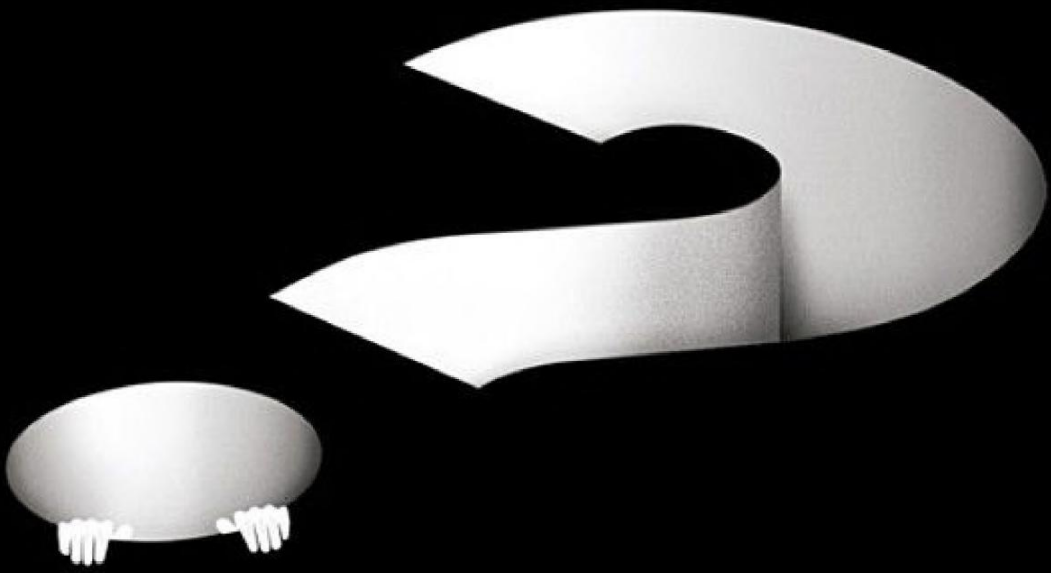
the stupidity paradox



The Power and Pitfalls of Functional Stupidity at Work

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Preface

A few years ago, both of us were invited to an official dinner. We found a place at a table together, sat down and started to catch up. One of us described how his student had recently been doing an internship with a powerful government department. Over the period of three months, the student had to help write a report. This was not the kind of report that would be shelved at once and read by no one. This report would set out an entirely new policy area for the government. You might think this was a difficult job requiring a team of very experienced people doing in-depth research. Apparently not. The student worked largely on her own. Her manager was in his twenties. When she asked him what was the most important aspect of developing a really good report, he replied: One or two impressive PowerPoint slides. This struck both of us as really stupid. How could an important new government policy that would affect millions of people be based on a few PowerPoint slides created by an intern who was managed by a twenty-something?

Was this just a one-off case of stupidity, we asked, and began to swap stories from the dozens of organisations we have studied over the years. We talked about top executives who rely on consultants' PowerPoint shows rather than careful analysis, headmasters and teachers who spend their time enthusiastically talking about vague but positive organisational values rather than educating students, managers who try to be inspiring leaders even though their subordinates are not interested and are capable of working on their own, senior figures in the armed forces who prefer to run rebranding exercises rather than military exercises, engineers who overlook fatal flaws, IT analysts who prefer to ignore problems so as not to undermine the upbeat tone of their workplace, senior executives who keep on launching programmes for

change yet have no serious interest in the outcome, and newspaper editors who are more interested in finding the perfect mixture of celebrity gossip than in preparing themselves for profound changes in their industry.

When we came to the topic of universities, we realised there were just too many kinds of stupidity to mention: pointless rebranding exercises, ritualistic box-ticking, misguided attempts at visionary leadership, thoughtless pursuit of rankings, to mention just a few. We were worried that all this stupidity was detracting from the core purpose of our institutions: to educate students, develop new knowledge and contribute to the wider community.

