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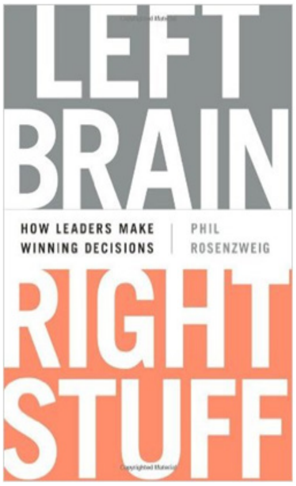

BOOK REVIEW

Left Brain Right Stuff: How Leaders Make Winning Decisions

Phil Rosenzweig

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Review

Listed in the Best Business Books of 2014, Phil Rosenzweig's book presents an interesting point of view on why it is important to consider both left brain (analytic) and right brain (intuitive and judgment based) approaches in any consideration of leadership and managerial behavior. The book is timely because a lot of interest has been focused very recently on "big data" and how managers today have extensive real time data from the marketplace and how, as a consequence, detailed analytical bases can inform managerial decisions. But, the main point of the book is that while analytic (left brain) approaches have indeed expanded greatly as a consequence of our ability to collect and make sense of vast amounts of data inexpensively (often uncovering relationships between managerial decision variables that were not even anticipated), true success in leadership/management often requires an appreciation of specific aspects of the context in which a decision has to be made including the nature of competition which the manager can only gain through employing what the author refers to as the "right stuff" i.e. a careful consideration of the manager's biases and other "qualitative" aspects of the decision context which are then individually discussed in the book's twelve chapters. Before a formal review of the book's content, it is also worth noting that the author is a professor at IMD, Lausanne (Switzerland) which is a major center of executive education and the book, therefore, represents deep insights gained by the author over a long career in consulting and executive teaching.

The first chapter of the book which concludes with a summary of the remaining eleven chapters begins with a short description of an actual organization's decision situation – the bidding process by Skanska USA Building for a National Security Agency data center to be set up in Utah. What the author tries to illustrate through the Skanska story is that any manager undertaking a bidding process has to consider competitive actions and the fact that the project would be executed over a period of several years which makes the bid more than just an analysis of project components and the detailed cost breakdown for each of them. While the various firms bidding on the project received a subsequent target price from government after the initial round of bids which were all higher than the target, Skanska had to consider not only its cost estimates for the data center, but it also had to anticipate competitive bids while taking into account what it could perhaps achieve by way of cost savings in the course of the project. As it is revealed at the end of the book, Skanska did not eventually have the winning bid but the example reveals many aspects of the decision that go beyond a standard rational ("left brain") approach to the task. One of the specific points the author makes is also the potential danger of what is known as the "winner's curse" which refers to situations where a manager makes a decision that may end up being a "winning" decision but at a cost which ultimately results in a loss to the organization because bid costs were cut to a level that prove to be unable to be met! In Skanska's case, this would have amounted to a situation where its bid actually won the data center contract but only because the cost savings that were estimated to be achievable over a long three year project actually turned out to be unrealistic. The rest of the first chapter briefly describes the rest of the book while noting that much of what has been uncovered by experimental work on the cognitive processes of how people make decisions does not capture actual managerial decision situations because in tightly controlling decision variables in the laboratory situation, many of the "right stuff" aspects – level of the manager's confidence in achieving results and the extent to which he or she can control outcomes – are often not possible to be replicated in the laboratory setting. Chapters Two through Nine cover many of the elements associated with the "left brain" which are briefly described below. Chapters Ten and Eleven describe the actual situation of managerial decision making using two examples – a competitive bidding situation and an entrepreneur's decision situation regarding a new venture. Finally, Chapter Twelve summarizes the major learning points of the book with regard to making great decisions, not in controlled settings of consumer/managerial choice that can be replicated in the laboratory but in complex real world settings like the one facing Skanska in the beginning of the book.

