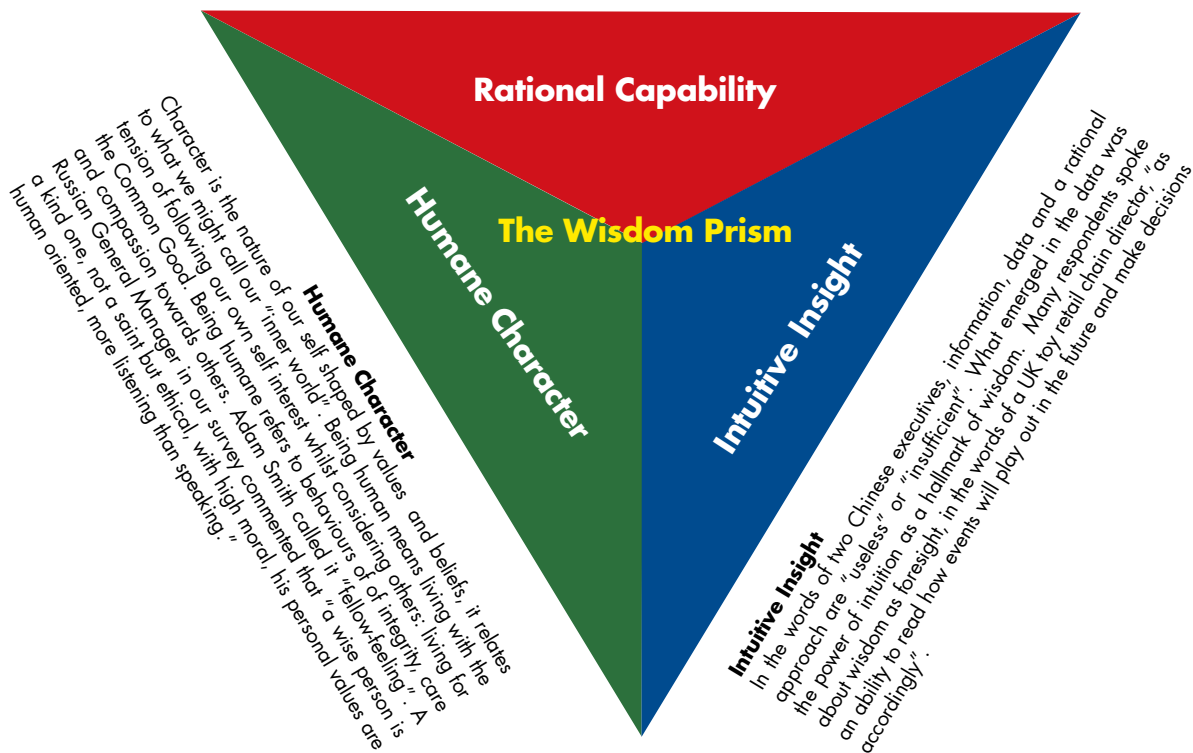


The Wisdom Factor in Decision Making

by PROF. MIKE THOMPSON

Rational Capability

Wise managers are competent in reading and analysing the data objectively and rationally to inform quality decision-making. Executives spoke about analysis, data, facts, rationality and information closely connected to managerial decision-making.



Business decision-making is complex – especially when plans don't work out and alternative plans have to be put into place at speed. Statistical techniques are prone to estimation errors. Data points may be incomplete or even non-existent. Investment decision-making is also complex. Analytical modelling used to assess the risk of losses in a portfolio are less secure than once believed. The once-powerful Value at Risk (VaR) model has now been found to contain inherent risks in its methodology. The dynamic stochastic general equilibrium (DSGE) macro models have also found to be flawed following analysis of their role in the global financial crisis. Such models are examples of rational, evidence-based decision-making based on massive amounts of information, or "big data". Kristian J.