As we piled up all these examples, we started to realise that something was very wrong here. We are constantly told that to be competitive we must be smart. We should be knowledge workers employed by knowledge-intensive firms that trade in the knowledge economy. Our governments spend billions on trying to create knowledge economies, our firms brag about their superior intelligence, and individuals spend decades of their lives building up fine CVs. Yet all this collective intellect does not seem to be reflected in the many organisations we studied. Much of what goes on in these organisations was described – often by employees themselves – as being stupid.

Far from being ‘knowledge-intensive’, many of our most well-known chief organisations have become engines of stupidity. We have frequently seen otherwise smart people stop thinking and start doing stupid things. They stop asking questions. They give no reasons for their decisions. They pay no heed to what their actions cause. Instead of complex thought we get flimsy jargon, aggressive assertions or expert tunnel vision. Reflection, careful analysis and independent reflection decay. Idiotic ideas and practices are accepted as quite sane. People may harbour doubts, but their suspicions are cut short. What’s more, they are rewarded for it. The upshot is that a lack of thought has entered the modus operandi of most organisations of today.

But one thing puzzled us: why was it that organisations which employed so many smart people could foster so much

stupidity? After some discussion, we realised something: smart organisations and the smart people who work in them often do stupid things because they work – at least in the short term. By avoiding careful thinking, people are able to simply get on with their job. Asking too many questions is likely to upset others – and to distract yourself. Not thinking frees you up to fit in and get along. Sometimes it makes sense to be stupid. Perhaps we live in an age where a certain type of stupidity has triumphed.

But that was not the end of the story. As we talked more, we realised that while being stupid might work in the short term, it could lead to bigger problems in the long term. When people buy into baseless ideas it can create a nice feeling today, but lay traps for tomorrow. At the time, the global financial system was in turmoil. One of the reasons was that banks had bought financial products they didn't fully understand. In the short term this didn't matter, as the banks continued to make money from these products anyway. But when financial markets soured, this lack of comprehension sparked disaster.

If organisations create so much stupidity, what does that mean for the people who run them? The fact is, many managers try to ensure that smart people don't use their intellect. There are many tactics that are used to do this. Anyone who has spent even a few days in a large firm knows them well. But to us it seemed that within modern organisations there is just too much stupidity, and that what is needed is a concerted effort to minimise some pointless practices that we find all around us at work. As we reflected further on this problem, we started to identify some very practical steps that can be used to destupidify our organisations.

Our realisations during that dinner – that smart organisations encourage stupidity, that this pays off in the short term, but creates problems in the long term – led us to write this book. Welcome to the paradox of *functional stupidity*.

Mats Alvesson and André Spicer
Lund and London, February 2016

Introduction

Attack of the quants

At the dawn of the twenty-first century, one thing haunted the greatest scientific minds. It was not the promise of a theory of everything, threats like global warming, or even new areas of research. Scientists at the best-known institutions across the world were complaining about the career choices of their students.

In the past, we are told, top young scientists were inspired by their studies to pursue careers as researchers. This produced a stream of brilliant thinkers who would come up with Nobel prize-winning breakthroughs. But this had stopped happening. Many of the brightest graduates had rejected careers in science. Instead they were flocking to banking.

The world of finance offered defectors from science many perks. The pay was much better, career prospects looked stellar, the plush offices full of attractive people were far more comfortable than dreary labs staffed with other nerds. Many of the skills that scientists developed during their training were in high demand in the financial markets. At the same time the long working hours and high levels of stress were familiar, and just like the lab, finance was still largely dominated by men.

Despite these strong similarities, there was one clear difference between the world of science and that of finance: the culture. For many years, finance had been dominated by a hard-driving culture of individual gain. Greed was good, money was king and success was flaunted. In science the watchwords were truth and discovery. People were proud of being fairly indifferent to money. Intellectual challenges, developing new knowledge and being recognised by the community were much more important. The prospects of someone who had been nurtured in the culture of science thriving in the showy world of finance looked bleak.

