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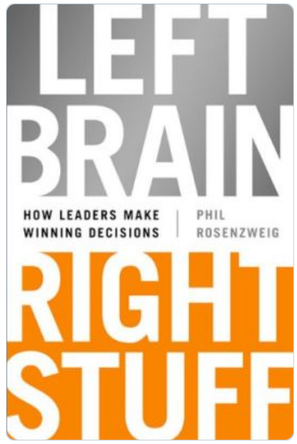

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Left Brain, Right Stuff

How Leaders Make Winning Decisions

Phil Rosenzweig • Public Affairs © 2014 • 336 pages

Leadership / Decision Making
Management / Strategy / Strategic Planning

Take-Aways

- Decision making calls for an analytical, reasoned approach – that's the "left brain" – plus the willingness to accept risk and the ability to manage it – that's the "right stuff."
- Factoring your competitors' probable actions into your strategic decisions can be bafflingly complex.
- Strategic decisions differ notably from investment decisions or purchase decisions.
- "Decision models" and decision research are of little use in strategic decision making.
- As you plan, determine whether the performance you must achieve is absolute – good, regardless of external factors – or relative – good in comparison to the competition.
- Minor improvements in your absolute performance boost your relative performance.
- A positive attitude helps, especially when your decisions affect results.
- People often attribute errors in judgment to overconfidence. In reality, most people could benefit from more confidence, not less.
- When you act, apply your wits to "mold, shape, transform and reconstitute" your situation into the reality you want to achieve.
- As you focus on the particulars of decision making, do not neglect the broader context.

Recommendation

Most social science research about decision making is not relevant to corporate strategic planning decisions, which are notably different from investment or purchase decisions. Phil Rosenzweig, a professor at IMD, a top Swiss business school, examines business decision making from the point of view of a strategist. He strikes a balance between two recommendations – make a careful "left brain" analysis and be sure you have the "right stuff" to move ahead boldly – as he explains what competitive decision making requires in context. *getAbstract* praises his innovative model for its broad spectrum of thought and guidance about the nuts and bolts of strategic decision making, and suggests it to decision makers at all levels.

Summary

Tough Choices

Executives who make business decisions with multiple factors in play and extensive consequences at stake face considerable challenges. Strategic planners must prioritize their choices in often-confusing circumstances. While people should avoid the biases in their thinking to make better decisions, complex corporate decision making requires more.

> *"Recent empirical research suggests that, in many industries, competitive advantage is difficult to maintain and that the speed of regression toward the mean is becoming faster."*

Social scientists conduct extensive research to discover why and how people make decisions. They examine the choices people make when they have no control or influence over the outcome of an event and no ability to alter the terms of the experiment. Researchers structure their testing this way so they can compare and evaluate the results.

> *"It might be preferable to have managers imagine (sometimes falsely) that they can control their fates, rather than suffer the consequences of imagining (sometimes falsely) that they cannot."*

Such orderly, controlled research has developed reliable, worthwhile data on how people make decisions. Psychologist and author Dan Ariely explains, "For social scientists, experiments are like microscopes or strobe lights, magnifying and illuminating the complex, multiple forces that simultaneously exert their influences on us." This is useful in determining how and why consumers and investors make buying decisions.

Unanswered Questions

However, when it comes to strategic planning and business decisions, social science leaves many questions unanswered for four reasons:

1. Business and strategic decisions require that people make their plans on the basis of determining which events and outcomes they can influence and which they can't.
2. Business and strategic decisions can involve the external factor of competition.
3. Business and strategic decisions don't involve tidy choices with clear results that present themselves immediately; a company's leaders might not know if a decision was good or bad for months or even years.
4. Business leaders usually consider numerous complex factors that don't lend themselves to the tightly controlled decision-making environment of a social science lab.

> *"Learning to make better decisions – smarter, wiser and more likely to lead to success – is a high priority."*

Laboratory research on decision making puts the "processes of judgment and choice" under a magnifying glass, but research results have limited application outside of the lab. "Much mischief can be wrought by transplanting this hypothesis-testing logic, which flourishes in controlled lab settings, into the hurly-burly of real-world settings...," says psychologist Philip Tetlock.