The remaining part of this review briefly summarizes the content of the eleven chapters that follow the introductory chapter. In Chapter 2 the author describes the crucial aspect of "perceived control" in any decision situation. Throughout the book, situations from the world of sports are frequently employed to make the author's points and in this chapter, he takes the example of putting in golf which clearly takes more than good equipment, training and technique because positive thinking has been clearly shown to improve a player's performance. With other examples from medicine and management, the chapter mainly shows that frequently performance is a function of whether the decision maker feels that he/she can influence outcomes because often the key to success is that up to a point, the perception of the ability to control outcomes actually helps make good decisions.

In Chapter Three, the main takeaway is that performance is rarely an "absolute" and what matters is "relative" performance because in most real world settings, there is rarely a definition of absolute good performance and all that a manager has to do is ensure that his organization performs better than its competitors. In order to ensure success, the manager also has to have a sense for the structure of payoffs in any particular situation – i.e. is it a "winner takes all" situation where the payoff is highly skewed thus making "winning" imperative or is the situation one that allows for a range of success – for example, a doctor performing a diagnosis is not trying to outperform any other doctor but is trying to reach an outcome that will be beneficial to the patient.

Chapter Four is titled "What It Takes To Win" and the basic point is that a player in any situation needs to assess what level of performance it would take to win and then act accordingly. The chapter begins with a reference to competitive cycling and though the story is unfortunate, it is clear that cyclists like Lance Armstrong resorted to performance enhancing drugs because even a small improvement in performance was key to success in the race. In business, where the payoffs are likely to be highly skewed, being the best is key as Andy Grove observed about the semiconductor industry but in other situations – example, restaurants and mature consumer packaged goods categories, it may be less critical to be the best.

Chapter Five provides a detailed analysis of the idea of "overconfidence" and how we often mistakenly attribute failure in any endeavor to "overconfidence" when this is almost always a post-hoc explanation. The author goes on to point out that overconfidence is actually likely to be of three possible kinds "overprecision", "overestimation" and "overplacement" – briefly, these refer respectively to overcertainty that our judgment is correct, a belief that we can perform at a level beyond what is warranted and a belief that we can perform better than others. As the author points out, most managers do not exhibit all three forms of overconfidence – as a matter of fact, it appears that most managers do not exhibit overplacement and actually on difficult tasks, they often underestimate how well they will perform. The basic takeaway is that it is too simplistic to attribute poor performance in all cases to overconfidence after the fact because it may very well not have been a factor at all.

Chapter Six introduces the idea of "base rates" and how that is another bias that we frequently suffer from which is to say that we often do not estimate correctly the probability of one event conditional on another. This bias leads us to often focus on the case at hand while overlooking the composition of the broader population. This problem can lead to the wrong diagnosis of a disease given a low false positive rate when in reality the overall occurrence of the disease is itself low. There is also the issue of known (given) base rates of any phenomenon when compared to situations where they have to be "found". Finally, there is the situation in which base rates are themselves changing as in the occurrence of certain diseases where the treatment protocols have improved outcomes over time.

The next chapter discusses the matter of making better decisions over time. This mainly refers to how all decisions can be broken down to their component parts and to focus on what each component part requires by way of action. Such an approach according to the author is useful in situations as diverse as getting a free throw in at a basketball game to the situation of the pilot who had to set his plane down in the Hudson River after having both his engines disabled by a bird hit on takeoff from New York. Not all situations lend themselves to the approach of deliberate practice but where the task is short in duration, provides immediate feedback and the performance metric is absolute rather than relative, deliberate practice can be very useful.

At this point, the book turns to managerial decisions that explicitly recognize that individual decisions which have been the focus so far do not reflect the fact that often the decisions of a leader have to take teams or groups into account in an organizational setting. When this aspect is considered what becomes important is that leaders be seen as being consistent and authentic. Given that most real world decisions cannot be studied in a laboratory setting, the author points to the difficulty leaders face in actual organizations. What it takes then is the ability to communicate to one's subordinates that something can be achieved and that is supposed to have been the reason for the success of Steve Jobs at Apple. Authenticity combined with sincerity appears to be what leads to the success of managers and leaders.