Hammond, Professor of Electrical Engineering and Computer Science at Northwestern University concludes that "if we're going to really capitalise on big data, we need get to human insight at machine scale." This means getting machines to extract and explain the data in narrative form. But data is by nature historic, and variables in the data need to be weighted for importance. Mathematical and computer modelling require probability assessments and human interpretation. People, not machines, bring together data points, experience and psychosocial judgments. In the midst of complexity managers need the uniquely human faculty of wisdom to respond with consideration for the human factors within and beyond the organisation.

Detecting Wisdom

But what does wisdom really mean in the practice of managerial decision-making? During 2010–2012, the Centre of Leadership and Responsibility at CEIBS conducted an enquiry into this question. It was called the Wisdom Project, and involved a survey of 88 executives in Western countries and 94 Chinese executives. Most of the respondents worked in commercial organisations at the most senior levels. Management has often been regarded as a fact-based scientific undertaking, and managerial decision-making requires knowledge and a rational approach, so respondents were asked if they could describe how, in their experience, wisdom might add something more to the decision-making process.

The executives' responses generated 18,000 wise words which have been analysed and mapped. For example, a VP of a multinational insurance company described wisdom as "the critical element that separates good decisions from brilliant, successful decisions, as well as what separates the decision making of effective leaders." When the most commonly-used phrases and ideas were clustered it became clear to the researchers that wise decision-making is like a three-dimensional prism of three human faculties: rational capability, intuitive insight and humane character.

The idea of humane character can be approximated with Aristotle's description of the good and proper function of human life as an activity of the soul that expresses genuine virtue or excellence. According to Aristotle, wisdom requires intuition and 'scientific' knowledge. Defining intuition is tricky, as there is a slightly mystical dimension to it. Cognitive psychologist Gary Klein resists the idea of there being any magical properties to intuition – he says that intuition is the way we translate our experience into action. Hunches, he says, are simply associations and connections rather than anything more visceral. But Klein's research leads him to believe that "many business intuitions and expertise [sic] are going to be valuable; they are telling you something useful, and you want to take advantage of them."

Wisdom is More Than Brain Power

Intuitive instincts require checking wherever possible – primarily with one's rational capability. Being aware of the limits of one's prejudices and expertise is also part of the rational balance to intuitive judgements. However, in the twenty-first century there has been a greater willingness to recognise that intuition and the sense of self is not fully explained by cerebral reason or 'scientific' knowledge alone. Science can only measure outward behaviour, not what people refer to as 'gut instinct'. A number of psychologists have tried to construct psychological models and psychometric measures to identify 'wisdom-related performance' and the relationship of wisdom to intelligence, personality and age. Even some neurobiologists are showing interest in the potential clinical significance of wisdom for rehabilitative interventions. But we are also witnessing a push-back against a 'scientism' that relies on what Professor Raymond Tallis calls "Neuromania and Darwinitis". Tallis has recently written that "to seek the fabric of contemporary humanity inside the brain is as mistaken as to try to detect the sound of a gust passing through a billion-leaved wood by applying a stethoscope to isolated seeds. "The current interest in meditative, mindful and spiritual practices is an example of how we continue our search for humanity and the humane in spheres beyond biological and neuroscientific explanation." However we might explain the

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Contact:

Kittelberger media solutions
Shanghai Office

Dieter Müller

Phone: +86-21-68758536 ext. 1856
Mail: dieter.mueller@kittelberger.com.cn
Web: www.kittelberger.com.cn



place of intuition, it arises in the context of wisdom studies. In a hallmark study of wisdom and leadership, McKenna, Rooney and Boal explain the intuitive capacity of wise leaders as encompassing experience, self-understanding and a metaphysical quality. Wise leaders, they say acknowledge "the sensory and visceral as important components of decision-making and judgment...that does not bind them absolutely to the rules of reason thereby enabling vision, insight and foresight." Wise leaders are self aware: aware of their prejudices and their social conditioning, they are thus able to moderate the tendency to be over-optimistic with their intuitive instincts. But they have also learned to value intuition, having learnt to use it well in combination with their rational capability and experience.

