

May 18, 2020

EXECUTIVE BRIEFING

Paul F. Feiler, Ph.D.

Making Decisions in the New Economy:

Approaching Unbounded Leadership Rationality

Approaching Unbounded Leadership Rationality

- There's a clear, well-documented process for getting important things done.
- A leader's ability to make the decisions necessary to set this process in motion and execute it often limited by "Bounded Rationality"
 - Time Constraints
 - Limited Resources
 - Lack of Knowledge or Mental Capacity
 - Lack of Connectedness
- Critical that leaders manage their executive role to overcome the limitations of Bounded Rationality and dramatically improve the quality of decisions related to strategy and execution.

The Context of Executive Decision-Making

Nicholas Read, “The Eight Drivers of Executive Decision-Making”

1. **Financial Drivers.** Every executive is under financial pressure to perform: how can I increase revenue or reduce costs?
2. **Customer Drivers.** Identifying, growing and maintaining customer base: decisions related to service quality, relationships and brand. How do the customers I want see the future? What actions can I take now to prepare for what’s coming?
3. **Operational Drivers.** How can I improve internal organization and work processes to affect a financial return?
4. **Supplier Drivers.** Constant concerns about the reliability of supply, quality, economies of scale, inventory turnover, shrinkage through loss or theft; warehousing and distribution strategies, demand forecasting.
5. **Competitor Drivers.** Marketplace trends. What actions are my competitors taking to solve the same problems we’re facing?
6. **Business Partner Drivers.** Changing business environments may require evaluating business partner relationships. Are there partners or affiliates who can add value?
7. **Globalization Drivers.** Competition from cheaper labor and production abroad, risk losing market share; need to drive down costs of domestic production. Should I outsource or offshore providers?
8. **Risk and Regulatory Drivers.** Requirements for greater accountability and transparency.

The Context of Executive Decision-Making

When a leader makes a decision in any of these areas . . .

What Happens?

Quiz: Five Frogs on a Log

**“Five frogs are on a log. Three decide to jump off.
How many frogs are left on the log?”**

Leading Transformational Change

The answer is five.

- Just because a frog decides to jump off the log, doesn't mean that he does.
- Just because an executive makes a decision, doesn't mean that anything happens.

Leading Transformational Change

Decision-Making



Execution



Change/Transformation

Leaders Manage Change

“While management deals with complexity, leadership fundamentally deals with change. In a competitive and volatile business environment, with increased technology, changing regulations, the changing workforce and unstable economic conditions, doing what was done yesterday, only doing it 5% better is no longer a relevant formula for success. Change is necessary to compete effectively in this new environment. Change demands leadership.”

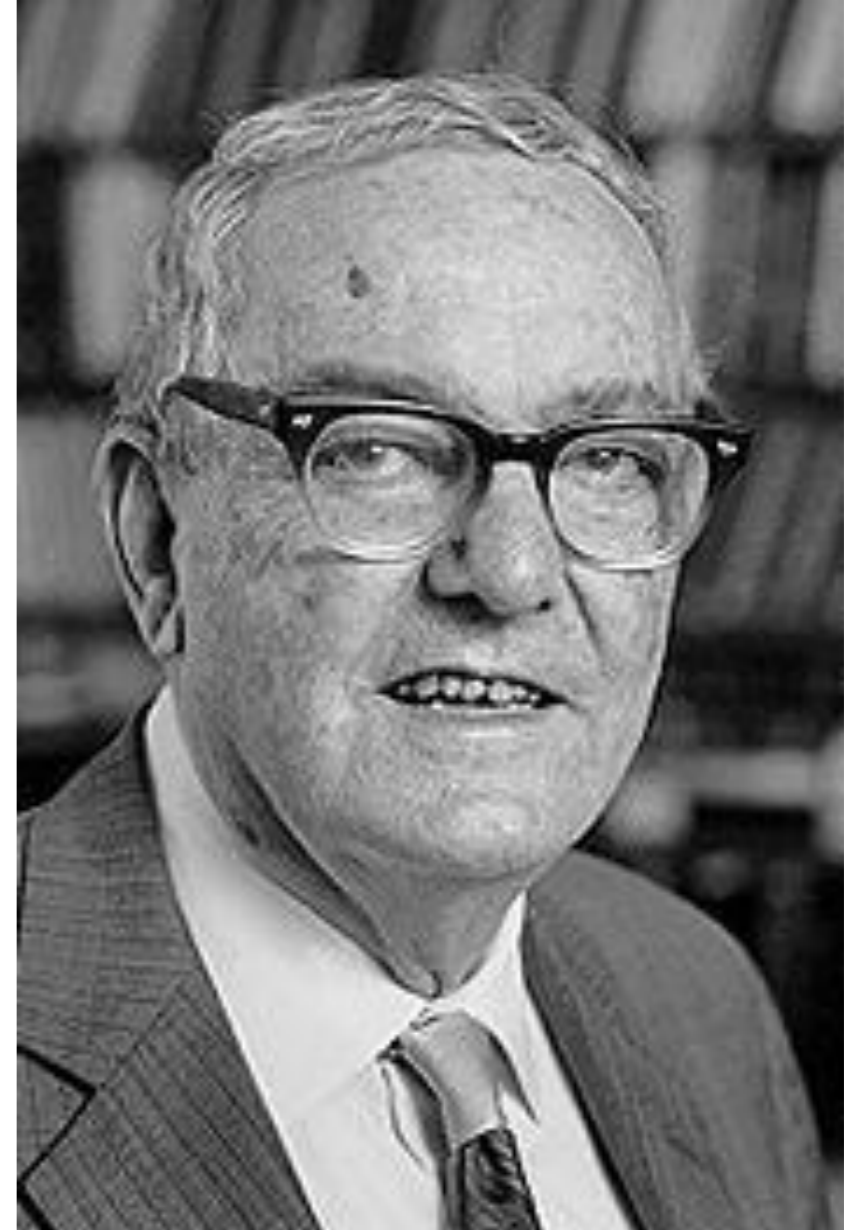
John Kotter,” What Leaders Really Do,” HBR

Why Do We Fail to Get What We Want?

- CIO.com annual survey IT project implementation (Survey of over 800 CIOs):
 - 49% suffer budget overruns
 - 47% end up with higher than expected maintenance costs
 - 41% fail to deliver expected business value and ROI
 - 62% of IT projects fail to meet their schedules
 - 25% of all IT projects get canceled before completion
- What's your experience?

Bounded Rationality

- Proposed by Herbert Simon, Economist, Carnegie Mellon University
- Won the Nobel Prize in Economics, for research into the decision-making process in economic organizations
- Authored over 1000 publications
- One of the most influential social scientists of the 20th century



Bounded Rationality

- A leader's decision-making rationality, necessary to define a clear and compelling direction, to set the transformational process in motion and to execute it, is often "Bounded," incapacitated by . . .
 - Time Constraints
 - Limited Resources: Lack of Knowledge, People, Money
 - Lack of Connectedness
 - Diminished Mental Capacity
 - Physiological or Psychological Limitations
- Because the lack of ability and resources inhibit a leader's capability to reach an optimal decision, the leader applies rationality only after having greatly simplified the choices available.
- Leaders fall into decision-making traps that create fatal flaws in the quality of their decisions related both to direction and process.