However, the scientists who crossed over into finance did not just survive – they began to thrive. The steady stream of science graduates brought with them well-honed quantitative skills. They were quickly put to work building highly abstract models. Instead of trying to develop equations for tracking the movement of stars, they were modelling the movements of markets. These former scientists did not enter the rowdy crush of the trading floor. They did their work in the hush of air-conditioned offices. They did not see themselves as traders, they were ‘quants’. No longer scientists or bankers, they saw themselves as members of a cutting-edge new field: financial engineering.

As the number of quants employed by banks increased, so their prestige and resources grew. Decisions about trading strategies were no longer made in the heated cut and thrust of deal-making. Instead, the abstract mathematical models took over. Hundreds of billions of dollars quickly became dependent on the models the quants devised. As the economy boomed, untold wealth flooded into financial institutions. This mountain of money was placed under the purview of quants. What had once been a fringe pursuit practised by a few geeks in marginal institutions was now the axis of the modern financial system. The quants’ confidence increased as their models generated exceptional returns. This in turn buoyed the confidence of the financial markets. Some grew so confident in financial engineering that they declared an end to boom and bust and the dawn of perpetual prosperity.

But at the very same time as confidence in financial engineering was increasing, the connection between the quants’ clean abstract models and the messy realities of markets was beginning to fray. The fate of collateralised debt obligations (CDOs) is a perfect example. A CDO combines different kinds of debt. To create a CDO you might combine mortgages on houses in affluent neighbourhoods owed by prosperous families (a sure bet), car loans granted to people with modest means (a reasonable prospect, but some risk), and ‘sub-prime’ house loans made to so-called NINJAs – an acronym for people with ‘No Income, No Job or Assets’ (a sure loss). The trick was to assess this package of different types of

debt only on the basis of the safest debt. So for instance a package of debt that was made up of sure bets, risky bets and sure losses was treated as if it contained only sure bets. The abstract models represented CDOs as one thing (a sure bet), while the reality was quite different (they were a messy mix of everything from sure bets to sure losses).

At this point you might ask: 'Why didn't someone stop and ask some hard questions?' The answer is: a few people actually did. A handful of people at all levels of the industry had pointed out some of the hidden problems in these financial models. However, these critics were a very small minority who were almost without exception ignored. Their old-fashioned messages of financial doom did not match the prevailing mood of optimism. But the major reason that bankers did not ask the tough questions about their increasingly fragile models was that they simply did not understand them. Financial markets had grown so complex that only a handful of quants could actually understand certain narrow aspects of what was going on. Senior managers of the largest banks had little idea what was happening in their own institutions. Regulators who were supposed to act as watchdogs either ignored problems or simply failed to grasp them. What is perhaps most shocking is that many quants admitted to not even understanding how their own models matched reality.[1]

This shared abyss of knowledge was fine as long as the market continued to rise, but serious problems emerged when markets started falling. When this happened, it became clear that many financial models were constructed on false assumptions. As this collective thoughtlessness grew more and more obvious, trust in these models evaporated. After all, banks were not even sure about the assumptions built into their own models. When this collective stupidity came to light, people stopped lending and trading with one another. The whole financial machine seized up. The result was a financial crisis with worldwide effects that are still being felt years later.

The financial crisis that began in 2008 is a testament to the stupidity lurking at the heart of knowledge-based societies. If we reflect on the crisis we can see an all too common story:

banks appointed many extremely intelligent people. These smart people set about applying their impressive but narrowly focused skills. They developed complex models few people could understand. The glamour of financial engineering created a sense of hope and excitement throughout the whole industry, and investors began to believe in the power of the quants to work magic. They stopped asking tough questions and started to just believe. The upshot was a financial system that no one fully understood and no one was willing to question. As the gap grew between what models predicted and what markets did, problems built up, eventually to explode in the form of a global financial crisis.

The lead-up to the 2008 financial crisis shows us the stupidity paradox in action: smart people who end up doing stupid things at work. In the short term, this seemed to be a good thing because it helped to produce results. But in the longer term, it laid the foundations for a disaster.

