

A leadership perspective  
on decision making



# A leadership perspective on decision making

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# **Kapittel 1**

## **Introduction**

### **The Road Not Taken**

Two roads diverged in a yellow wood,  
And sorry I could not travel both  
And be one traveler, long I stood  
And looked down one as far as I could  
To where it bent in the undergrowth;

Then took the other, as just as fair,  
And having perhaps the better claim  
Because it was grassy and wanted wear;  
Though as for that the passing there  
Had worn them really about the same,

And both that morning equally lay  
In leaves no step had trodden black.  
Oh, I marked the first for another day!  
Yet knowing how way leads on to way,  
I doubted if I should ever come back.

I shall be telling this with a sigh  
Somewhere ages and ages hence:  
Two roads diverged in a wood, and I –  
I took the one less traveled by,  
And that has made all the difference.

– Robert Frost (1874-1963)

There is a tradition of treating leadership and decision making as two fundamentally distinct phenomena. The objective of this book is to try to see how the two traditions are linked in the context of work and organizational life. One reason why the two areas have been treated separately is that scientists, in general, require specialization. However, students and practitioners have other needs. These groups are bound to orient themselves around the similarities, overlaps and divisions, and this can provide valuable insights. The separation between the two areas may seem strange. Leaders are almost always involved in decision making and organizational decisions typically involve leaders, whether formal or informal. Deciding to become a leader is also a very important life decision. We must remember that people are leaders primarily because they chose to be. Moreover, good leadership is to a large extent a choice. To develop leadership means to guide future leaders in how they should make decisions. It also involves providing future leaders with guidance on how they should implement, evaluate and monitor their decisions.

Still, it is appropriate to recognize the limitations of the approach. It is almost impossible to cover both leadership and decision making as research fields within one and the same book (see also Heller, 1992).

This book is written from a practical perspective on the relationship between leadership and decision making. The intention is that leaders at all levels will be able to recognize themselves and benefit from the examples given, and for this reason, each chapter in the book is designed based on themes that are central to practical leadership and decision making. The premise is that the individual makes a difference. An individual leader's decision is perceived to be potentially able to affect the environment in both positive and negative directions. Hence, there is considerable research-based, prescriptive advice and counsel in the book which may be of benefit to leaders who are in the process of making decisions. The common thread of the book is the process of how a decision develops over different phases. This process starts by formulating the decision problems and ends with the decision being made and implemented. The book contains the following key elements:

1. How to analyze decision problems and arrive at solutions
2. How to market the solutions
3. How to work with information and knowledge
4. How to take sensible and principled risks
5. How to overcome obstacles
6. How to handle personality issues, group dynamics and organizational culture in order to shape decisions
7. How to master pressure, crises, conflicts and stress in decision making
8. How to master techniques and personal growth.

In Chapter 2 it is demonstrated that the concepts of leadership and organization are closely linked. A leader should initially get to know the organizational culture as well as possible. Such a culture can for example be authoritarian and conformist or innovative and progressive in nature. The assumption is that leaders are influenced by their own culture.

Strategic decisions are characterized by the fact that they are new, complex and open in nature, and being able to develop a strategy is one of the most difficult tasks for a leader. Traditionally, it is primarily the top leadership in an organization that works with strategic decisions, and thus it is common that strategic issues are handled by top leadership teams. This is related to the globalization of business and to the fact that the pace of work has increased significantly.

In order to exercise leadership, a leader must have access to power. A power base can be created through networking as well as by using different political tactics. However, it is important to use political tactics in order to promote the organization's interests. When a leader has built up a power base, it is essential that power is used properly. The decisions that leaders make must be ethically correct and not violate universal human values. For instance, they should not lead to negative consequences for others within or outside the organization. Evidence suggests that most leaders have the potential to develop as ethical decision makers.

In Chapter 3 it is pointed out that leaders who make decisions normally rely on both their intuition and their analytical thinking.