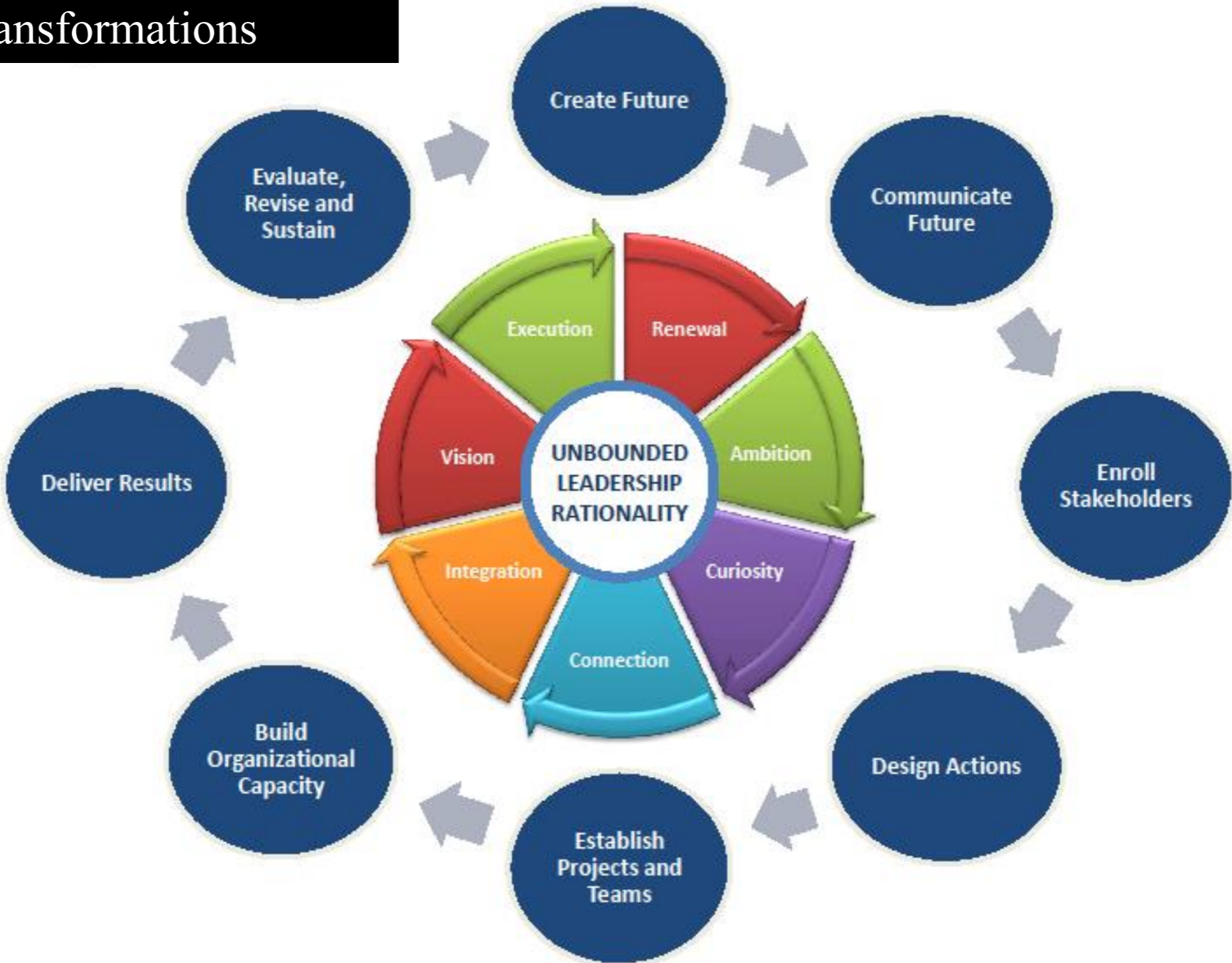
Bounded Rationality: Decision-Making Traps

- **Mother-Goose Syndrome/Anchoring**
 - The leader gives disproportionate weight to the first information received.
- **Status Quo**
 - The leader prefers solutions that preserve the status quo.
- **Sunk Costs/Irrational Escalation of Commitment**
 - The leader makes decisions to support past decisions (Jerry Harvey, “The Road to Abilene”).
- **Confirming Evidence**
 - The leader seeks evidence that supports a favored viewpoint, while rejecting evidence that contradicts it.

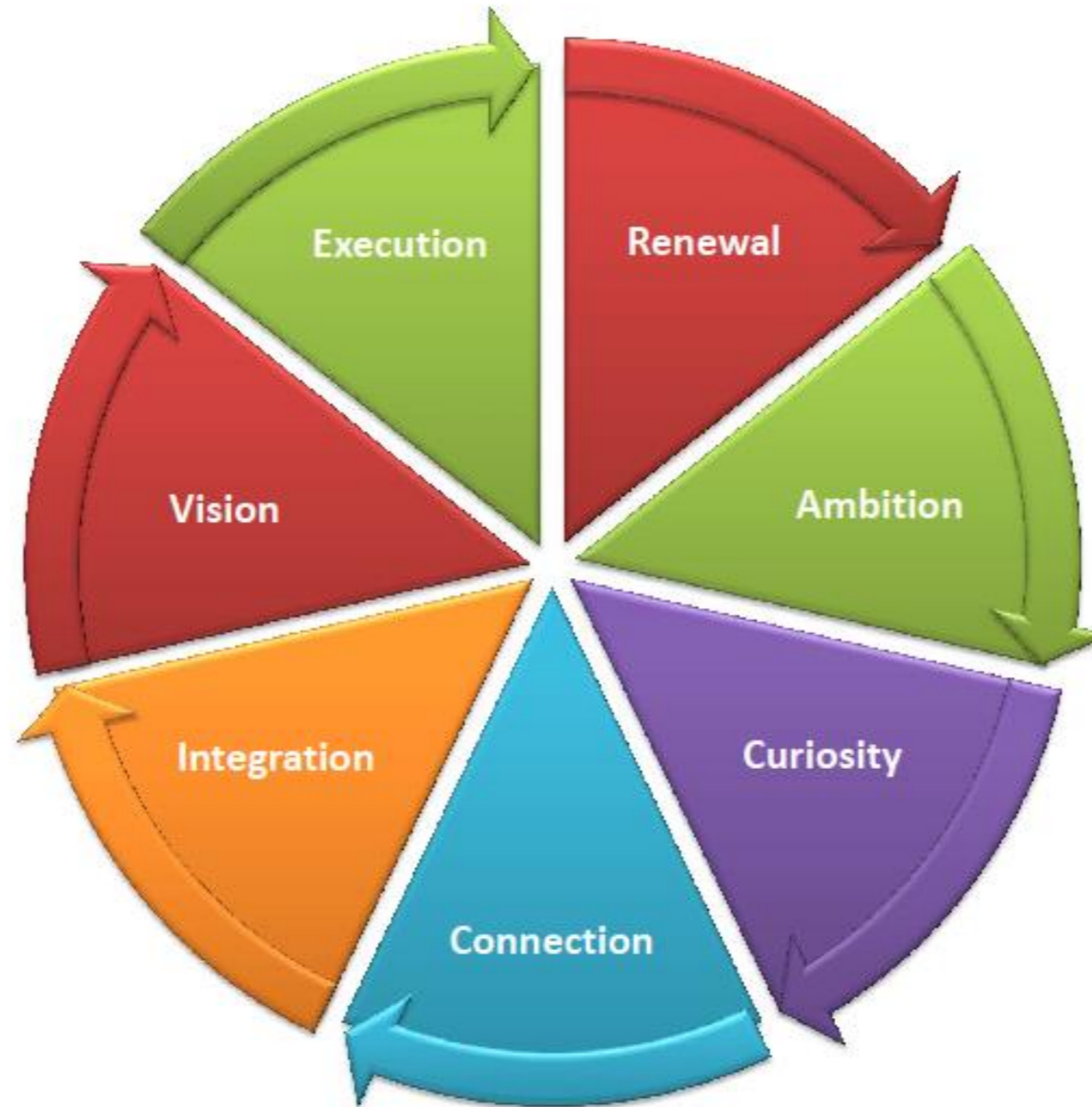
Approaching Unbounded Leadership Rationality