Stuck in the silicon lagoon

Knowledge, learning, talent, wisdom, innovation, creativity: these words are all too common in business-school textbooks, consultants' reports and politicians' speeches. Organisations abound with 'chief knowledge officers', 'cognitive engineers', 'data alchemists' and 'innovation sherpas'. Even relatively low-level jobs have received the knowledge makeover: bin-men have become 'waste management and disposal technicians'; technical help-desk workers are 'investment development and research analysts'; secretaries are 'directors of first impressions'.

To find a place in this knowledge-intensive world, young people are advised to build their intellectual capital through years of more and more expensive education and a dizzying array of new experiences. Undergraduates now have CVs that boast of building wells in Ugandan villages ('entrepreneurship'), working in a café in Brooklyn ('service management'), making photocopies in London investment banks ('analysis'), and teaching children to ski in the Canadian Rockies ('leadership'). They hope this wide array of unrelated

experience will win them a place in the supposedly lucrative 'creative class'.[2] This is of course a wonderfully elastic and seductive term which includes 30 per cent of the population in countries like the USA. Everyone from teachers to engineers fits in. The fantasy image of the knowledge worker is of a smart and amply rewarded free agent hanging out in an inner-city café and pushing their intellect to the limit. The reality is more likely to be someone working on a short-term contract in a data centre situated in an office park at the edge of a motorway. If asked (which is unlikely), they may well describe their job as dumb.

We are told that in order to 'win the war for talent' in a 'knowledge economy', organisations must craft smart strategies, build intelligent systems and nurture their intellectual capital. Nation states have been striving to become knowledge economies and attract highly skilled (and well paid) jobs. They sink millions into building 'knowledge clusters', 'science parks', 'innovation zones', 'talent corridors' and 'smart cities'. Most countries in the world have attempted to create their own 'unique' version of Silicon Valley. There is Silicon Alley (New York), Silicon Lagoon (Nigeria), Silicon Island (Japan), Silicon Oasis (Dubai) and Silicon Roundabout (UK).

This widespread zeal for smartness seems to be based on one single message: that the fate of our organisations, economy and working life hinges on our ability to be smart. Knowledge and intelligence are thought to be *the* key resources. But is being smart actually so important? Are knowledge workers really as smart as we would like to think? Do knowledge-intensive firms really act so shrewdly? Do nations have to nurture their intellect capital to thrive in the global economy?

It is time to question much of the hype about the knowledge economy, smart companies and brain workers. We think that most apparently knowledge-intensive organisations can be pretty stupid. Far from running a knowledge-based economy, most developed nations utilise most of their people to do low-level service work. Quick feet and hands combined with a friendly smile matter more for the economy than the intellect of a relatively small group of elite knowledge workers.

Even if you possess some intellectual capital in the form of a university degree, there is a high likelihood you will end up working in a job that only really requires high-school qualifications. But in order to get there you need the credentials first.

If you scratch the shiny surface of almost any organisation claiming to be knowledge-intensive, you will find a quite different reality. Sure, there are often many well-educated smart people, but there is often little evidence that most of the corporate intelligentsia are fully using their intellect. Sometimes this is because many knowledge-intensive firms are packed with clever people working in jobs that are routine and uncomplicated. Think about your average market-research company. These knowledge-intensive firms typically hire well-mannered young people with decent degrees to do two things: call people while they are eating dinner to ask inane questions, or crunch the data that these phone calls yield. It is questionable just how much intellectual skill is required by either of these jobs. What they do require is a nice accent and thick skin. Small wonder that one call-centre operative described the job as 'an assembly line in the head'.[3]

Even when people do find themselves in a context where there is some scope to exercise their intellect, they often seem to avoid this. A recent study by psychologists at the University of Virginia found that over half of the people they tested would rather give themselves electric shocks than sit and just think for between 6 and 11 minutes.[4] This abhorrence of independent thinking is also common in the workplace. Managers often avoid having to think for themselves by becoming over-enthusiastic about showy ideas. For instance, following the financial crisis, senior executives at a large global bank started getting interested in 'authentic leadership'. They thought that by reconnecting with their 'inner values', it was possible to become more ethical *and* to increase their performance at the same time. The bank decided to send all its senior managers on training courses that would help them to locate their inner values. While this may have looked good on paper, many participants found the exercise to be either invasive, a waste of time, or both.

