible and creative community of scientists who continually learn--and who constantly push Toyota closer to its zero-defects, just-in-time, no-waste ideal.

Fixing Healthcare from the Inside, Today

Harvard Business Review

September 2005

by Steven J. Spear

Healthcare professionals are using evidence-based management techniques to radically improve patient care quality: 1) They systematically identify and eliminate confusion over who does which medical or administrative procedure--and when and how. 2) They break big process problems into manageable pieces, making small changes that collectively deliver great results. Personnel at one hospital, for example, found that by simply switching to transparent dressings, doctors and nurses could more easily assess intravenous catheter sites and dramatically reduce infections. 3) They use trial runs of problematic processes--such as filling of medicine orders at hospital pharmacies--to generate and test solutions. 4) They institutionalize change by ensuring that senior leaders embrace it and help others master it.

About the Authors

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Robert I. Sutton is a professor of management science and engineering at Stanford School of Engineering, where he is also a codirector of the Center for Work, Technology, and Organization. Pfeffer and Sutton are the authors of *The Knowing-Doing Gap: How Smart Companies Turn Knowledge into Action* (Harvard Business School Press, 1999) and *Hard Facts, Dangerous Half-Truths, and Total Nonsense: Profiting from Evidence-Based Management* (Harvard Business School Press, forthcoming in March 2006).