- Leadership decisions are at the heart of direction setting and execution.
- Bounded rationality sabotages the effectiveness of leadership decision-making
- What can leaders do to improve their capacity to make rational decisions about the future and how to get there?
- What can leaders do to approach Unbounded Leadership Rationality?

A Framework for Leading Strategic Transformations



Core Executive Capabilities for Leading Strategic Change



Executive Decision-Making Support System

In place before the moment of decision occurs, Unbounded Rationality involves the interface of:

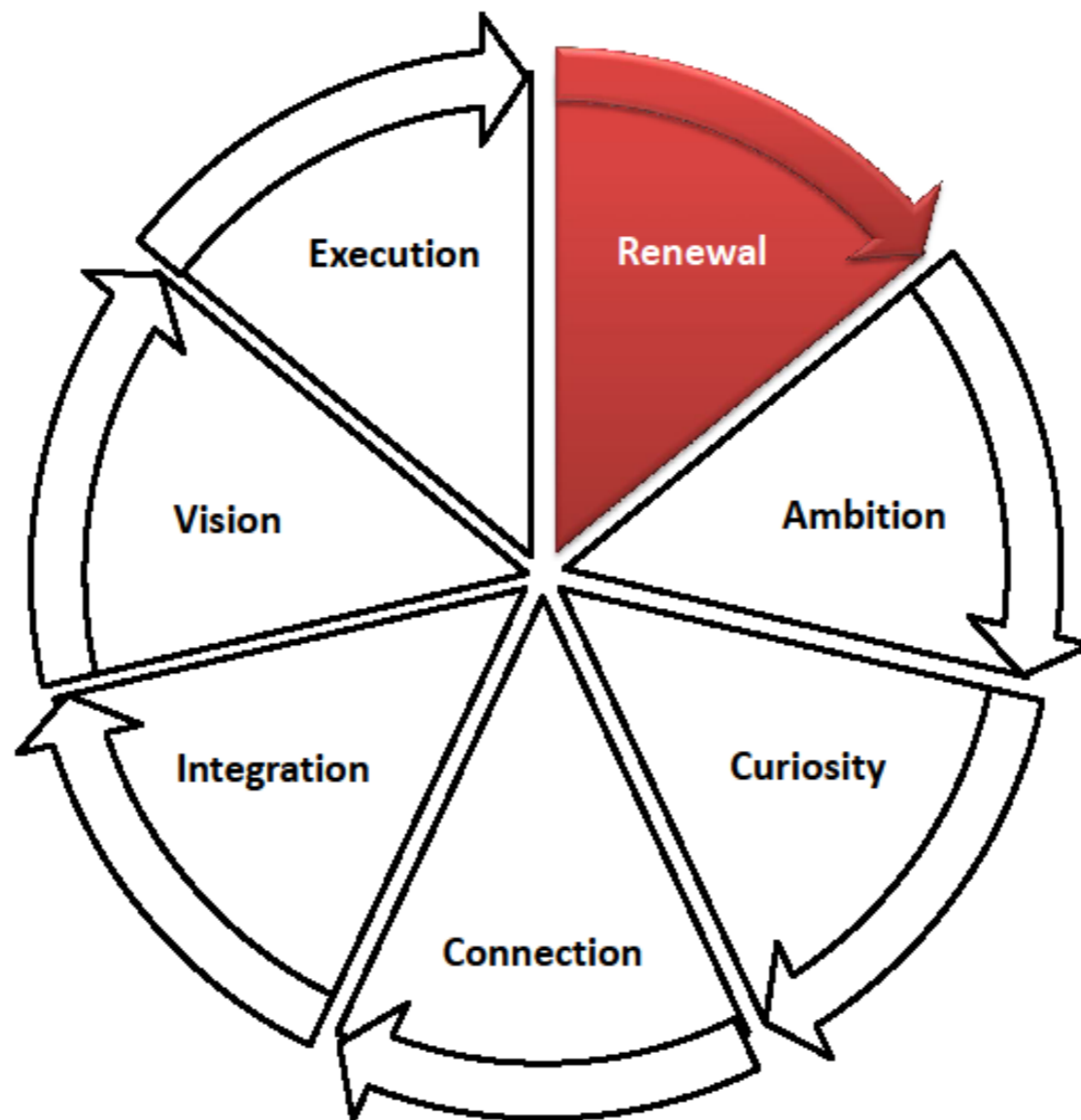
- The leader's discipline and character
- Structuring of the executive office for conversations that produce learning and enrollment
- The knowledge and practice of transformational processes that produce results

