

The Institutional Imperative

There is a silent, unseen yet deadly force at work in organisations that smothers initiative hinders rational decision-making and slows response to a changing environment – The Institutional Imperative.

A force, discovered by Warren Buffet, owner and founder of the successful investment group Berkshire Hathaway, is seemingly at work everywhere in businesses, politics and even everyday life. Most people will recognize the results of it, and will remember feeling subjected to that force on different occasions.

Rationality frequently wilts when the institutional imperative comes into play.

Warren Buffet: “My most surprising discovery [was] the overwhelming importance in business of an unseen force that we might call ‘the institutional imperative’. In business school, I was given no hint of the imperative’s existence and I did not intuitively understand it when I entered the business world. I thought then that decent, intelligent, and experienced managers would automatically make rational business decisions. But I learned over time that isn’t so. Instead, rationality frequently wilts when the institutional imperative comes into play.”

The Imperative Buffet discovered appears in different ways and generates behaviour patterns in managers, members and employees of economical, political and social entities.

The characteristics or symptoms of the Imperative are:

1. An institution will resist any change in its current direction.
2. Any business craving of a leader or senior manager, however foolish, will be quickly supported by his troops using all means available.
3. Corporate projects and organizational exercises appear, soaking up time and funds, as soon as a company operates successfully.
4. The behaviour of peer companies, whatever they do, will be mimicked.

Warren Buffet again: “Institutional dynamics, not venality or stupidity, set businesses on these courses, which are too often misguided. After making some expensive mistakes because I ignored the power of the imperative, I have tried to organize and manage Berkshire in ways that minimize its influence.” And as he is an investor, he decided to invest only in companies that “appear alert to the problem”.

A technique introduced at Berkshire was to have the management act as if they were owners. People tend to act differently and think twice if their money is at stake rather than the money of some entity or organization that just happens to be equipped with funds that it gets from somewhere, or as some people think: always got somehow and will continue to get regardless of its performance or the market situation.

The great economist Adam Smith already predicted management shortcomings that are bound to occur as he wrote in his landmark “An Inquiry into the Nature and Causes of the Wealth of Nations” in 1776: “The directors of (joint stock) companies, however, being the managers rather of other people’s money than of their own, it cannot be well expected, that they should watch over it with the same anxious vigilance (as owners) ... Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company.”

The Imperative at Work- Das Kann Nicht Sein (This Cannot Be)

Most organisations will resist change, in their structure, organization and procedures. We have branded this characteristic the DKNS-syndrome. Many organizations possess what physics defines as inertia. No matter how big or lean the company is, when it is institutionalised to a certain degree, it is affected by its own mass. The degree of institutionalisation can, in first approximation, be measured by the number of management layers that characterize the structure of an organization and the procedural customs being cultivated in the organization, often without any need for them, as they are often rudimentary. Again, it could be any organization: a company, an institution, a party, and a branch of the government that is affected by the inertial resistance of itself against any change to its direction. The word inertia here signifies the phys-

ical reaction of a body to movement due to its mass, and generally a disinclination to act or move. The sluggish state, some organizations find themselves in due to their inertia, is often compounded by the advice immunity of the company management. And this is where the Imperative appears in a different form, a different symptom of the same illness, so to speak.

The Imperative at Work- The Emperor's New Clothes

The emperors-new-clothes-syndrome is another way the Imperative makes its presence felt. The Imperative reads: "Thou shalt not question the decisions of management". The little boy telling the emperor that he is naked because of his innocence and uninhibited view of reality is essential to any organizations well being, but he cannot be found in a lot of organizations for by now he has probably turned into an advice resistant senior executive. The other possibility, which is more likely, is that our boy was promoted at an early age to be in charge of some project or department in some far-flung part of the empire, seldom contacted and his words remaining unheard.

**Management with
staffs can be very
successful.**

People all over the world have a plethora of examples, how semi-informed executives, mostly supported by a legion of staffers, who's existence is based on their ability to back-up any decision of their master immediately by means of the newest presentation technology, statistics and "independent" assessments, generate irrational decisions, because of remarks and statements they made without a proper understanding of the situation. This is no general criticism of the existence of staffs to support business decisions. Management with staffs, in the military sense, can be successful and was invented to counter the disadvantage of not having (because no such person exists) an all-knowing, all-seeing executive

The Imperative at Work- Vorauseilender Gehorsam

Another example of how the Institutional Imperative's silent presence affects organizations and the conduct of people in their everyday life is a typical German behaviour pattern, the "Vorauseilende Gehorsam". It is a sort of second guessing the decisions of the boss. Managers, when confronted with a situation that requires decision-making, immediately start to analyse; not the situation requiring attention though, but possible thought processes of the boss. This behaviour is probably similar to a Pavlov reflex in its origin, as earlier decisions arrived at using the same principle reaped the manager some personal reward.

The Imperative Cannot be Ignored

What can be done about the Imperative? The conclusion is that not much can be done until awareness of the existence of the Institutional Imperative is acknowledged.

In the business of delivering projects, the Institutional Imperative can be deadly. Of course it is recommendable to have Project Managers act as if they are owners of the funds for project execution. Due regard has to be given, however, to the environment that influences the project manager's decisions. This environment is for the most part shaped by the nature of the project, the organisation that delivers the project, the receiving entity, and their conflicting economic interests. If organizations are heavily plagued by the Imperative, then the project execution will be affected by irrationalities.

Implementation of a powerful project management in organizations delivering projects will not be successful when the dark forces at work are being ignored.