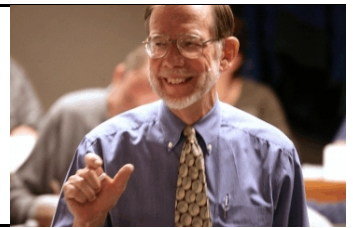


Bob

# Behn's Performance Leadership Report

An occasional (and maybe even insightful) examination of the issues, dilemmas, challenges, and opportunities for improving performance and producing real results in public agencies.



On why public officials need to recognize that

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## Simple Strategies Drive Out the Subtle

"Bad money drives out the good." This sentence is universally known as Gresham's Law—named for Sir Thomas Gresham, who is famous for six words he never said and for a concept he did not invent. Over four centuries ago, however, Gresham did make the core point in a letter to Queen Elizabeth I: If government has minted both good coins (with lots of silver) and bad coins (with not as much silver), the public will hoard the good coins—driving them out of circulation.

George Akerlof, winner of the Nobel Prize in economics, applied the general idea to other aspects of economic life—illustrated by the market for used cars, specifically "the market for lemons." When you go to buy a used car, you lack some important information: Is this car a good one or a lemon? And you are worried: You might end up paying too much for a car that has a number of serious problems. The seller knows about these problems, of course, but you don't. You find it very difficult to distinguish between a good used car and a bad one.

So what do you do? Because you are worried about being cheated, you are only willing to pay the lemon price, not the good-car price. Thus, explains Akerlof, "there is an incentive for sellers to market poor quality merchandise," since they won't get full value for good merchandise. Thus, "there tends to be a reduction in the average quality of goods and also in the size of the market." That is, the number of used cars that are available for sale is reduced. (Why sell your used car when you can't get fair value for it?) And thus the ratio of bad cars to good cars goes up.

A similar idea might apply to the intellectual market for management strategies. Some management strategies are simple: They are easy to explain, easy to understand, easy to implement. Other management strategies are complex. They are quite difficult to understand. Moreover, they are even harder to explain, and

remarkably complicated to implement and **adapt to new circumstances**.

The simple strategies are based primarily on explicit knowledge—ideas that can be easily specified in words and, perhaps, a few equations. The complex strategies require a lot of **tacit knowledge**—a subtle appreciation of how the various aspects of the strategy interact to generate the desired human and organizational behavior.

And from this important distinction emerges what might be called "Gresham's Law of Leadership Strategies." (Hey: Gresham didn't even invent his own, original law, so he might as well get credit for this one too.)

*Simple leadership strategies drive out the subtle and complex.*

**Simple, easily explained, easily comprehended, explicit-knowledge descriptions of a management strategy drive out the subtle, complex, tacit-knowledge appreciation for the potential of the strategy to really influence organizational behavior.**

Or, to specify this relationship in a less pithy but more complete way: "Simple, easily explained, easily comprehended, explicit-knowledge descriptions of a management strategy drive out the subtle, complex, tacit-knowledge appreciation for the potential of the strategy to really influence human and organizational behavior."

That is, this version of Gresham's Law comes in two slightly different yet distinct versions. (1) We humans prefer simple management strategies to complex ones. (2) We also prefer simple explanations of complex management strategies to their subtle and complicated reality.

This all-too-human proclivity for the simple over the complex affects, in turn, the behavior of public executives who have developed a sophisti-

cated, subtle, complex, multifarious management strategy. They are forced to explain their intricate ideas in simplistic terms.

Effective public executives want to be appreciated. They want to be recognized for what they have accomplished. After all, such acknowledgment, not money, is their reward. To benefit from this **esteem opportunity**, however, they are forced to describe their complex strategies with a stylized simplicity that automatically degrades its value to others.

Other public managers can, of course, readily replicate this easily described "system"—this explicit-knowledge "best practice." And, as a result, their organization might even realize some short-term benefits. After all, even the stylized version of a complex strategy may include an important if elementary tactic that (if the organization has never utilized it) can, indeed, have an impact. Alternatively, a struggling yet basically motivated organization could benefit from the placebo effect.

The organization will, however, have missed an opportunity to understand and adapt the subtle, tacit features of the strategy that can, over the long-run, help their organization to continually **ratchet up performance**.

H. L. Mencken, the sage of Baltimore, once observed: "For every complex problem there is an answer that is clear, simple, and wrong." Certainly any serious management problem is a complex one. And yet, we humans favor strategies that are simple.

As Thomas Gresham might have put it: Clear and simple strategies drive out the subtle and complex. **B**

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