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BEST BUSINESS BOOKS 2014: EXECUTIVE SELF-IMPROVEMENT

The Human Factor

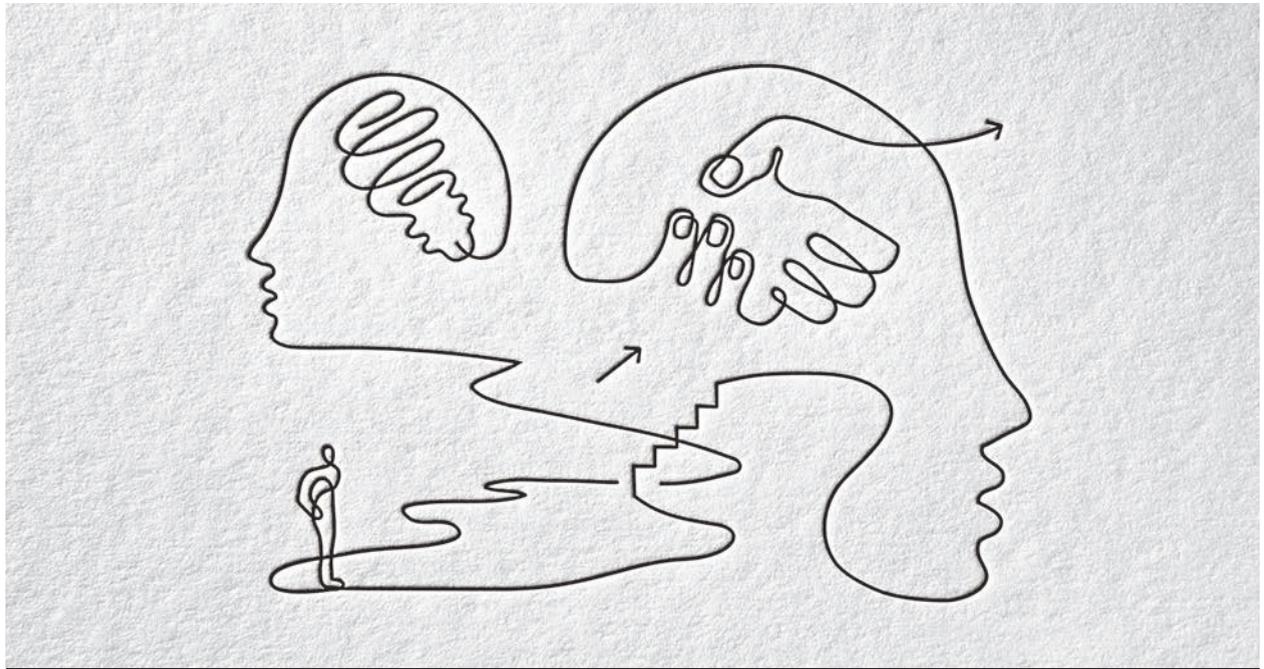
BY KAREN DILLON

Executive Self-Improvement

Phil Rosenzweig, **Left Brain, Right Stuff: How Leaders Make Winning Decisions** (PublicAffairs, 2014)

Christian Madsbjerg and Mikkel B. Rasmussen, **The Moment of Clarity: Using the Human Sciences to Solve Your Toughest Business Problems** (Harvard Business Review Press, 2014)

Claudio Fernández-Arároz, **It's Not the How or the What but the Who: Succeed by Surrounding Yourself with the Best** (Harvard Business Review Press, 2014)



The Human Factor

by Karen Dillon

BIG DATA WENT MAINSTREAM in 2014. At the start of the year, a study by IDG found that 70 percent of large organizations had deployed or were soon to deploy big data–related projects, at an average investment of US\$8 million. And analytics enthusiasts were full of sweeping predictions: Venture capitalist Vinod Khosla rankled

a crowd of doctors at Stanford Medical School by declaring that data crunching could and should eliminate many of their jobs. “We are guided too much by opinions,” he said, “not by statistical science.”

Big data is touted as the holy grail of all manner of business needs: eliminating human error and wasted time in decision making; identifying prospective winners and losers long before executives can; minimizing costly hiring mistakes; and even sussing out investment opportunities, competitive advantage, and future strategy. From this perspective, big data not only can predict the future—it *is* the future.

Not so fast, say the authors of this year’s three best business books on honing your executive chops. The

science of big data does indeed hold the potential to catalytically improve many areas of business, but they argue that the human factor still makes the difference between good and great corporate performance in the long run. The key, these authors suggest in three different ways, is understanding and harnessing the power of our own minds—in conjunction with having the right analytical data and decision-making frameworks.

