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**Carl von Clausewitz**  
**“On Business”**

**INTRODUCTION**

At the time of the industrial revolution the first large scale businesses were formed. As businesses grew in size, the men running them cast around for models they might use or adapt to help them manage large masses of people and machinery.

Only two models were found; the church and the military. The fact that these people chose the military as their model (and in particular, the highly successful Prussian military) is obvious. Commonly used business terms like strategy, tactics, mission, target and objective clearly have military origins.

The central theme of this newsletter is that whilst business borrowed organisational structure, terminology, some approaches to command and control as well as rank and hierarchy from the military, they seem to have missed some core concepts that are, in the military, central to the theory of war and management.

One of those core concepts is managing the invisible numbers.

Recently I read “On War” by Carl von Clausewitz for the first time in 40 years. I was amazed at how much I had missed when I was a young man. Whilst there are significant differences, I was struck more by the similarities between war and the competitive marketplace. Soldiers and businessmen have much in common.

**THE INVISIBLE NUMBERS**

Carl von Clausewitz was damning and merciless in his treatment of those theorists and authors who tried to reduce war to an analytical numbers based approach. He used the available data as well or better than any other military thinker, but he did not depend on them entirely. One can easily imagine him railing against the “management by the numbers” approach so common in modern corporations.

Doubtless, the visible numbers are important, but so too are the invisible numbers; those that deal with leadership, training and morale, for instance. Clausewitz was particularly emphatic about the quality of leadership and the morale of troops, both of which defy objective measurement. He went so far to say that the quality of the generals and of their decision making was often, if not usually, the most important determinant. He claimed that this was unmeasurable, and that leadership (especially at very senior levels) was more an art

than it was a science. One could get a feel for the quality of senior officers over time, but he cautioned us to recall that at every promotion the officer must prove himself again, because high performance at one level was no guarantee of similar performance once promoted. He wrote at length to explain why this was the case, and must be the case.

Competitor activity and volatility in market conditions are other aspects that can be difficult to measure well, but their assessment is often critical in our business plans. Another is the potential impact of one determined and skilled man. At one large mining and processing operation a newly recruited senior process control man arrived to try to improve milling. In a week he increased productivity by between five and ten percent.

In addition Clausewitz cautioned us to be careful about how we use data. In particular, we need to be just as aware of what information is *not* in the data as that which is. For instance, how could we know if a manager is hitting his targets by skimping on training, maintenance and by cutting development; achieving short term targets by mortgaging the future.

Clausewitz also cautioned us to be aware of the degree of uncertainty (what he called “The Fog of War”) present. Some data are very objective, reliable and not subject to great uncertainty (number and cost of employees), but others are subject to much higher uncertainty. Not all numbers are created equal. Some are reliable and meaningful; some are not. How could we tell the difference? At a conference for accountants they were asked to define profit. After an hour of debate, no consensus of what defined profit and how it should be measured could be found.

#### **A MODERN EXAMPLE (How not to do it)**

Robert Strange McNamara (1916 – 2009) was US Secretary of Defense, serving under Presidents John F. Kennedy and Lyndon B. Johnson from 1961 to 1968, during which time he played a significant role in escalating the United States involvement in the Vietnam War as well as the development of strategy and metrics.

McNamara put in place an approach by which success could be objectively measured. He concluded that there were a limited number of Viet Cong fighters in Vietnam and that he could destroy them in a war of attrition. He chose a super ordinate metric, body count, to measure success in battle. Men died making those body counts.

By any measure, the US losses were fifteen to thirty times lower than those of the Viet Cong and North Vietnam. In terms of body count, the US and the South easily won.

Unfortunately, victory is not, and never has been, measured by body counts, or by any other numerical measure. This is true of both wars and battles. Battles have one of two objectives, the capture of the ground and/or the destruction of the enemy’s forces. In the legendary Battle of Jutland of WWI Germany was quick to note that more British than German ships were sunk, and claimed a German victory; but the next morning the Royal Navy was still standing off Jutland, eager to enter into battle. The German fleet had scurried back to port, never to venture out in force again, leaving Britain in control of the high seas. The numbers favoured the Germans, but Jutland was a huge British victory.

From La Drang to Tet, the Viet Cong and North Vietnam lost nearly every major military engagement. At Long Tan an Australian company of 108 men fought off an enemy regiment of about 2,000 men before a mounted relief company arrived. The badly mauled regiment finally withdrew with between 300 and 600 dead for 18 Australian dead. Moreover the Australians occupied the battlefield at the end of the battle. Clearly, this was as significant a victory as was La Drang. The South and its allies made a habit of winning battles. The chief metric, the body count was in their favour, but the North still won the war.

Victory in war is measured by how successfully political objectives are achieved. Despite losing nearly all the pitched battles, North Vietnam won the war against the South and its allies. As Clausewitz noted, some of the most important battles were those that were never fought when one combatant decided that the cost of victory was too high, and withdrew.

### **CONCLUSION**

In business, as in war, the most important figures are, in the words of Dr. W E Deming, unknown and unknowable.

The visible figures are important, but if we assume that they tell us all that we need to know in order to be successful in the marketplace, we delude ourselves.

Morale, courage, skills, knowledge, integrity, ethics, training and education and above all else, leadership and strategic positioning (what von Clausewitz called the genius of the general) are all aspects that defy effective and objective measurement. So too is the impact of one man who has the ability to transform operations. We ignore these invisible figures at our peril.