Red is the Most Important Color in Management

Published on Feb 28, 2018 by Niko Canner

In my last post, I proposed ten principles for managing a company well. Though these principles are each simple and together fit on one page, bringing them to life requires discipline and intentionality. Applying all ten is immensely demanding.

The companies we engage with generally operate far from the ten principles. Early-stage companies particularly are often caught up in an urgent thicket of doing. They grapple with what it really means to be well-managed – if they're thoughtful enough not to sail right by this question — and how to rate that "good" against others in world of tightly constrained bandwidth and resources.

In this context, I'd suggest **one litmus test** as a good proxy for whether "becoming better managed" will move the needle enough to justify the effort and expense involved. Let's call this the *red test.*

Are the top leaders clear and explicit about what's red, talking openly about why these "streams" (goals, areas, responsibilities, etc.) are red, and making conscious decisions about what stance to take toward each red stream?

"Taking a stance" doesn't need to be anything fancy, but needs to convey a clear choice. For instance: we're going to keep doing what we're doing and can live with it not working; we're going to change the goal, and we're going to revisit in two weeks whether we're confident enough we can achieve the lowered, must-do goal; we're adding this advisor to the mix who can fill in the skill gaps in the current team; we're puzzled about why the results are bad, so our first step is to do a quick and dirty root cause analysis; etc. Any stance like this could prove wrong, but at least provides clarity — and if reds are getting the attention they deserve, what stays red because envisioned fixes don't work will get revisited early and often.

Of all potential litmus tests for "good enough" management, the red test stands out for four reasons:

1. Being clear about what's not working and then either fixing those things or deciding they don't need to be fixed is the most powerful engine for learning and improvement. Early-stage companies by their nature need to rapidly metabolize learning in order to capture opportunities that are initially far beyond their reach.
2. In a fast-moving venture, attention is a scarce and precious resource. What's not getting attention probably won't get better.
3. Ventures that pass the red test will generally discover what other aspects of management really matter and address gaps in those areas. If gaps in strategy, people systems, resource allocation, and so on are truly critical, they'll show up as causes of why important streams are red – and will get prioritized at the right time and place by companies that pass the red test. Whereas companies who have sophisticated-looking management systems but fail the red test aren't connecting their investment in management to the reality of their problems.
4. Time reallocated from other activities to passing the red test almost always has high ROI. Discussing the reds should yield progress where it counts – and if it *doesn't*, confronting the intractability of those problems is essential. Where reds can safely stay red, acknowledging this avoids distraction and fragmentation of effort. If founders or company leadership are so swamped with tactical execution that they don't have the small amount of time necessary to have high-quality, focused discussion of the important issues, that in itself is a problem that needs to be confronted and addressed.

Passing the red test requires transparency and constructive conflict. Don't surface issues? Fail the test. Don't confront the reds, even when that involves conflict? Fail the test. Fight about things without making a conscious decision about what stance to take? Fail the test.

Alan Mulally's turnaround at Ford demonstrates the power of moving from "F" to "A" on the red test. My nomination for the most important frame in the Ford movie would be an episode about a month into Mulally's tenure. He'd instituted the Business Planning Review ("BPR") process, and communicated clearly the expectation that executives call out openly the status of each key objective using green, yellow or red. The company was losing billions, but the BPR objectives were reported as consistently green. Bryce Hoffman tells the story in his terrific book *American Icon*:

> [Mark] Fields began with his overview of the business environment in the Americas. He called for the slide showing the region's financials. Then there it was—the product program slide. Fields tried to be nonchalant.
>
> "And, on the Edge launch, we're red. You can see it there," he said, pointing at the screen. "We're holding the launch."
>
> There was dead silence. Everyone turned toward Fields. So did Mulally, who was sitting next to him.
>
> *Dead man walking*, thought one of his peers.
>
> *I wonder who will get the Americas,* another mused.
>
> Suddenly, someone started clapping. It was Mulally.