Modern research shows that intuitive thinking has the potential to support the analytical, if used properly. Leaders must therefore be aware of the possibilities and limitations of intuition. Fresh thinking and innovation are key elements in leadership analysis, thus creative problem-solving is an important complement to traditional leadership thinking. Creative leaders work extensively with both intuition and logic. They also often work with metaphors, analogies, images and imagination to create dynamism in the analysis of a problem.

Many leaders come in daily contact with problems that are not necessarily self-generated. It is therefore important that they have the opportunity to take an outside perspective on the situation. They must be able to define the problems which are of strategic importance for the activity. Leaders should not allow themselves to be stressed too much by various everyday problems, but be aware that they usually cannot just ignore them. After delineating a problem a leader should think through what trials ought to be conducted to test a given hypothesis about reality. This can be done by showing how different problems are related to each other. When analyzing various problems it is useful to clarify what kinds of decisions they relate to. Some decisions must be made directly, while others can be postponed. Some decisions are reversible in nature while others are irrevocable.

Chapter 4 illustrates that in order to reach a decision a leader must decide which persons should be involved in the process and when. A relatively common method of involving others is delegating the decision to a group. A main objective of this is often to generate as many innovative ideas as possible, and different techniques can be employed for this, including brainstorming. The proposal generated must then be validated by the group using different criteria on the basis of which it is then relatively easy to filter out proposals that do not reach the goals that have been set.

However, a leader needs to collect additional information in order to reach a decision. By the use of information technology vast amounts of information may be accumulated. Thus, different kinds of filtering or weeding methods must be used in order to quickly

obtain relevant information. This information can help leaders create forecasts and minimize risks. They must also be able to present their ideas in the most attractive way possible in order to be heard and arrive at decisions. The design of the presentation is therefore critical. Sometimes it is not enough for leaders just to present an idea, they are then obliged to negotiate in order to reach a decision.

Chapter 5 includes a discussion of leadership decisions and stress. Many leaders are daily exposed to stress when they must make decisions, and there are often social reasons for this. Social standards suggest that a leader must be proactive and make decisions and not flee the situation. Conflict often creates stress in decision-making situations. It is important for leaders to understand that it is not stress in itself that leads to bad decisions, rather, bad decisions may be the result of time pressure in the sense that leaders have not been able to gather enough relevant information. Thus, it is worthwhile for leaders to be able to prioritize properly in order to cope with stressful situations.

In some situations, a leader chooses to delegate the decisions to his/her team and then it is important to guard against «groupthink», a phenomenon where members of a team put consensus before anything else as a result of the peer pressure. A number of methods are presented that enable leaders to avoid this phenomenon.

Often leaders are involved in decision-making situations where they are forced to navigate between objectives that are in strong conflict with each other. We are talking about «decision dilemmas». These are characterized by the existence of a conflict between the top leadership's desire to control the activities and their wish to give autonomy and independence to the various units. It is important for leaders to be able to strike a balance in different dilemma situations and understand how to best manage conflicts when they arise.

In Chapter 6 it is demonstrated that the way in which leaders implement a decision largely depends on the nature of it, that is, whether it is strategic or not. Leaders must be as open as possible and not withhold information from the persons involved in the process.

Therefore, they should distribute as much relevant information as possible to meeting participants before a meeting. At the same time, they must be able to steer the process.

It is not unusual for there to be a separation between the formulation and implementation of a strategic decision. Often, it is the top leadership that formulates the decision problem and the middle managers that implement its solution. For this reason, it is relatively common that the top leadership signals that the implementation has been successful as soon as the middle managers begin to report positive results. This can sometimes happen even though most of the implementation is incomplete. However, there are also cases where the top leaders rule out certain implementation processes as failures when in fact they prove later on to be successful. A common problem in organizations is that leaders often inherit the task of implementing decisions that past leaders have made.