Context First

In *Left Brain, Right Stuff: How Leaders Make Winning Decisions*, IMD strategy professor (and *s+b* contributor) Phil Rosenzweig contends that the increasing emphasis on clear analysis and calculation—the so-called left-brain skills—marginalizes the intangible “right stuff” necessary to make high-stakes executive decisions. Borrowing the phrase made famous by writer Tom Wolfe in his chronicle of the early years of the U.S. space program, Rosenzweig suggests that great decision makers must be able to summon seemingly excessive levels of confidence in their own judgment and comfort with risk to push past boundaries and achieve peak performance.

Though left-brain analysis and that less definable right stuff might seem polar opposites, for many decisions, both are essential. The question is when and how do left brain and right stuff come together? As you might expect, the author of *The Halo Effect...and the Eight Other Business Delusions That Deceive Managers* (Free Press, 2007) is no fan of sweeping generalizations or add-water-and-stir solutions. Nor does Rosenzweig offer his readers a simple answer in *Left Brain, Right Stuff*. Instead, each chapter explains a slightly different decision context and how to think through which tools are needed to make the best choice.

At the heart of the book, however, is the idea that human beings have been too sweepingly dismissed as irrational decision makers. Rosenzweig doesn't dispute the value of decision-making models. Rather, he puts them in their proper place by walking us through a series of decisions. For example, in 2010, a U.S. division of Swedish construction giant Skanska put together a winner-take-all bid for an enormous National

Security Agency contract to build a new computer facility, the Utah Data Center (UDC). Bill Flemming, the president of Skanska USA Building, had numerous factors to take into account. He needed a bid low enough to win, but high enough to earn a profit—even though the government had hemmed him in with spending caps, and his rivals were working equally hard to find the magic number. His eventual answer required a blend of left brain and right stuff. Flemming wasn't making a choice from options he could not control: With such a long-term project, there was every possibility that Skanska could find real-time efficiencies and cut its anticipated costs. He was bidding in a competition—there could be only one winner, and performance was relative. He could draw on past history to craft the best possible bid, but whether he made the right choice would take years to become clear. And finally, as an executive at such a well-known company, he knew he had to protect its reputation.

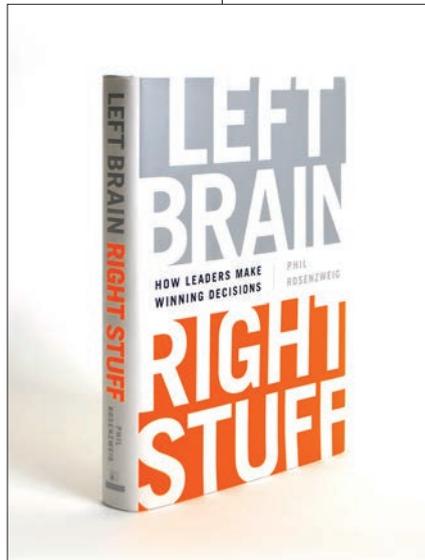
Eventually Flemming took a leap of faith. He put in a bid that came in under the government's stated goal, but that did not guarantee profitability for Skanska. The bidding process started with as much objective analysis as possible, but ended with what Skanska's president called “gut feel.” He

hoped the company could exceed performance expectations, in part because of the strength of his leadership and his confidence in his team. In the end, Skanska did not get the contract. But Rosenzweig highlights the dilemma as typical of the complex decisions we face in all walks of life—not just business, but also politics, sports, and the military. There is no formula that will lead to success every time.

So when should we apply cold, reasoned analytical tools to a decision and when should we allow the right stuff to inform a judgment call? Rosenzweig tells us that to make a great decision, having an awareness of common errors and biases is just a start. We also need to ask ourselves key questions about the *decision context*:

- Are we making a decision about something we cannot control, or can we influence outcomes? If we cannot control the outcome, we should rely more on left-brain analysis. If we can control the outcome, the right

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stuff can lead to a better decision.

- Are we seeking an absolute level of performance, or is performance relative? There's a difference between wanting to raise your profit margin a few points (an absolute level of performance) and submitting a winner-take-all competitive bid (relative). You need to rely on the "right stuff" instincts to help you win a competitive bid, wherein if you lose, you get nothing.

- Are we making a decision that lends itself to rapid feedback, so we can make adjustments and improve a subsequent effort? If we have a chance to improve our work as we go along, there's no need to rely solely on left-brain decision making. The left brain might ensure the best decision is made, but if we know we can learn and tweak, the right stuff can be useful, too.

- Are we making a decision as an individual or as a leader in a social setting? Making a decision as a leader is far more complex than making one that is personal. Leaders may have to push their staff to achieve more than might seem possible on paper. Right stuff can play a key role here, too.