> *"The failure to act is a greater sin than taking action and failing, because action brings at least a possibility of success, whereas inaction brings none."*

In *Thinking Fast and Slow*, psychologist Daniel Kahneman explains that thinking and decision making involve two systems: System 1, which is intuitive, represents quick – and often erroneous – thinking; and System 2, which is reflective and reinforces and improves System 1. This multiple-layer framework for thinking works if individuals have "educated" their System 2 thinking processes to include as many reinforcements as possible. Business decision makers need to know how to reinforce their planning decisions at the System 2 level. They must think strategically about making practical decisions in the real world.

"Left Brain, Right Stuff"

Superior decision making involves the "left brain" – an analytical and reasoned approach – and the "right stuff" – the willingness to accept risk and the ability to manage it intelligently.

> *"Admonishing a group of executives with a simple classroom demonstration may be good theater, but it tells us little about decisions in real-world settings."*

Left-brain thinking helps you establish the difference between what you can and can't affect. It aids in determining whether and when to act; in reviewing past events to decide if you need new approaches; and in ascertaining when decision-making models make sense and when they don't. The right stuff gives you confidence in your abilities to master challenges, to achieve unprecedented performance and to inspire others to take reasonable risks.

"Overconfidence"

Common wisdom says overconfidence is a problem. However, in today's intensely competitive world, confidence is essential. Your level of confidence must not lead to complacency or the assumption that success is a given. Most people need more confidence, not less. Evidence supports the value of self-confidence. Consider golf, "a game of confidence." Professional golfer Ian Poulter says, "Very few people at the top of this wonderful game lack self-belief. Mine is often mistaken for arrogance – but if you don't think you'll be good, you won't be."

Think Positive

"Decision models" don't depend on fallible humans. They rely on computers, data, algorithms, and so on. These models can achieve stunning accuracy rates and they can be very useful to organizations. But they involve situations that people can't directly influence and are thus of little applicability in strategic planning, which focuses on positively affecting real-world outcomes.

> *"Decisions differ and different situations call for markedly different actions."*

When you must make a decision, first ask: Can you influence the outcome? If your answer is no, a decision model may be useful. If your answer is yes, forget about decision models. Your job when you must decide is not to predict an outcome. It is to make the outcome you want become reality. That requires believing in yourself; the more positive you feel about the outcome, the better the chances you will achieve it. Confident leaders inspire those around them.

> *"What is sensible when performance is absolute may be suicidal when performance is relative and payoffs are highly skewed."*

If you have no control over the outcome – such as when you're gambling with dice – all the positive thinking in the world will not affect the outcome. Yet many dice and lottery players have an "illusion of control" bias, thinking incorrectly that they are able to influence the outcome of random events.

> *"When it comes to managerial decisions, what seems excessive by one definition can be useful or even necessary."*

Self-confident, hard-working people work on directing the outcomes of the controllable events in their lives, including their careers. Don't underestimate how much control you exert. Often you have more than you imagine. Once you decide what to do, taking action – rather than doing nothing – is usually the best course. When you act, apply your wits to "mold, shape, transform and reconstitute" your situation into the reality you want to achieve. This demands intelligence and boldness, the two requisites for decision-making success. In the final analysis, that is the essence of control.

"Absolute Performance"

In order to outperform the competition when you make a strategic decision, ask whether you need to perform well in absolute terms or in relative terms.

> *"Great decisions call for a capacity for considered and careful reasoning, as well as a willingness to take outsize risks."*

Absolute performance concerns achievements that you don't measure against anything else. Relative performance concerns your competitors and how your firm performs against them. Reasoning this out and deciding accordingly is strategic thinking. Yale's Barry Nalebuff and Princeton's Avinish Dixit describe such thinking as, "the art of outdoing an adversary, knowing that the adversary is trying to do the same to you." Much decision research concerns situations in which rivalry is not a factor. Such research provides useful data about the dynamics of "cognitive mechanisms," but its findings have little applicability to competitive situations, like business.