Executive Decision-Making Support System

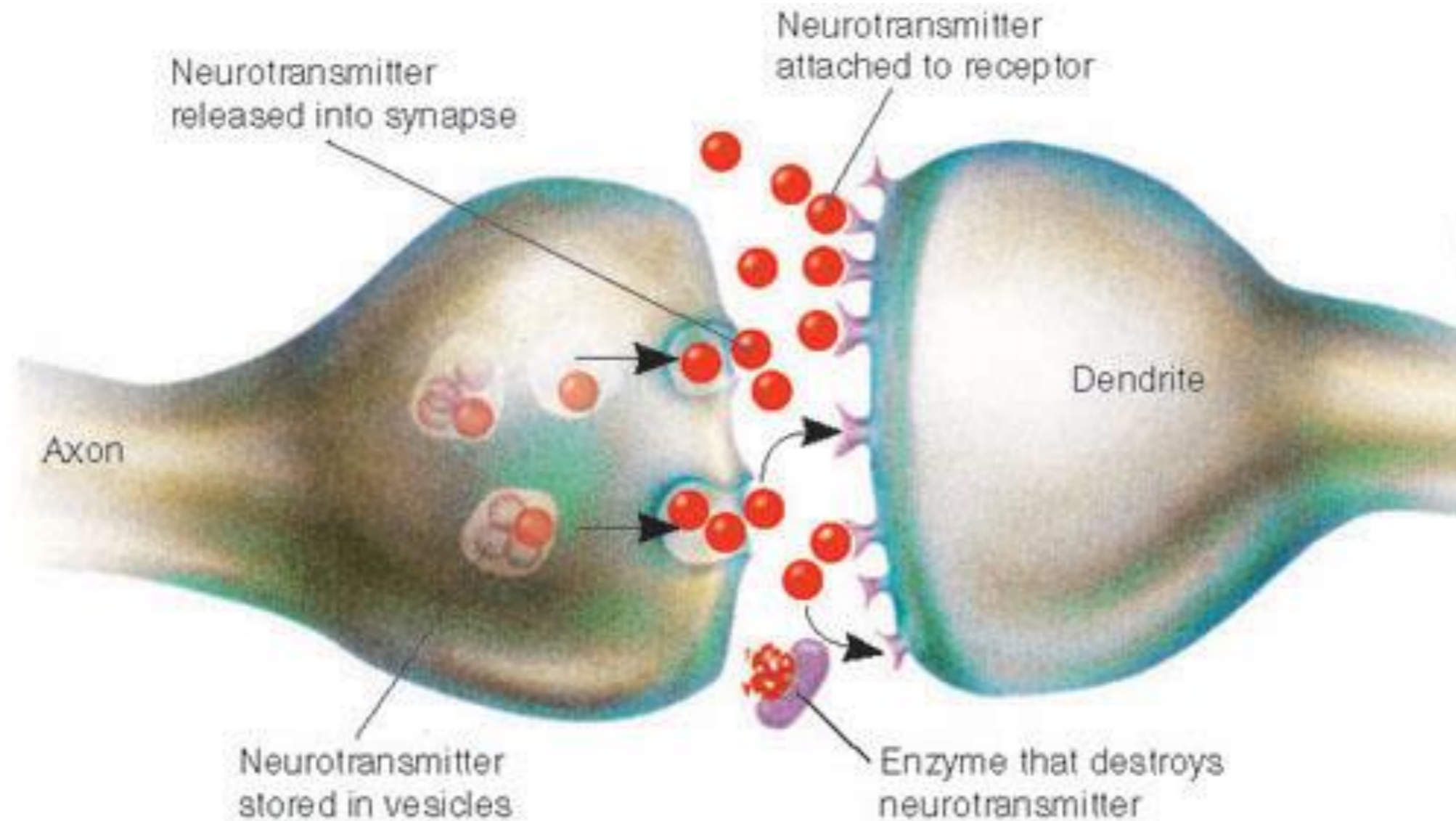
Seven qualities of executive character, practice and process:

- **Physiological Renewal.** Speed of 1 quadrillion brain synapses
- **Focused Ambition.** A deep understanding of what one's wants and a burning desire to achieve significant breakthroughs to attain it
- **Curiosity.** A thirst for information quenched by a strong intelligence-gathering function within the executive office.
- **Connectedness.** Presence and personal relatedness for conversations with key stakeholders
- **Integration.** A deep understanding of the systemic operation of one's business.
- **Vision.** The ability to imagine, tell and live a compelling future story.
- **Execution.** The drive to get things done and achieve results through transformational processes.

Physiological Renewal



One Quadrillion (1000 X 1 Trillion) of These in Your Brain



Physiological Renewal

Kety-Schildkraut:

- 1.8-2.4 trillion brain cells
- 1000 X 1 trillion brain synapses (connections between brain cells)
- The speed at which neurotransmitters move across synapses from one cell to another determines one's mood, level of alertness and level of activity.
- When the speed is high, activity and alertness is high
- When the speed is low, lethargy and depression can result

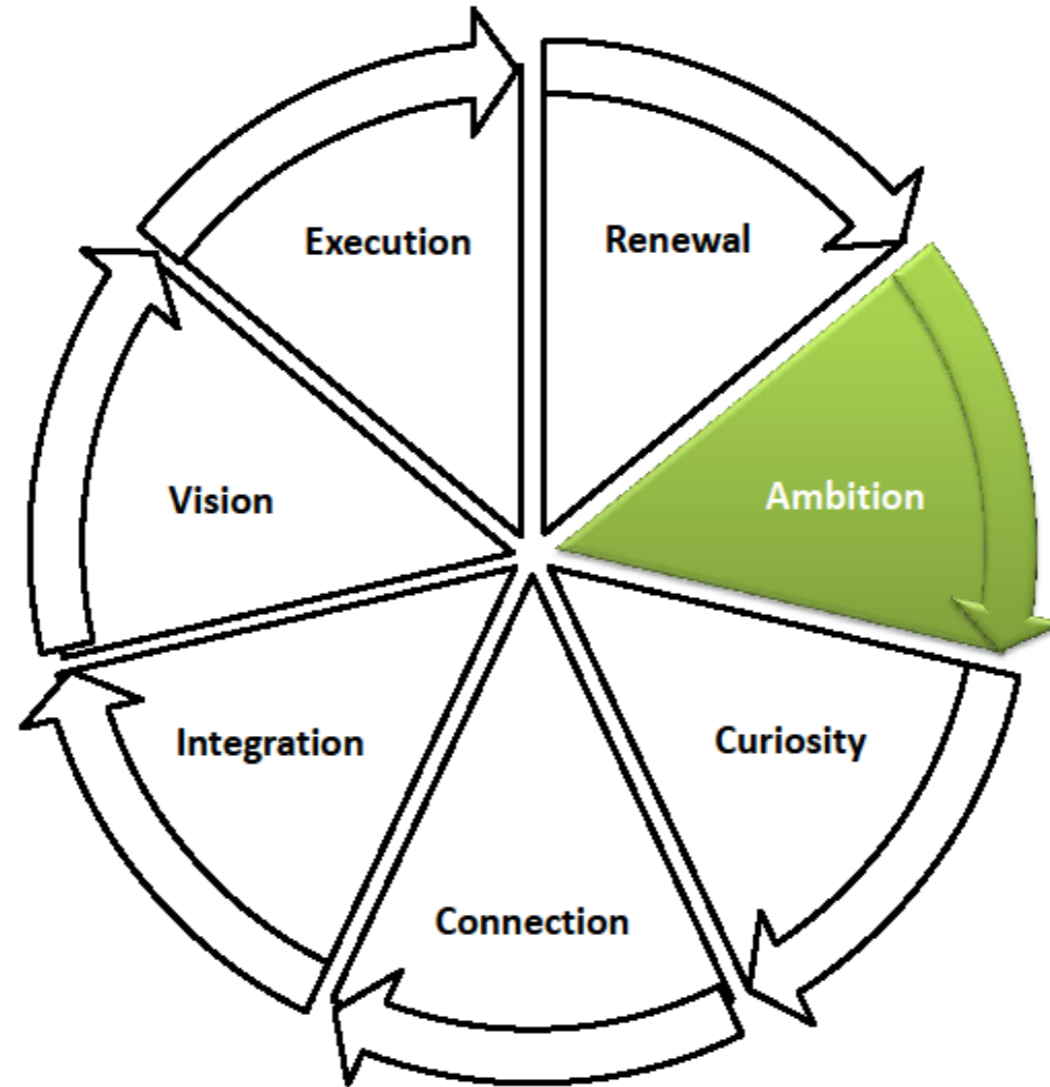
Physiological Renewal

What keeps the activity at the synapse high?

