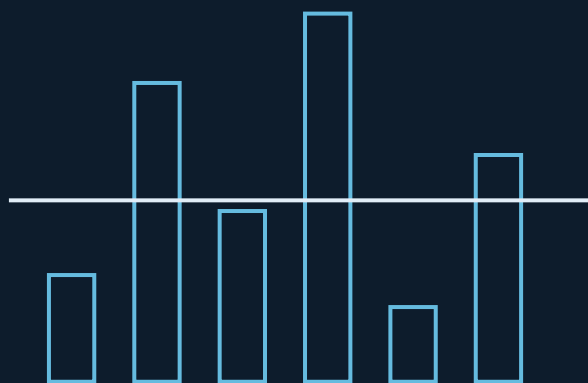


THE TYRANNY OF AVERAGES

Why Organizations Gradually Stop Seeing the Business They Are Trying to Lead



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Pablo F. Vallejo

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The Tyranny of Averages is the organizational phenomenon in which statistical summaries gradually become substitutes for managerial understanding, leading organizations to optimize simplified representations of reality rather than reality itself.

Organizations have never had more information than they do today. Enterprise Resource Planning systems capture virtually every business transaction, Business Intelligence platforms transform millions of data points into sophisticated dashboards, and Artificial Intelligence continues to expand our analytical capabilities at an unprecedented pace. Yet despite this abundance of information, many leadership teams continue to be surprised by problems that had been developing quietly for months—or even years. How can organizations with increasingly sophisticated reporting systems still lose sight of the businesses they are trying to lead?

The explanation is rarely a lack of information. More often, it is a gradual loss of understanding. As information moves upward through an organization, reality is progressively transformed into reports, reports into dashboards, dashboards into key performance indicators, and key performance indicators into executive summaries. Every transformation makes information easier to communicate, but every transformation also removes detail. Every aggregation simplifies complexity, reduces organizational resolution, and moves decision makers one step further away from the reality they are trying to understand. Eventually, organizations stop managing reality and begin managing increasingly simplified representations of it.

This is the phenomenon I refer to as **The Tyranny of Averages**.

The name is not intended to criticize averages themselves. On the contrary, averages are among the most valuable management tools ever developed. They simplify complexity, facilitate comparisons, and enable leaders to monitor organizations operating across multiple products, customers, geographies, and business units. Without simplification, modern management would be impossible.

The problem begins when simplification quietly replaces understanding.

The transition is almost imperceptible. Leadership gradually shifts its attention from the business itself to the indicators designed to represent it. The average customer becomes more visible than the customers behind the average. Average profitability becomes more important than understanding where profitability is actually created. Average productivity replaces the search for operational variability, and average performance increasingly dominates executive conversations. Over time, organizations become exceptionally skilled at managing numbers while progressively losing their understanding of what those numbers actually represent.

Although the phenomenon is often associated with statistics, its consequences are fundamentally strategic. Competitive advantage is rarely created in the average; it is created in

the differences the average conceals. It emerges from the customer whose economics are fundamentally different from everyone else's, the product quietly destroying profitability while appearing insignificant in aggregate reports, the business unit generating exceptional returns despite representing only a small percentage of total revenue, or the operational bottleneck responsible for a disproportionate share of operational inefficiencies. These realities do not disappear because the information is unavailable. They disappear because organizations progressively compress reality into forms that are easier to report than to truly understand.

Every organization needs simplification. No executive can personally analyze millions of transactions, thousands of customers, or hundreds of products. Dashboards, KPIs, and executive summaries are indispensable. The mistake is believing that simplification and understanding are the same thing. They are not. One summarizes reality. The other explains it.

Perhaps the greatest danger of **The Tyranny of Averages** is not that it distorts reporting but that it quietly reshapes strategic decision-making. Capital begins to flow according to average profitability rather than marginal returns. Commercial investments respond to average customer performance instead of customer economics. Pricing decisions rely on average margins instead of incremental value creation. Operational priorities are established according to average efficiency while the variability that actually explains performance remains largely invisible. None of these decisions appear unreasonable when considered individually. Collectively, however, they redirect management attention away from the places where enterprise value is actually created—or quietly destroyed.

This also explains why organizations with increasingly sophisticated reporting systems continue to be surprised by problems that had been developing beneath the surface for months, or even years. The information was always available. What gradually disappeared was the organization's ability to see it.

The Leadership Principle: Preserving Strategic Resolution

Recognizing **The Tyranny of Averages** is only the first step. The leadership challenge is ensuring that simplification never replaces understanding. The objective is not to eliminate dashboards, averages, or executive summaries—organizations cannot function without them. The objective is to preserve **strategic resolution**: the organizational capability to maintain visibility into the differences that actually explain performance as complexity continues to grow.

Organizations with high strategic resolution treat every aggregate number as the beginning of a conversation rather than its conclusion. When revenue grows, they ask where the growth came from. When margins improve, they seek to understand which customers, products, or channels explain the improvement. When productivity declines, they investigate the specific sources of variability rather than accepting organizational averages as sufficient explanations. Executive dashboards are used to direct managerial attention—not to replace managerial judgment.

Organizations capable of preserving strategic resolution allocate capital more intelligently, recognize emerging risks earlier, and identify sources of competitive advantage that remain invisible to organizations managing only aggregated indicators. Over time, management conversations become less focused on explaining numbers and more focused on understanding the business behind those numbers. Resources are allocated with greater precision, strategic

priorities become clearer, and enterprise value improves—not because the organization possesses more information than its competitors, but because it develops a deeper understanding of the information it already has.

Ultimately, preserving strategic resolution is not an analytical discipline.
It is a leadership discipline.

Leadership Reflection

What representation of reality has become so familiar inside your organization that no one questions whether it still reflects reality?

Closing Principle

- Averages summarize reality.
- Leadership begins where averages stop providing answers.
- The organizations that create extraordinary enterprise value never confuse representation with reality.