> "Mark, that is great visibility," he beamed. "Who can help Mark with this?"
>
> Bernie Fowler raised his hand. He said he would send some of his quality experts to Oakville right away. Tony Brown, Ford's vice president in charge of purchasing, said he would contact all of the relevant suppliers and ask them to change their components….
>
> [After an intervening week of BPR in which it became clear Fields retained Mulally's confidence]… everyone's slides were splattered with more red than a crime scene. There was plenty of yellow, too.

The core work of top management was dealing with these reds and yellows, some of which could be done readily, and some only much later, after foundational work on strategy, operations, talent and so on had advanced.

Strikingly few companies pass the red test.

They don't have an explicit view of what's red – or they only have a view of financials and a couple other things that are easily measured, such as whether deadlines on a product roadmap are being hit, which is a bit like driving with most of the windshield blacked out. If what drives the company's value relates to variables like customer loyalty, product-market fit, success with strategic accounts or innovation to solve a currently unsolved difficult technical problem, there needs to be robust assessment of what "color" these streams are and why.

To the extent that there's a clear shared view of what's red, most companies aren't *really* talking about the reds: engaging in no-holds-barred exploration of why they're behind and openly exploring the different stances that might be considered (e.g., should the founder leading Marketing be swapped out? do we need to stop pursuing some important goals to redirect resources to the most important goal? are we just wrong about how quickly a certain objective can be achieved and need to reset?).

There are many good variations on management systems, but the basic steps for any company that doesn't pass the red test are simple:

1. Get the reds on the table, and push through them once quickly
2. Build a systematic way to pass the red test going forward

Any management system that delivers on (2) will likely deliver superior results to any management system that doesn't deliver on (2). The ten principles articulated above, framed through the "terminally ill inventor" thought experiment, can provide a beacon to help choose among the many potential management systems that will at least pass the red test. I believe a good rule of thumb for founders and for CEOs is to fix failure of the red test immediately, and then move in the general direction of the ten principles at whatever rate feels practical, making sure that each year there's materially greater progress toward the ten principles than drift away from them.

I believe that all founders are in an important way like the terminally ill inventor I'd envisioned in the last post, in that they pass the promise of their founding idea and intent along to some executor – whether that's a role they play themselves or a role they delegate to someone else. The executor and the leaders she chooses operate according to some explicit or implicit principles of management, either theoretically robust or seat of the pants ("hit your numbers and don't make excuses") – or they operate according to no consistent principles at all. The thought experiment brings out the choice that all founders have: to create a true north for good management, to which they will ensure that they at least as much as others are accountable.

Leaders of established enterprises are by nature accountable to someone and for something – accountable to a board, accountable for a strategy, accountable for meeting investor expectations, etc. I believe that one of the most powerful choices these leaders can make is to make first themselves and then their organizations *also* accountable for managing well, in a way that begins with passing the red test and progresses toward something like the ten principles. This choice is like Odysseus tying himself to the mast. Operating any business provides many temptations to veer away from good management in order to focus on some set of problems and opportunities at hand. To the extent that one veers consciously, for a relatively short time, and with a clear mechanism to circle back, that can be harmless and even wise – Odysseus bound to the mast, but not too tightly. But the inevitability of business – and perhaps even more so the inevitability of the social and public sectors – is that the sirens of urgent challenges and opportunities will keep singing. A leader must therefore be accountable to herself and to others for the *how* of managing well alongside the *what* of current results and the *why* of an organization's underlying purpose.

Take a deep breath and reflect.

Do you pass the red test? If not, get in gear to pass it. This isn't especially difficult, although there are certainly better and more elegant ways to do so. Passing *does* inevitably involve hard conversations – including hard conversations with oneself.

Do you have something like the inventor's letter to steer by? If not, write one or find one. The version here can be a starting place, or Andy Grove's High-Output Management, Ray Dalio's Principles, the Netflix culture deck, or any of a number of others. With this compass, decide what aspects of management to progress toward excellence now – always putting the red test first – and what can wait.

Passing the red test will yield benefits now. Steering gradually but with all deliberate speed toward a clear picture of what good management looks like will yield immense benefits over the long term. No one pursuing a dream or leading an enterprise of significance should fail to do both.