- Sleep
- Nutrition
- Exercise

Jim Loehr and Tony Schwartz, “The Making of the Corporate Athlete,” HBR

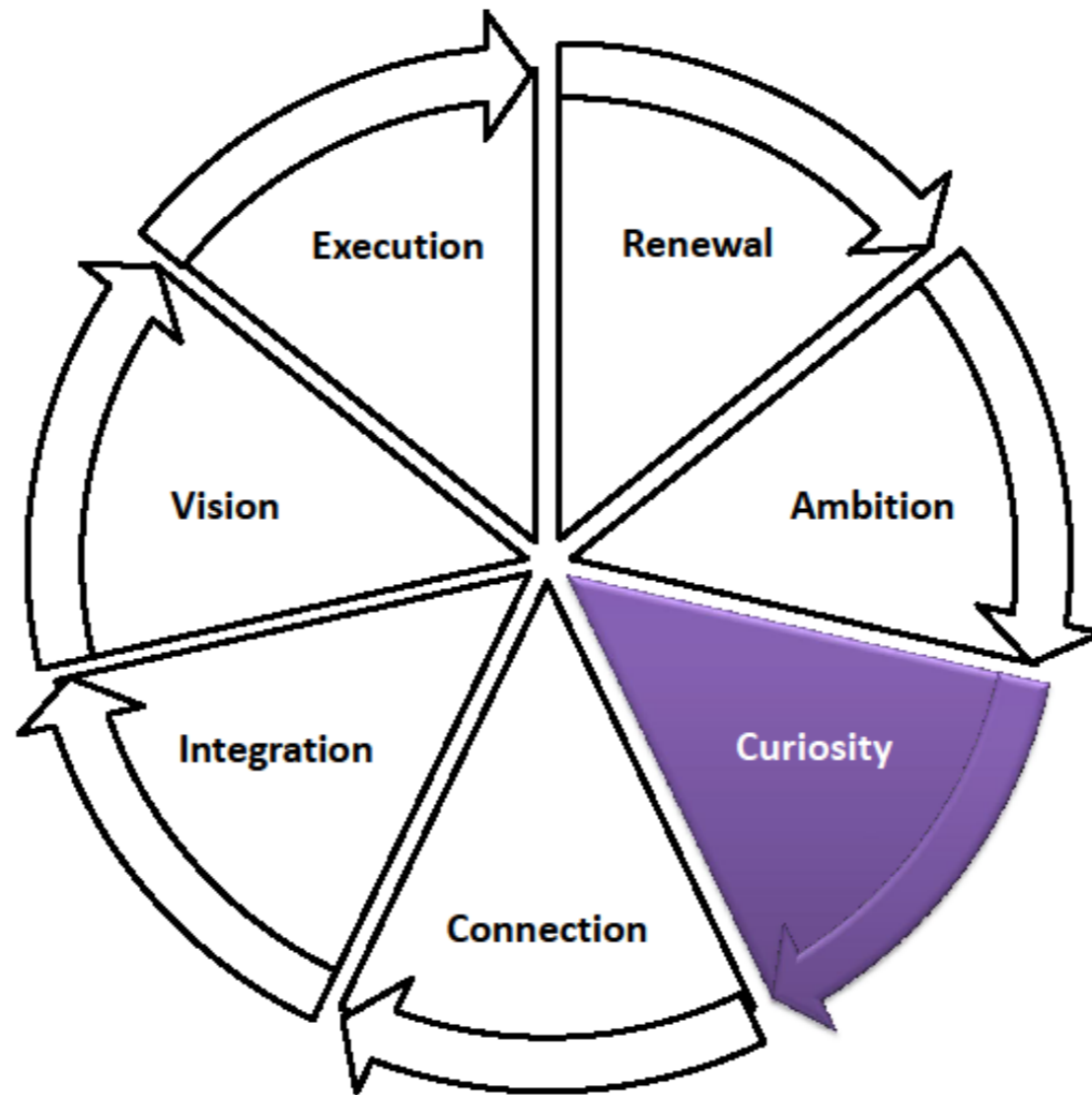
Focused Ambition



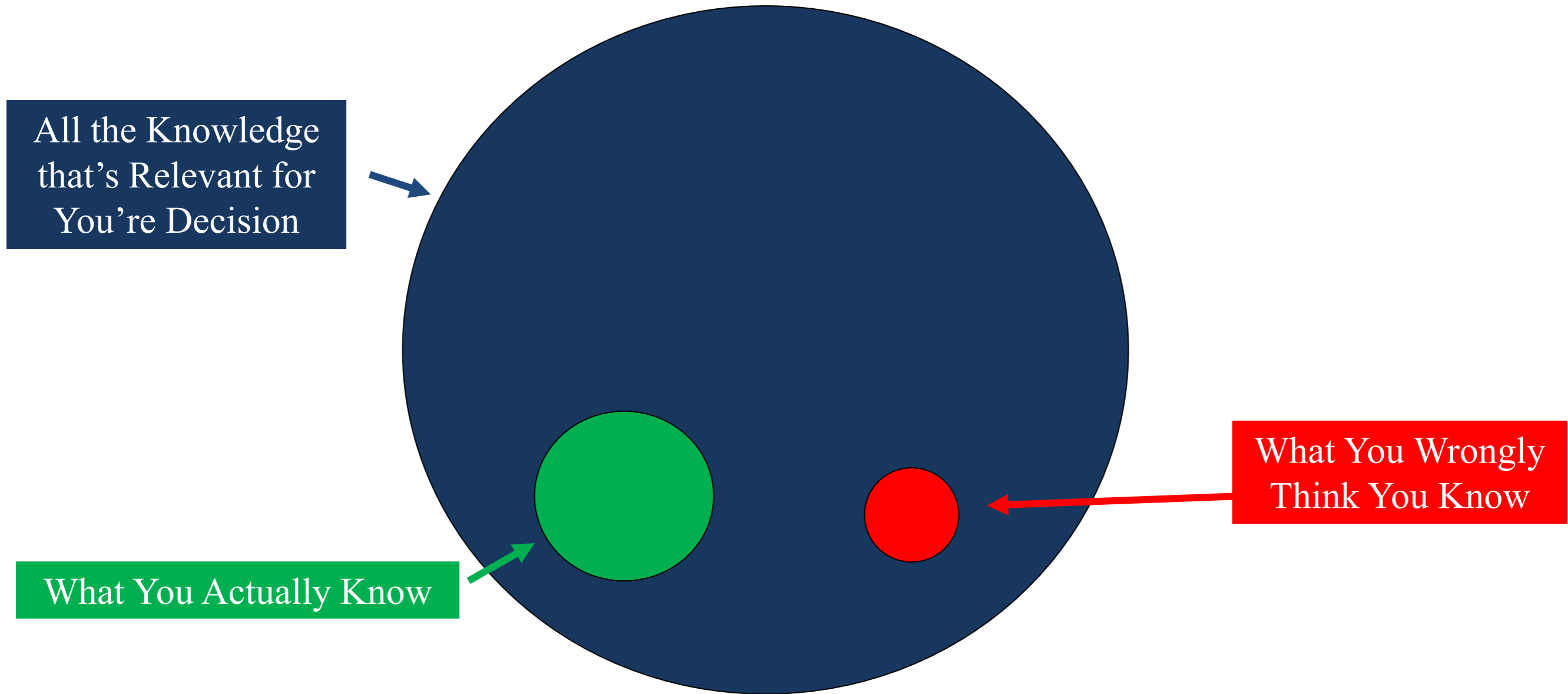
Focused Ambition

- **Focused Ambition:**
 - A deep understanding of what one's wants and
 - a burning desire to achieve significant breakthroughs to attain it.
- **Every leader ought to want something:**
 - Personal desire is aligned with that of the organization
 - Bill George, "Restore people to full life and health."
- **Key Questions:**
 - What do you want?
 - What are the key breakthroughs you'll need to make to achieve it?
 - How does the decision you need to make now relate to the achievement of what's most important?
- **Ambition** generates priorities and commitments.

Bounded Rationality, Decisions Based on Limited Data



Bounded Rationality, Decisions Based on Limited Data



Curiosity

Curiosity. A thirst for information quenched by a strong intelligence-gathering function within the executive office.

- The importance of structuring the executive office to get you the information you need to make quality decisions on a daily basis.