What is so striking is not just that bright people buy into stupid ideas. The real surprise is that by buying into these ideas, they can help organisations to function well and aid individuals in building their career. Baseless ideas can help organisations and the individuals working in them to look and feel good. By going along to an ethical training course, a senior banker will probably not change their values, but they might end up feeling a little bit better about themselves. In addition, people can be rewarded for having the right appearance, the right beliefs and the right attitudes. For instance, individuals who resisted going on the ethical training course were seen as being deviants who did not comply with the new more righteous tone at the bank. Indeed, the bank as a whole probably benefited from such training courses. It could show the media, politicians and the regulators that it was doing something (irrespective of how efficient or effective it was). It sent out a positive message to potential employees. Maybe it made existing employees more committed to the firm. What was much less certain was whether it actually achieved the putative aims. In many ways, this was completely incidental.

Shoot first, ask questions later

To understand why smart people buy into stupid ideas, and often get rewarded for doing so, we need to look at the role that *functional stupidity* plays. Functional stupidity is the inclination to reduce one's scope of thinking and focus only on the narrow, technical aspects of the job. You do the job correctly, but without reflecting on purpose or the wider context. Functional stupidity is an organised attempt to stop people from thinking seriously about what they do at work. When people are seized by functional stupidity, they remain capable of doing the job, but they stop asking searching questions about their work. In the place of rigorous reflection, they become obsessed with superficial appearances. Instead of asking questions, they start to obey commands. Rather than thinking about outcomes, they focus on the techniques for getting things done. And the thing to be done is often to create the right impression. Someone in the thrall of functional

stupidity is great at doing things that look good. They tick boxes for management, please the clients and placate the authorities, but they also often do things that make little sense and that a sharp outside observer might find strange.

It is easy to suppose that people who do stupid things at work have a low IQ, poor education, a narrow mindset, or have been seduced by dogmatic ideas. And at times this is true. Most of us have encountered people in the workplace who have limited intellectual capacities, yet still seem to hold important positions. We have also probably worked alongside someone whose irrational prejudices and dogged fixations stop them from making rational decisions.

Most of the time, it is not imbeciles or bigots who do the most stupid things. Some of the most problematic things are done by some of the smartest people. A lot of these stupidities are not recognised as such. Instead they are treated as normal, and in many cases even applauded.

You need to be relatively intelligent to be functionally stupid. You need to use some of your cognitive capacity: even be analytically and technically sharp. But once in the grip of functional stupidity, you avoid thinking too much about exactly what you are doing, why you are doing it, and its potential implications. By following this tried and true recipe, you hope to avoid punishments and many worries that might come from deviation. You sidestep the burdens of having to think too much and upsetting others by asking difficult questions. What's more, you are usually rewarded for doing this.

Organisations encourage functional stupidity in many ways. Some have cultures that emphasise being action-oriented. 'Just do it' is no longer a catchy marketing slogan: it has become standard marching orders for the corporate nincompoop. As Michael Foley puts it in *The Age of Absurdity*: 'It is only our own impatient, greedy age that demands to be told how to live in a set of short bullet points.' Other firms have kindled an intense faith in leadership. As a result, practices that would not be out of place in a religious cult have become stock responses for managers in our largest companies. Many organisations foster a deep belief in the rationality of what are

clearly irrational structures and systems. This means people cling to systems and structures that obviously do not yield the results they are meant to. Companies routinely talk about their brand as what makes them different, but if you take a careful look it seems to be same as in other companies. Firms often go out of their way to copy other organisations they think are successful, but often they have little or no idea of why they are copying them.

