



## The concept of states in a company

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### **STATES: A new and better paradigm than NUMBERS**

*The old number paradigm: managing numbers - optimizing numbers - so what? The new state paradigm: state matters! Numbers are operational - states are strategic. There are generic states, which serve as stable strategic targets. The link between strategic states and operational numbers drives the company's success. A particular concept of a real existing management system of real existing companies is described. Not just a fictitious idea.*

#### **The number paradigm**

Economy is communicated via numbers. Economy is communication of numbers. You don't have actual numbers? You are not on top. You're lost in no-numbers. You are not part of the economy. You are not part of the community. You are out.

Numbers count. Numbers count something (the right thing?). Numbers are counted. By accountants.

"Bye accountants!"

Numbers control. Numbers control everything (well, fortunately not quite; see below!). Numbers are controlled. By controllers.

"Bye controllers!"

There is something underneath.

"Hello managers!"

Have you already forgotten, what is still underneath all these numbers? Here it comes again:

#### **The return to the future of the past - the return of the past into the future**

We managers are trapped & lost in this operational and financial paradigm of numbers. We managers have adopted practices from our accountants and our controllers. We have been told to deliver numbers, more numbers, better (mostly larger) numbers and nothing but numbers. We should have known better.

Numbers have gained the prime status of hard facts. "Tell me your numbers and I tell you who you are (and whether you will still be around here by tomorrow)." Numbers constitute a rather primitive

system. With well defined elements. With well defined metrics. With mathematical logic. Based on ratio, not on emotion. No problems. As long as you stay within the boundaries of that simple system [1]. The price for simplicity is the lack of context and reference. Numbers without context and without reference are meaningless. Is 7,3 % ROI good or bad? That depends upon context and reference.

The number manager's creed: "You can only manage what you can measure." Well let's add "count" and "calculate" and what else can be done with numbers, but that does not make a big difference. Good common sense from our own empirical experience as managers and insight from sophisticated philosophy as well tell us, we can only perceive what we can differentiate [2]. In the author's humble opinion, we can only manage what we can perceive, vs. what we can measure, count and calculate. But we forgot one thing. Management is slightly more than to measure objects and now that we know better to perceive objects. "Management is to change objects, generally. Leadership is to move people, specifically."

#### **The state paradigm**

Hagmayer et. al. [3] have recently developed a concept of strategic states serving as a standardized system which is complementary to the standardized system of operational numbers. This system imposes a major impact on the methodology of strategic management. There are several principals arranged within the concept of strategic states.

There is a cause and effect link between strategic states and operational numbers: if-then-else – if your process is in a good state, then the process will output objects, which can be measured to give you good numbers, else the process will not do so. In other words: You manage the state of the process and you will cause an effect on the process output, which can be measured. This effect is slightly more advanced, than the BSC approach to push drivers for success.

There are feedback-controlled loop processes like PDCA or RADAR, which are easily implemented with states as content instead of numbers as content. These processes change states. They move



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the company from one state to a better state. These loop process plugged into the strategic controlling part of the leadership process will continuously generate knowledge.

There is IT technology. States can be poured into the computer. Who said, that computers can only crunch numbers? Computers can also munch text. It's all ASCII. Well, it's not that easy, but it can be done and it has been done.

Now we have definitively broken the number paradigm.

Strategic states are described and valued by words. Do not underestimate the power of words to describe states: "The process is in a lousy state of outdated control mechanism." vs. "The process has an efficiency of 22,7 %". A boss being trapped in the number paradigm says: "Give me better numbers: I want 35 %!" A boss having escaped from the number paradigm says: "Bring that f... process into a better state with an updated control mechanism!" Note the difference: A number such as 22,7 % needs a relevant reference number to allow for a mathematical comparison. 22,7 % may be larger, equal or smaller than the reference. A state tells you the status and tells you what to do and ideally how to do it. A state description is goal-oriented (the goal is the next better state) strategy-oriented (the plan of the change) and action-oriented (the move to do the change).

Ok, this is just and only the beginning of the story about the concept of strategic states. The implications, which are outlined elsewhere are manifold:

- Managers understand strategic states as causes for operational numbers.
- Managers take particular interest in future states, rather than in past states or past numbers.
- Managers identify states with future potentials of the company, which can be developed and exploited.
- Managers define generic potentials valid for all companies, which are generic drivers of success, finally measured by numbers.
- Managers propose a new set of strategic indicators with a long range into the future development of the company.

- Managers identify the generic potentials with stable attractors in the chaotic space of the future development of the company.
- Managers use the generic states as a framework for strategic targets of the company.
- Managers manage states. They drive the company towards better states. Continuously. That will result in better numbers.
- Managers drive strategic states towards operational excellence of the company.
- Managers can combine BB concepts with states in order to put BB to work.

This concept of states is a new state based Intelligence beyond current number based Business Intelligence.

This is not about fiction. This is about facts. There are companies using this concept. Successfully.

### References for further Reading

[1] brand eins - Wirtschafts magazin: Mythos Zahl: 6. Jahrgang, Heft 02, März 2004

[2] George Spencer Brown: Laws of Form / Gesetze der Form (available in English and / or in German editions from your favorite bookstore)

[3] Harald Hagmayer und Peter Meier; "Leadership Intelligence - the next Generation BI / Ursache und Wirkung des Erfolgs"; CM Controller Magazin (Spezial: Business Intelligence - Lösungen für Controller); 32. Jg., Ausgabe 1, S. 10; Verlag für ControllingWissen AG, Offenburg und Wörthsee, 2007 [ISSN 1860-4382] (available from the download area on [www.communic.eu](http://www.communic.eu))