> *"It is the brain, not the heart or lungs, that is the critical organ. It is the brain." (Roger Bannister, the first person to run a four-minute mile)*

If performance is a factor in your decision, determine whether it is relative; are you being compared? If so, consider the nature of potential payoffs. Are they skewed so that the leading firm wins all the marbles? If you are responsible for setting strategy for your firm in this situation, ensure that your decisions enable your firm to come out ahead. This is a guiding principle of decision making.

> *"Thanks to carefully crafted experiments, we know a great deal about the way people make judgments and choices."*

As you plan, understand that any improvement to your absolute performance – simply doing better, no matter how you measure things – will have an enormous effect on your relative performance: the success you achieve measured against your competitors. Always strive to do better. Often, you can improve your position vis-à-vis your competitors.

Gambling

In a highly competitive environment, you must be willing to gamble. If you aren't, non-risk-averse rivals can knock your firm out of the box. You can't stand pat in an aggressive marketplace; bold competitors will pass you by in no time. You must be bold as well. Heike Bruch and Sumantra Ghostal, authors of *A Bias for Action*, sum up this philosophy, saying that companies must engage in "determined, persistent and relentless action taking to achieve a purpose against all odds." Make action your watchword. Never "err on the side of complacency."

> *"People often make judgments and choices in ways that run counter to the tenets of rationality."*

Beware the “winner’s curse,” which comes into play when a company makes such a super-bold move that even though it wins, it ends up losing in the long run. For example, a construction company places the lowest bid to win a major contract, but loses money on the deal because its bid didn’t adequately cover all its costs.

> *“To know the difference between what we can change and what we cannot is a profound kind of wisdom.”*

Avoid the tendency to make decisions by focusing on small particulars. Such reasoning relies on the “representative heuristic,” a rule for decision making that can lead the thinker astray, though it is useful sometimes. The danger is that such reasoning relies on the “base-rate bias,” ignoring general information and paying attention only to specific details. Instead, base your decisions on the larger context, the “broader population.” Structure your thinking and subsequent decision making not only on what is directly in front of you, but also on an overall, broader perspective.

The Time Issue

Decision making improves over time. This results from the accumulation of valuable expertise through “deliberate practice.” Researchers note that deliberate practice, which involves “action, feedback, adjustment and action again,” is the methodology that many athletes and other professionals undertake to improve their performance. Deliberate practice has its direct parallel in manufacturing’s Kaizen system, which involves the “disciplined sequence – plan, do, act, check.”

Deliberate practice can be helpful when decision making is the sequential end result of a particular choice. It enables the decider to improve subsequent decisions. However, this deliberative process doesn’t work well for strategic decisions, which are often complex and include results that don’t provide immediate feedback. The bigger the decision, the less opportunity you have to apply deliberate practice. Effective decision makers differentiate between decisions that benefit from deliberate practice and those that don’t, and they orient their thinking accordingly.

The Leader’s Decisions

To examine decision making, researchers study how people decide things that affect them directly. Being highly individuated, this research doesn’t project well for executives, whose decisions affect their business units, or for CEOs, whose decisions affect entire organizations or industries.

Such decisions involve an additional “social dimension,” in that the decision makers want to motivate employees and embolden them to achieve new levels of performance, productivity and profitability. Such inspiration requires leaders with the strength of character to make tough decisions and take difficult actions in challenging circumstances.

Gene Kranz, flight director during the dramatic Apollo 13 lunar mission episode in 1970, said of his leadership dynamic: “The leader must set the expectations and no matter what the difficulty must never waver.” Leaders have to consider numerous complex, confusing factors; their process will be markedly different from test subjects’ decision making in laboratory settings.

The Ideal Decision Maker

The ideal strategic decision maker is “part tactician, part psychologist” and “part riverboat gambler.” The tactician operates with a competitive mind-set, carefully planning his or her moves – that is, making decisions – while considering how rivals will respond. The psychologist creates desirable outcomes by being an inspiring leader. The riverboat gambler is always ready to make a bold move. The best decision makers know when and how to assume each role.

About the Author

Phil Rosenzweig, author of *The Halo Effect*, is a professor at the IMD business school in Lausanne, Switzerland and a former assistant professor at Harvard Business School.