Our obsession with leadership, formal structures, brands and industry standards might seem sensible, but when taken to extremes – as it all too often is – it can shackle thinking. When people are obsessed with buying into success recipes and taking action, for instance, they are relieved of the burden of actually having to consider the tacit assumptions they act on, and the implications of their actions. It plays out as if they have learned that great military adage, shoot first, ask questions later.

The paradox of stupidity

Shutting off parts of your brain at work may seem like a bad idea, but it often comes with some big benefits. When functional stupidity kicks in, employees are spared from the taxing task of using all their intellectual resources. Instead, they can cognitively coast along and steer clear of irksome doubts. This can pay off for some individuals. They are not seen as troublemakers who ask too many awkward questions. They can display the kind of resolute certainty that singles out ‘leadership material’. When they make authoritative claims that their company pursues ‘excellence’, their decisiveness and conviction will betray no signs of doubt.

Functional stupidity can have similar benefits for the entire organisation. By ignoring the many uncertainties, contradictions and downright illogical claims that are rife at work, people are able to ensure that things run relatively smoothly. We often value convenience over confronting the inconvenient truth.

Yet while stupidity can be convenient, it can also have major downsides. When people start ignoring contradictions,

avoid careful reasoning and fail to ask probing questions, they also start to overlook problems. That way you may rest easy in the short term, but in the long term these problems will build up. As this happens, the gulf between rhetoric and reality becomes hard to deny. This triggers a profound sense of disappointment and disengagement on the part of employees. When this becomes overwhelming, it can easily spread to stakeholders like customers, communities, buyers and suppliers, regulators and investors. As a result, people stop trusting the organisation.

But there is an even more dangerous consequence of functional stupidity. As well as sapping trust, it can sometimes create the conditions for larger crises or disasters. This happens when minor problems build up, become connected, and create wicked problems that are impossible to ignore. The 2008 financial crisis we described at the start of this chapter is a case in point.

Functional stupidity is not just a one-way highroad to disaster. It can also sometimes spark more fundamental changes. When the costs of overlooking problems become too great, people usually start to reflect on their assumptions, ask questions about why they are doing things and consider the implications of their actions. As this starts to happen, they no longer engage in an elaborate dance of sidestepping difficult questions. Instead they face up to them. Rather than seeking safe consensus, people start to look for much more challenging and intellectually demanding dissensus. When this happens, the fog of collective thoughtlessness can start to lift.

Weeding out functional stupidity sounds like a great thing to do, but it always comes at a cost. Often this is huge. Constant questioning can create doubt, uncertainty and conflict. Too much time can be wasted thinking and debating. Toes might be stepped on. People might be embarrassed and hurt. Critical reflection can become an obstacle to creating compliance, motivating employees, implementing strategy and leading effectively. It can undermine authority and leadership. To nurture a positive image can be difficult if people think too much.

Occasionally in organisations there are flurries of critical

reflection. This happened in one large US company when a vice president stunned a seminar room full of junior managers by suddenly asking why not a single member of the audience had pointed out the radical discrepancy between all the talk and how the company actually worked. The audience did not know what to say. They were perplexed by the brutal honesty – a virtue not common in a world where people prefer to believe what is preached rather than what is practised.[5] The intervention did open up some space to reflect on what was actually happening in the company, but such moments come rarely.

Functional stupidity is a paradox, simultaneously thoughtless and useful. It has good and bad sides. For instance, a compulsively optimistic outlook may mean that people in an organisation feel very positive and committed to their job. At the same time, it can mean that people overlook negative things, leading to costly mistakes. What was functional can prove to be disastrously stupid. In other instances, idiotic ideas can have some clearly positive effects. Steve Jobs was an expert at this. At some points of his career he had stupid ideas that came to grief. At other times these ludicrous ideas paid off.