There is hope in Rosenzweig's thinking, especially in the reassuring idea that executives have far more influence in many spheres of decision making than they might realize. "Decision theory puts all the emphasis on the analysis leading to the moment of choice," Rosenzweig writes. "While it is definitely important, my experience taught me that my ability to influence whatever goes on after the moment of choice is perhaps even more important."

Left Brain, Right Stuff is frustrating in that it makes clear we don't yet have the tools needed to avoid mistakes in decision making. But understanding the context in which decisions need to be made and realizing that there are no simple solutions that apply to all decisions is a very good start, which is why this book is my pick as the year's best business book for leaders intent on improving themselves.

"Sensemaking" at Level 3

In *The Moment of Clarity: Using the Human Sciences to Solve Your Toughest Business Problems*, innovation consultants Christian Madsbjerg and Mikkel B. Rasmus-

sen focus their attention on perhaps the most critical context for executive decisions—what they call "level 3" problems. Level 1 problems involve "a clear-enough future with a relatively predictable business environment." Sales are down, and you know that every additional \$1 in advertising generates \$1.50 in sales. Level 2 problems involve "alternative futures with a set of options available." Your newest sales reps aren't performing up to expectations and you aren't sure how to help them. So you test some hypotheses until you find the right solution.

You need to rely on the "right stuff" instincts to help you win a competitive bid, wherein if you lose, you get nothing.

But with level 3 problems, you can't even articulate *what* the problem is, never mind figure out how to solve it.

Witness Coloplast, a European manufacturer of colostomy bags. The company hadn't missed a sales target in 50 years of continual double-digit growth, and suddenly it missed its targets four times in a year. No one was sure why. A wealth of data was available to analyze, including a half century of sales. One study commissioned by the company asked thousands of people to rank 250 factors in considering their colostomy bag. But the results only confused things more. Something was really wrong, but the company had no idea what. Coloplast had a level 3 problem on its hands.

Madsbjerg and Rasmussen contend that level 3 problems—which can be "as diverse as setting the direction of the company, driving growth, improving sales models, understanding the real culture of the organization, and finding the path in new markets"—need to be solved by a process that they call *sensemaking*. Sensemaking is an art, not a science, and a slowly realized one at that. It is rooted in philosophy and ethnography, and it rests on the assumption that breakthrough insights—moments of clarity—come from a sociological approach to understanding and solving a problem.

The traditional business approach to problem solving relies on deductive reasoning, starting with a hypothesis that is then tested. This approach works well for level 1 and 2 problems, where you can use experience, data, and intuition to identify and solve problems.

But a level 3 problem requires the patience to start, not with a hypothesis, but with an effort to frame the problem correctly and gather data. Only then should you form a hypothesis about what you have found. “Break-through insights aren’t manufactured like widgets in a factory. They dawn on us in nascent form, like the sight of a vague shape on the horizon,” the authors write. “They are first present in our mind and bodies...as a ‘slow hunch.’”

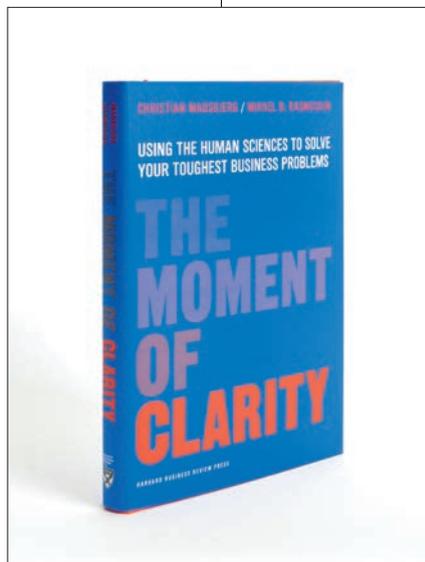
Such hunches, say Madsbjerg and Rasmussen, can come only from looking beyond data to see the world in context, what is known as phenomenology—the study of how people experience life and the problems they are trying to solve, and by extension how they use and need your products and services in their own lives. If this all sounds rather airy and unstructured, don’t worry. The authors provide a five-step framework for sensemaking.

First, frame the problem as a phenomenon. In Coloplast’s case, the initial framing of the problem was wrong. The company was trying to figure out how to sell more products. Instead, after taking time to think, Coloplast was able to reframe the problem by asking, What is our customers’ experience with ostomy care? Next, collect data. It is at this stage, the authors warn, that things can appear most out of focus, most difficult to discern. But Coloplast’s leadership realized that it takes time to understand the data before forming opinions about it. The third step is to look for patterns. At Coloplast, it turned out that the salient pattern was the customer’s concern about a secure fit. The “aha” insight—step four—which dawned slowly at Coloplast, was that the features of the customers themselves were the key. The bodies of individual people are very different. Those different bodies required different options for the secure fit of a bag that had the potential to be either positively life-changing—or deeply humiliating if it failed. Only after that stage, with the key insights in hand, can you move to the fifth and final step—planning out the business impact of the insights. In Coloplast’s case, that involved creating products that provide the right fit for every individual body, rather than designing more bells and whistles.