- President of a major division of a Fortune 100 Oil and Gas, Drilling and Production Systems Company:

“What are you working on?”

Curiosity

- Review the “right” data
- Scan the business environment for trends that present threats and opportunities for the organization.
- Seek out and listen to people whose knowledge helps them foresee future trends.
- Have a deep knowledge of the business.
- Identify subject matter experts inside and outside the organization.
- Develop contexts for on-going conversations and briefings on key areas of the business with key internal and external subject matter experts.
- Welcome and interact with divergent points of view.
- Construct scenarios of possible futures and ask, “How would I would deal with this situation?”

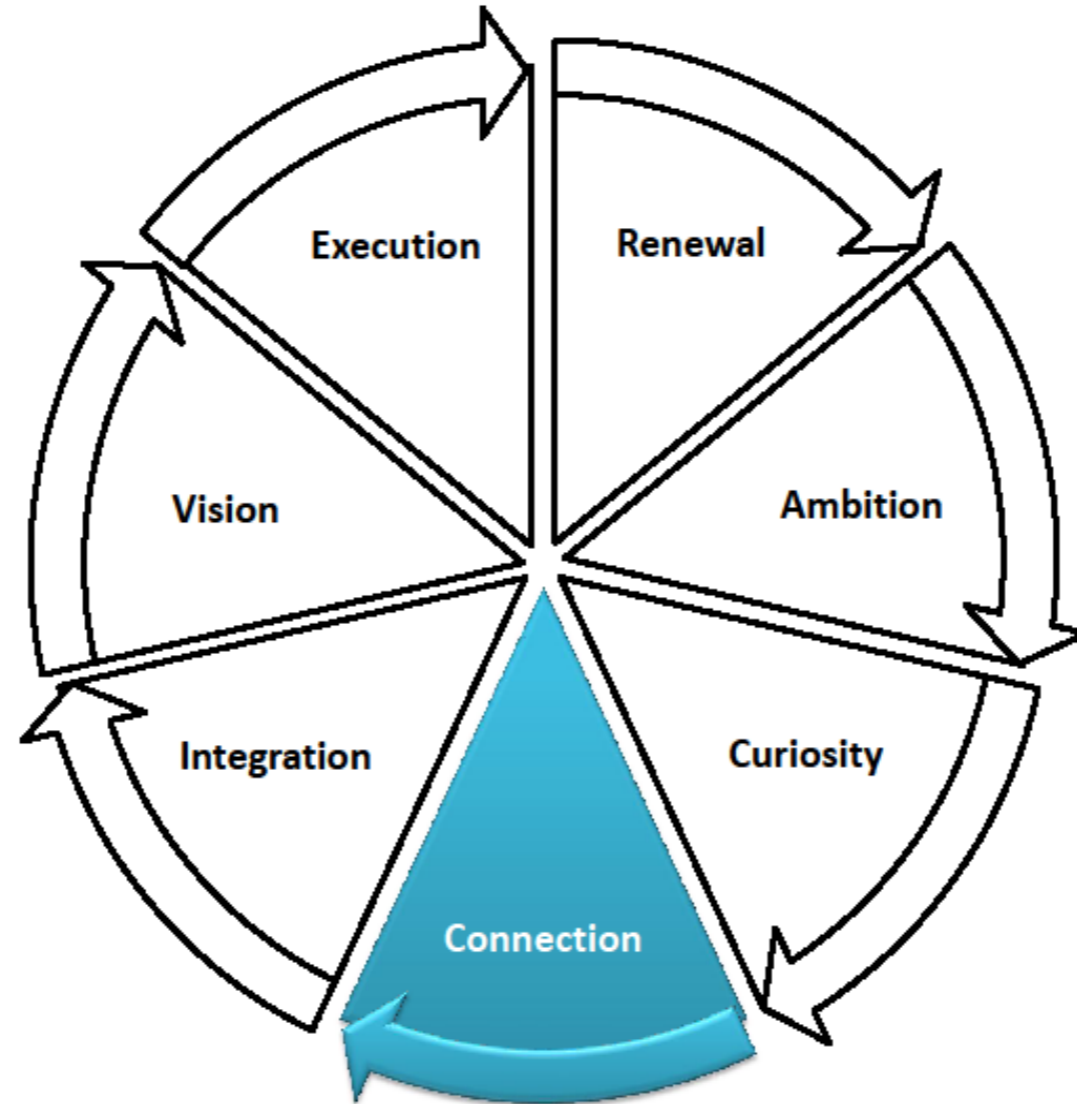
What is the focus of your curiosity?

What are the essential areas for you to regularly gather real or close-time intelligence to make smart decisions about your company's direction?

- Customer or client satisfaction
- Competitors' performance and innovation
- Economic trends
- Regulatory environment
- Strategic threats
- Financial performance
- Operational performance
- R&D performance
- Performance on strategic objectives

What else???