The Marine Corps of the corporate world

'Like other meetings, this one was a ceremonial event. We marked it on our calendars many weeks in advance. Everyone wore the unofficial corporate uniform: a blue pin-striped suit, white shirt, and a sincere red tie. None of us would ever remove the jacket. We dressed and acted as if we were at a meeting of the board of directors.'[6]

This is John Sculley's description of a typical meeting at Pepsi-Cola's headquarters during the early 1980s. People entered the room in hierarchical order. First came the marketing consultants, clad in appropriate grey suits, sitting alongside the wall at the back of the room. Then the junior executives entered the room, and took a seat at the back. Only then did senior executives arrive, in a sequence dictated by rank. The chairman came last. They arranged themselves

around the table in strict hierarchical order.

After this ritual was enacted, the meeting kicked into action. The main business was monitoring results, an often harsh business:

> These sessions weren't always euphoric. Often the tension in the room was suffocating. Eyes would fix on Kendall [the chairman] to capture his response at every gain or drop in every tenth of a market share … An executive whose share was down had to stand and explain – fully – what he was going to do to fix it fast. Clearly in the dock, he knew that the next time he returned to that room, it had better be fixed … Always, there was another executive in the room, ready to take your place.[7]

Pepsi is described as a place characterised by extreme, but fair, competition. Frequent, short-term, precise measurement of results based on market share meant that the contribution of each executive was easy to track. This was a workplace for the best and the brightest, but also the toughest. War metaphors were frequent. Managers described themselves as the Marine Corps of the business world. They were physically and mentally very fit. They hit the gym for frequent intensive workouts. During the 'Cola wars' of the 1980s – the competition between Coca-Cola and Pepsi over market leadership – there were many casualties, but people did not complain. Instead they lived up to an ideal of strong masculinity. According to Sculley, in this corporate Marine Corps, loyalty was vital. When he decided to resign to move to Apple Computers, he was forced to break this bond of loyalty – an act that caused him a great deal of pain.

Sculley's story may help us to understand the success of Pepsi at that time. The Marine Corps culture meant that its executives felt under pressure to do their utmost. They focused intensely on results, worked very hard and gave little consideration to their life outside of work. Friends and family were often marginalised. The obsession with competition – both between and within the company – nurtured a rich martial vocabulary and combative rituals to match. This energised the executives by giving them a feeling that they were proving

Part One

Stupidity Today

computer systems. The core skill base would no longer be engineers and skilled workers in manufacturing, but those who controlled abstract knowledge, such as scientists, professionals and other experts. Instead of using empirical procedures to deal with ad hoc problems, this new dominant group would use abstract models and principles.

Bell's ideas prompted a storm of reactions. Some agreed, some did not. But the idea of post-industrialism captured the imagination of corporate executives, management consultants and business-school professors. There was a continual flow of books, articles, papers, keynote presentations and strategic reports lauding the role of knowledge for the contemporary corporation. A vocabulary of largely interchangeable words like learning, intelligence, wisdom and information came into vogue. 'Knowledge workers', the 'knowledge economy', 'knowledge management' and 'knowledge-intensive firms' became the leitmotif of contemporary capitalism. These ideas only intensified during the mid-1990s as entirely new economic sectors associated with the internet became fashionable. The bursting of the dot.com bubble during 1999 did not deflate the collective euphoria around these ideas. Today, it remains common for people to preach the gospel of 'knowledge', 'innovation', 'creativity management' and 'the power of ideas'.

All this talk about the knowledge economy has generated a new dogma. We are told that knowledge has become *the* key resource, at least in advanced Western economies. Today it is conventional wisdom that 'the foundation of industrial economies has shifted from natural resources to intellectual assets'.[9] Researchers write: 'As the pace of change increases, knowledge development among the members of the company becomes the key to competitiveness, to remaining in the front line … Business has simply become more knowledge-intensive in all companies, and corporate investment in education and training is more extensive than ever before'.[10]

To be competitive, we are told, organisations must harness their intellectual capital. Knowledge is seen as 'the most strategically important of the firm's resources'.[11] 'The central competitive dimension of what firms know how to do', write

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