The sensemaking framework for surfacing critical

insights is not rocket science. It’s more like a blueprint for restraint—a slow process, through which leaders can question basic assumptions about their companies and customers, leading to transformative insights.

The Moment of Clarity is a manifesto for leadership that allows space and time for contemplation of complex problems and decisions, not an insignificant demand in an era of quarterly pressure to deliver results. But the authors cite a host of companies, including Intel, Samsung, Lego, Novo Nordisk, and Adidas, as the beneficiaries of such leadership. The value of sensemaking, they suggest, is not in the process itself, but in what a company makes of its insights, how it translates them into new ideas and opportunities, and how it shapes a shared perspective on the business. That is where the right leadership is required to help your company find a path out of the fog.



The Hazards of Hiring

If human judgment remains an essential factor in corporate success, the most critical decisions a leader can make are hiring decisions, says Claudio Fernández-Aráoz, senior advisor to executive search firm Egon Zehnder. In *It’s Not the How or the What but the Who: Succeed by Surrounding Yourself with the Best*, he offers a veteran’s experience in getting those decisions right.

The book’s title refers to an interview in *Harvard Business Review* in which Amazon founder Jeff Bezos talked about the importance of having the right people around him as the company began to grow. Initially, Bezos worried only about how to get things done, then he segued to what needed to get done, and finally to the insight that has guided the company ever since: What mattered most was who was on his team. “One way to think about this is as a transition of questions, from How? to What? to Who?” he told *HBR*. “As things get bigger, I don’t think you can operate any other way.” Getting the right people in place has remained so important to Bezos that he continually reminds his colleagues that he’d rather interview 50 people and not hire anyone than hire the wrong person.

Paradoxically, we are often our own worst enemies when it comes to picking the right people to help our companies grow. “Humans aren’t programmed to make

great people decisions,” declares Fernández-Aráoz. He says that we make any number of mistakes in reading, assessing, and choosing the resource that is most critical to our company’s future. Among other failings we’re hardwired for is the tendency to make quick choices—in fractions of seconds—based on similarity, familiarity, and comfort. We trust and choose to hire people

essential and desirable attributes a candidate would need in order to do the job well. Do this before a single candidate walks through the door in order to make sure your list is not influenced by the people you are seeing. Then actually rate each candidate on each of these factors.

Fernández-Aráoz’s book is a series of short, easy-to-read chapters, each of which tackles a different challenge in finding great people, assessing and selecting the best, helping these chosen stars shine, and helping teams thrive. *It’s Not the How or the What but the Who* continually reiterates the simple, essential point that great people decisions are as important

As one CEO says, at most companies, people spend 2 percent of their time recruiting and 75 percent managing their recruiting mistakes.

who seem like us, which doesn’t always equate to being the best person for the job at hand.

Further, we make snap judgments based on the information in front of us, without stopping to ask what else we need to know to assess a candidate. We judge people based on their title, their pedigree, and their previous employers. But far too seldom do we think through whether their experiences, skills, and ability and eagerness to learn new things will serve them well in our own companies. In short, we forget to assess their potential—and this, says the veteran recruiter, is the single most important factor in making a great hire.

Hiring the wrong person isn’t even the worst mistake most managers make, Fernández-Aráoz writes. Rather, it’s clinging to a loser as he or she sinks. It takes far more discipline to cut your losses and invest your resources elsewhere than it does to watch an employee slowly drag everyone else down. As one CEO tells the author, at most companies, people spend 2 percent of their time recruiting and 75 percent managing their recruiting mistakes.

But although we may be hardwired to make many hiring mistakes, Fernández-Aráoz says, with the right knowledge, training, and practice, anyone can master the art of great “who” decisions. We just have to get out of our own way. “The first step in surrounding yourself with the best,” he writes, “is to recognize—and correct—your own failings.”

He goes on to offer scores of practical suggestions. One simple but clear improvement, for example, would be to actually hold ourselves accountable to a rational set of criteria in making hiring choices. Write down the

as any other decision that has the power to transform our companies.

At a time when companies around the world are trying to find *Moneyball*-like algorithms for strategic growth, all three of this year’s best business books for executive self-improvement offer an important reminder: Great people are at the core of any great business. Each book reminds us that the continuing need for human judgment is critical to corporate success. In the end, data and analytics are valuable only if they are tracking, measuring, and evaluating the right things. And knowing what we need to learn is not something that can simply be programmed into an algorithm. That requires human judgment. +

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