Connection



Connection

- **Connectedness.** Presence and personal relatedness with key stakeholders and leaders/managers in key parts of the organization
- Connectedness involves the ability to partner and create strategic alliances with key stakeholders, on a personal and corporate level, consistent with the vision, which will support its realization.
- Through ongoing conversations and mutually beneficial business arrangements with employees, customers, and suppliers, these leaders create a structure for the fulfillment of their initiatives.
- They seek internal partners who aren't just yes-men, but tell them the hard truths.
- They look for partners who can complement their strengths and weaknesses
- They are quick to break off ineffective partnering relationships

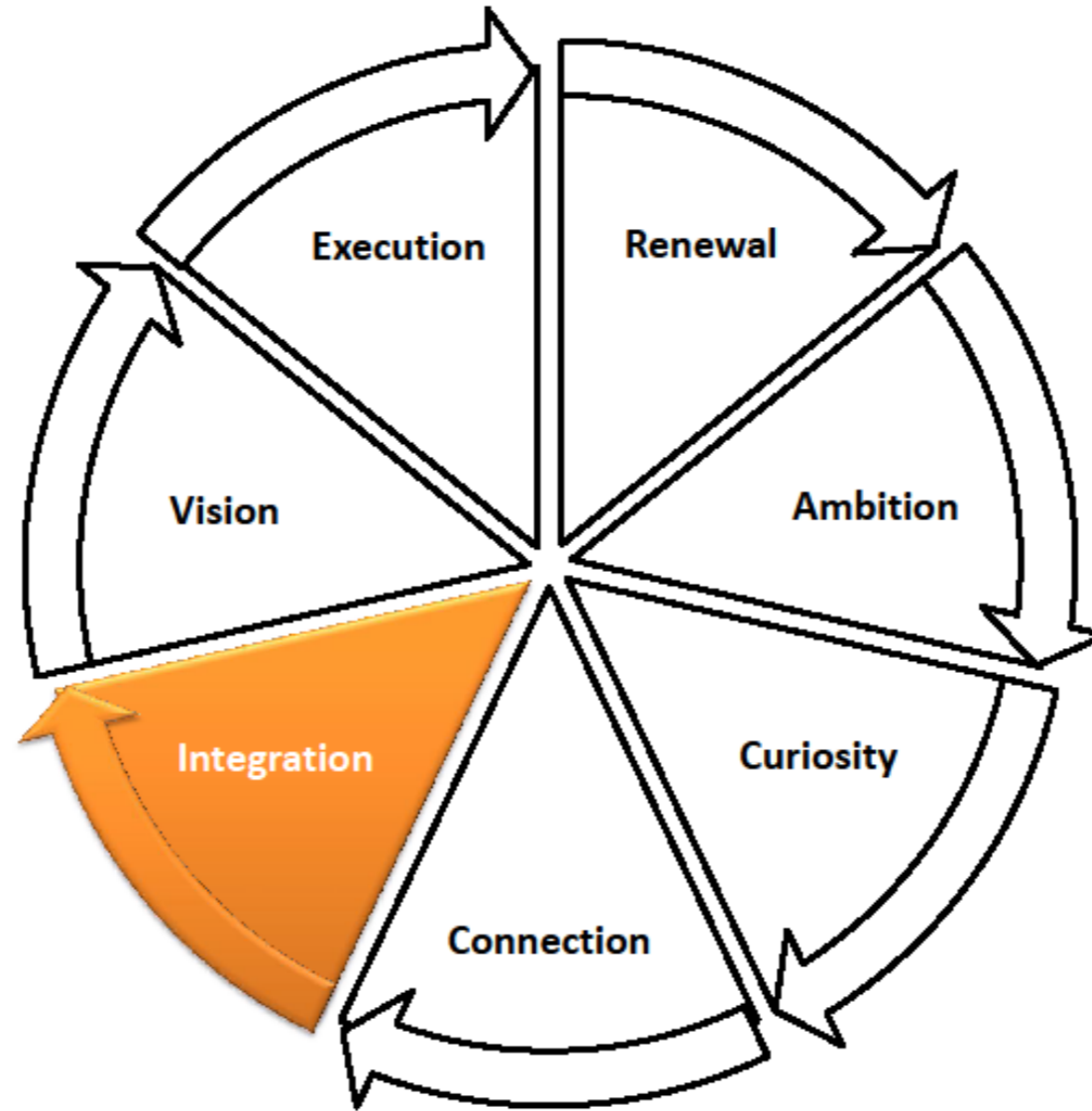
“One of our most valued employees.”

--Archie Dunham, Former CEO, Conoco

You Can't Be a Leader without Followers

- Do you have the kind of relationship with you managers and employees that they feel comfortable telling you what's working or not working?
- Do you know them well enough to know how what you decide to do will affect them?
- Do you listen generously, without judgment?
- When you speak to them, have you created a follower? Are they thinking, "This leader gets me; I want to do what he's telling me to do, because it will be good for me and our company."
- You can't be a leader without followers.

Integration



Integration

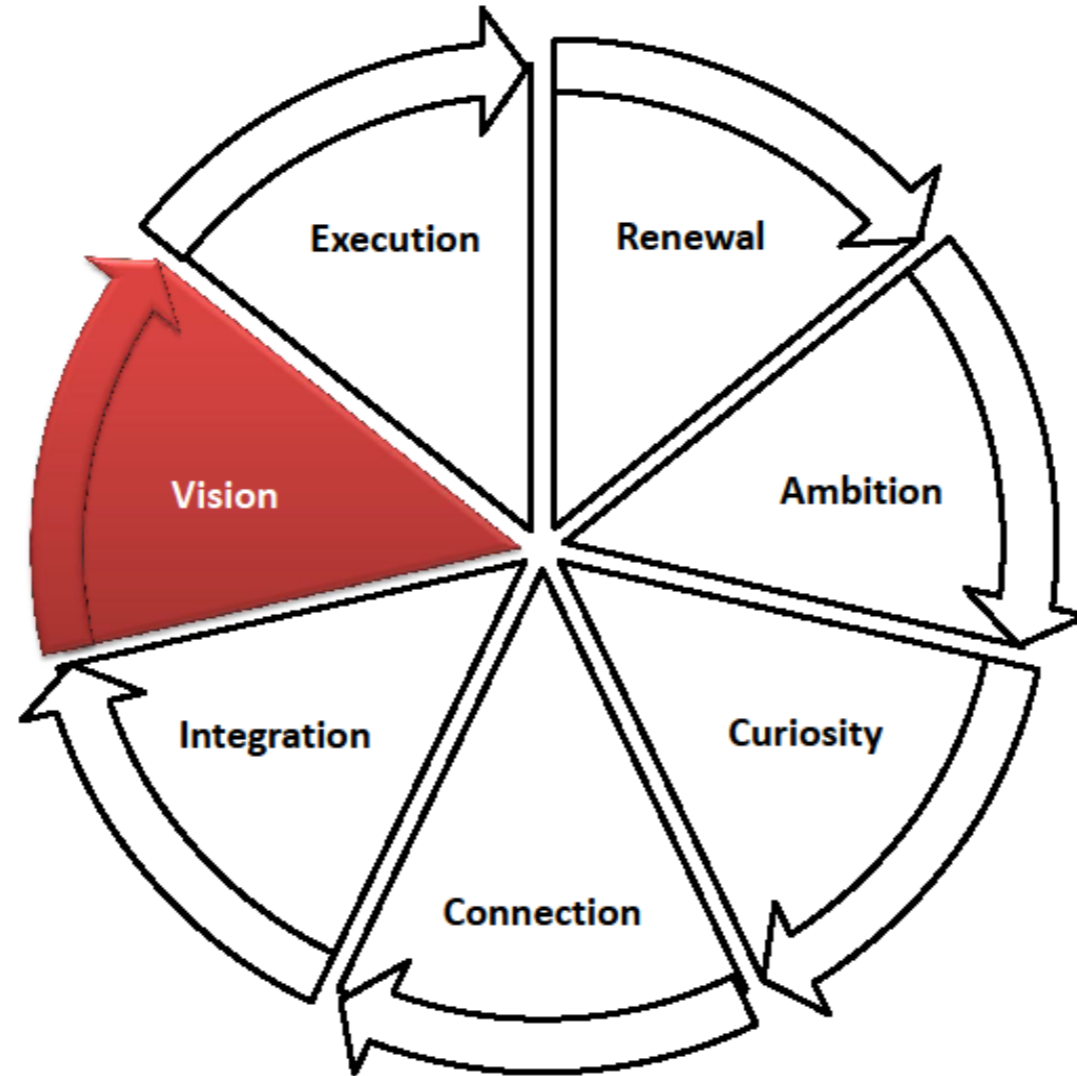
- **Integration.** A deep understanding of the systemic operation of one's business.
- **Systems thinking** is the ability to synthesize and integrate, to conceptualize the whole rather than a collection of separate parts, and to understand how the parts relate to the whole.
- **Examples:**
 - The meat-packing plant: sales vs. operations;
 - Polarities required management
 - Visionary vs. Bottom-Line Leadership