Four Principles of Wise Leadership

So, what has all of this to do with the complexity of management in business today? The responses by the senior executives in the CEIBS Wisdom Project can be summarised by four general principles, which support findings by wisdom research professors Bernard McKenna and David Rooney of the University of Queensland Business School:

1. Wise leaders have foresight;
2. Wise leaders use reason, experience and careful observation;
3. Wise leaders allow for non-rational and subjective elements when making decisions, and;
4. Wise leaders have an orientation beyond self-interest and towards the Common Good.

The four principles are by no means a full definition of wisdom in practice but they set out broad themes from which we can explore further.

A Wise Leader

While the media provides a regular stream of discredited business people, those who live up to these principles are less likely to make headline news in the mainstream media. Jochen Zeitz, until recently the chairman and CEO of Puma, has become famous for turning around Puma and making it into an "open-source design playground". But, apart from Zeitz's flair for innovation and design, there are a number of key factors that mark him out as a wise leader.

In FastCompany magazine Zeitz's intuition and vision were highlighted by referring to his willingness to "roll the dice" in innovation and design. Zeitz put a 21-year-old skateboarder in charge of a new "sports lifestyle" division and collaborated with 'edgy' designer Jil Sander. Zeitz's initiatives, such as the retro sneaker concept, were widely criticised by the sportswear industry. Despite this, the financials over the past ten years show steady and strong margins, and, in 2012, sales of nearly EUR3.3bn. Decisions led by Zeitz were not based on historic trend data and sensible product development. The foresight to reinvent the business came from Zeitz's "non-rational and subjective" intuition as much as from his experience and observation of design trends and consumer interests in the sportswear business. As Zeitz has said, "If you want to change the industry and do something completely new and innovate, research is a bad tool because all you will get fed back is perception today and not tomorrow." But how does Zeitz's example stand against the fourth wisdom principle concerning

orientation beyond self-interest and towards the Common Good? In 2011 Zeitz broke ranks with all his competitors in commissioning Trucost to develop the first ever Environmental Profit and Loss Account (EP&L) to account for the economic valuation of Puma's environmental impact. Zeitz says that the EP&L will help Puma and its parent group, PPR, to "build a more resilient and sustainable business model and ultimately better manage its impacts on the environment." Zeitz illustrates how much one can achieve through truly following a personal passion, by establishing his own Foundation in 2008 to preserve "intercultural ecosphere safety" with a particular focus on sustainable ecosystem management and certification.

The Wisdom Project identified a particularly strong emphasis on the wise leader's capacity to overcome personal self interest and pride. The notion of humility was mentioned frequently by the respondents. In the world of competitive business humility is not easy to genuinely adopt. But, despite the achievements of his Foundation, Zeitz simply says, "Nobody's perfect. We make mistakes and we've got a long way to go and a lot more to do before we can start patting ourselves on the back, but it's a start."

Wise Leaders Make Good News

Despite all the bad press about some business leaders, there are many business leaders that demonstrate wisdom in their judgment and leadership. Paul Polman, CEO of Unilever has been praised for his selfless energy to lead his company to serve the common good, and has made clear he only wants shareholders who are with Unilever for this kind of long-term project. Unilever's share price also continues to outstrip its competitors on the New York Stock Exchange. John Mackey, founder and CEO of Whole Foods, has demonstrated the wisdom of creating a company for the Common Good by following his vision for "Conscious Capitalism". Mackey's story is one which exemplifies the dimensions of the Wisdom Prism. For intuitive insight, Mackey's statement is plain, "In my early twenties, I made what has proven to be a wise decision: a lifelong commitment to follow my heart wherever it led me – which has been on a wonderful journey of adventure, purpose, creativity, growth and love".

There are many business leaders who do not attract media headlines and yet are admired within their own circles for their capacity to make judgments that serve the good of all. This does not mean that wisdom does not include taking care of one's own self interest. Rather, it simply means that there is wisdom in living for a bigger world and providing some good news about companies and brands that want to do good in the world.

Prof. Mike Thompson is Professor of Management Practice at the China Europe International Business School (CEIBS) and can be contacted via ✉ mthompson@ceibs.edu