Chaper Nine discusses the issue of models and the great attention that is currently being paid to the use of models in all types of situations with the most well known example being the movie Moneyball which discusses the ability of a professional baseball team to build a roster of players by statistically analyzing various aspects of their past performance. Based on the earlier chapters in the book, the author points out that models can be very successful in situations where the outcomes cannot be directly influenced but where we are able to influence outcomes, models are of little use. So, the conclusion is that while models can be immensely useful in many situations, they provide no benefit when we have direct influence and where positive thinking can make the difference between success and failure.

The next chapter returns to the concept of "the winner's curse" which was referred to in the introductory chapter of the book. Whether it is in competitive bidding as in the case of auctions or acquisition of firms, it appears that a greater chance of success seems to occur when the decision is based on anticipated cost savings rather than when it is based on revenue growth.

The penultimate chapter in the book turns to the topic of new venture creation and whether the perception that most new ventures fail is accurate. The question the author poses is that if most new ventures fail as seems borne out by the data from the US Small Business Administration which show that in seven years after founding in 2000, more than 80 percent of new ventures were no longer in existence, why do people keep starting them? A careful analysis of the data provides a possible answer – most new ventures do not actually fail and it may well be that new ventures are begun by people for some reasons of self satisfaction and they often close even when they have not actually failed but because the founders have decided that they want to do something else even though the ventures are still profitable. It is also true that even when new ventures fail or are wound up for different reasons, they have a substantial spillover benefit for the whole economy which is itself a good reason to continue to have new ventures. Also, new ventures as exemplified by VMWare which was ultimately very successful do not always have a clear path to success and often some like PayPal actually end up in lines of business (automated payment systems) different from where they started (encryption systems). What seems important is that new ventures are initiated by people who are persistent and have a different mindset of managing risks while seeking rewards when compared to established businesses. New ventures are finally not one time bets as in games of chance but a way of constantly adjusting risk vs. reward over time and involve a certain level of control over outcomes as discussed earlier in the book.

The concluding chapter of the book pulls all of the foregoing together and summarizes the takeaways of the arguments that have been presented i.e. that in the real world context of leading and managing organizations, while left brain approaches such as modeling data which is increasingly available in today's world are important, the full story is that good managers also need to bring the "right stuff" to the decision in terms of analyzing dimensions such as reading base rates right, evaluating the structure of payoffs, determining the level of control they can exert and through all these measures optimize the best level of risk to the reward in any enterprise for which they are responsible.

About the Author

Pradeep A. Rau is professor of marketing and international business at the George Washington University School of Business in Washington, D.C., where he has been on the faculty since 1990. Earlier he taught at The University of Delaware and Kent State University starting in 1978. He has a B. Tech. from Indian Institute of Technology, Kanpur; a Master of Business Administration from Indian Institute of Management, Calcutta and a Doctorate in business administration from Kent State University, Ohio. Before his academic career, he worked for several years at Larsen and Toubro, Bombay. His teaching interests are in marketing research, product management and social marketing and his research has mainly focused on international marketing strategy and marketing research.He has published over twenty articles in scholarly journals (including in Journal of International Marketing, Journal of the Academy of Marketing Science, Journal of Advertising Research, International Journal of Advertising, International Marketing Review and Management International Review among others) and co-authored three books including India Business: Finding Opportunities in this Big Emerging Market (Ithaca, N.Y.: Paramount Books, 2002) and Marketing Strategies for the New Europe (Chicago, Ill.: American Marketing Association/Dow Jones-Irwin, 1990) . He has consulted with a number of organizations in the public and private sectors (including Du Pont, Target Wireless, U.S. Peace Corps., among others).He has taught at the Indian Institute of Technology, Delhi, Tata Management Training Centre, Pune and the Indian Institutes of Management in Ahmedabad and Bangalore.