Integration

Systems Thinkers:

- Evaluate parts of the organization and its systems in terms of how well they further the overall purpose.
- Manage the interactions among different parts of the organization.
- When they have a problem, they look for all the factors influencing it before trying to solve it.
- When they have a decision to make, they try to understand how each action will impact other parts of the organization before they decide.
- When their theories don't work, they question their assumptions.
- They think of their own well-being as an interaction of their physical, mental, and spiritual selves and they work on all three.

Vision



Vision

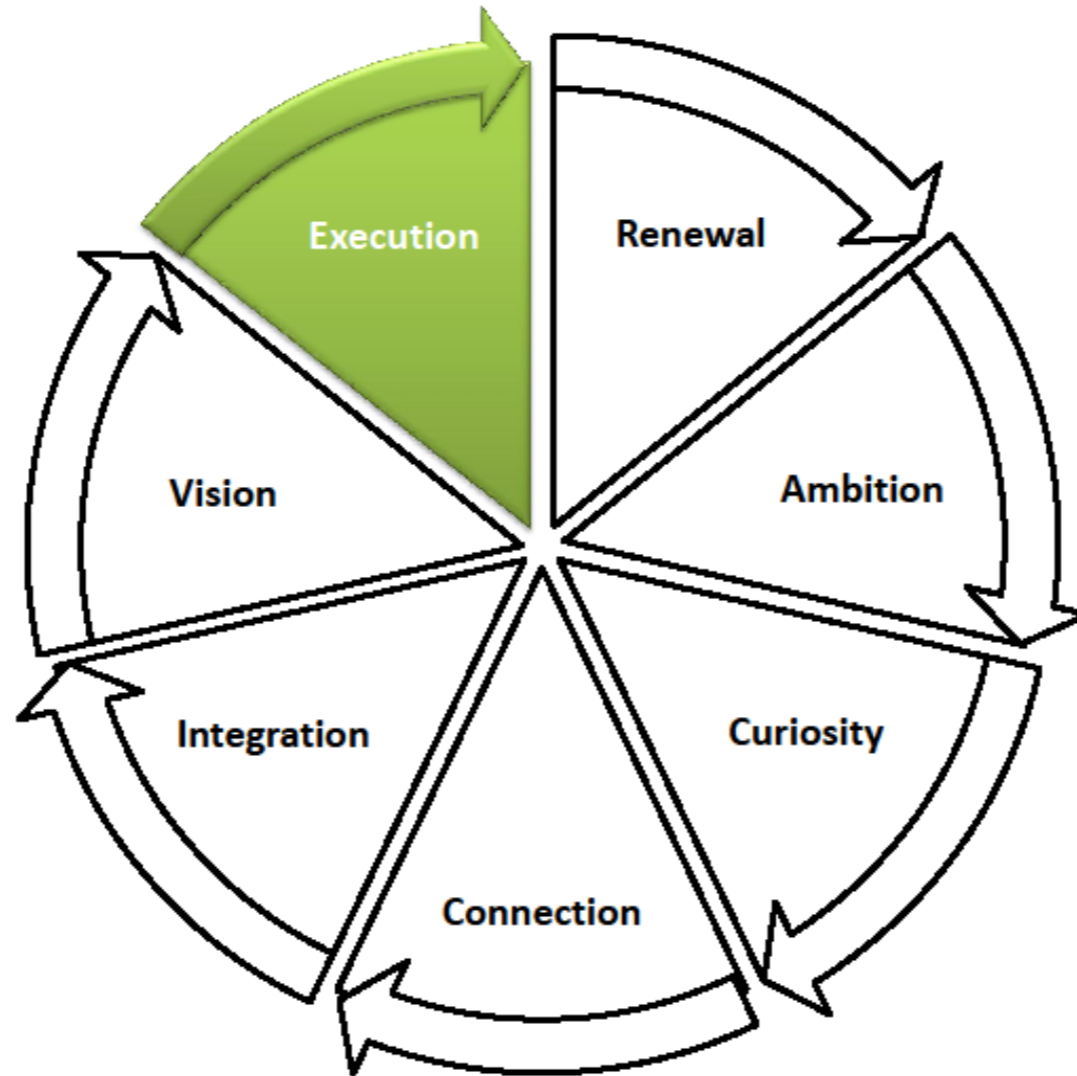
Vision. The ability to imagine, tell and live out a compelling future story.

- Based on intelligence, their connectedness, and their systemic understanding of their own business, **“Unbounded” Leaders . . .**
 - Construct scenarios of possible futures and think about how they would deal with each scenario.
 - Describe how the vision uniquely positions the company in the market.
 - Describe how the vision will change the company’s reputation and brand.
 - Describe the vision as a socioeconomic system.
 - The vision for the organization includes how people will interact with one another.
 - The vision for the organization includes the shared values essential for its implementation.
 - Can describe the competencies needed to implement the vision.
 - The vision takes account of how the organization will interact with political and social forces.

Vision

- Brief clear statement of where your organization will be at a specific point in the future, defined in a way that all will know when you've achieved it.
- Bill Finnie, "Hands-On Strategy," BHAG: 30-60-10
- General Jim Mattis, One Page Battle Objective, everyone accountable

Execution



Execution

- **Execution.** The drive to get things done and achieve results through people and transformational processes.
- **Unbounded leaders . . .**
 - Think through what people will have to do and what has to change to realize the vision.
 - Understand the values of the customers, employees and investors who are essential to the business.
 - Use this knowledge to shape a message that inspires people.
 - Engage key managers in a conversations about how we need to think and act and why this is important.
 - Track results and hold people accountable for their commitments.
 - Make sure the rewards given to employees reinforce the values and behavior needed to realize the vision.
 - Do not punish honest mistakes but use them as an opportunity for learning.
 - Make sure that we are hiring people with the competence and values needed to realize the vision.
 - Develop leaders by putting them into jobs that are challenging.
 - Quickly get rid of people who are not adding value.
 - Are ready to shift course when the strategy is not working or when external realities require (innovations of competitors, pandemic, flood, or geo-political events, etc.)

Questions?