In order to succeed with an implementation, leaders must understand the importance of the process. They must communicate their vision clearly, evaluate and monitor continuously, and allow interested parties to participate actively in the process. They should also understand that what at first may look like a failure, at a later stage may prove to be a success.

Chapter 7 makes it clear that a significant element of both leadership and decision making is the development aspect. Leaders develop in their decision making by being confronted with difficult decision situations. However, they also develop through various forms of systemized training and education. Different leaders tend to develop in different directions. For this reason, one can identify a number of key leadership styles based on different ways of leading. These different styles are appropriate for various types of organization. Some organizations require a strict and authoritative style, while others are in greater need of a more democratic style. Senior leaders often have the capacity to switch between different leadership styles depending on how the situation develops.

In addition, there are a number of key decision-making roles that leaders are expected to manage. These include the role of entrepreneur, problem-solver, resource-allocator and negotiator. Leaders

must also learn to work with clarity, conviction, courage, and communication in order to facilitate their decisions.

Research shows that leaders who face severe adversity in their careers often are forced to make many difficult decisions. As a result they develop. Being forced to make difficult decisions actually leads to reflection, self-awareness and self-knowledge of one's own values. Leaders also develop by communicating their problems in a structured way with more experienced colleagues. The fact that leaders develop by making difficult decisions leads to various forms of action having a central role. It is by putting decisions into action that leaders develop, as well as by reflecting on what alternative decisions could have been made. An action perspective on leadership decisions is closely linked to the concept of sense-making. This phenomenon implies observation, action, revision and communication in the aftermath of a decision. There is research indicating that reflection, critical thinking, intuition, ethics and communication are important dimensions of leaders and decision makers who are generally perceived as wise.

In Chapter 8, the book is summarized by a presentation of key concepts and approaches and by emphasizing that factors such as identities, values and influences have a significant impact on how leaders shape their decisions. It is leaders who are responsible for the creation of any collective action. Leaders' ability to handle decision making is thus central. When a leader involves employees in a decision their involvement may have of crucial impact on the decision's quality. It is therefore important to create a common vision and to share common values. However, it is utopian to believe that leaders can transform their employees' values in a short time. They must therefore be in a position to influence the employees and other key personnel even if they do not share the same values. Generally, leaders should strive to involve both employees and other key stakeholders in the decision process. This will in most cases ensure the highest possible decision quality.





**Kapittel 2**

**Decision processes  
in organizations**

## Leadership, decision making, and rationality

Herbert Simon's book *Administrative Behavior* (1947) was groundbreaking in many ways. He indicated that the premises for a decision are the key factors in an organization's decision making. These premises affect, and are affected by, how an organization is structured. Therefore we need to examine the decision-making processes in order to understand how the administrative behavior in various organizations functions. Simon also launched the concept of «bounded rationality». This form of rationality implies that managers' ability to process information is limited and must be adapted to reality. The following basic assumptions are made in the model:

1. Decision makers are generally assumed to be rational in certain given frameworks.
2. Decision makers generally lack complete information with regard to options, decision consequences and future preferences.
3. Decision makers are likely to have limitations in terms of both time and mental capacity.
4. Decision makers are assumed to have a limited capacity to process information.
5. Decision makers are assumed to be influenced by emotions when making their decisions.
6. Perception is assumed to be important in the sense that decision makers often operate according to what they perceive.

Later research demonstrated that organizational activities have the capacity to modify the individual leader's limited rationality, and vice versa (March and Simon, 1958). These results have been replicated and extended by Cyert and March (1963).

Research since then has revealed that leaders normally do not have access to all the relevant information. They have neither the expertise nor the capacity to process all possible information available. Due to these limitations, leaders lack the perfect knowledge of the decision situation that is prescribed by economic decision theory.

Instead, organizational researchers have demonstrated that leaders' actual decision-making can be described as repetitive and complex. It is also influenced by deviations and biases (Mintzberg et al. 1976). According to Witte (1972), in only a minority of decision processes can one discern a common thread between the problem definition and the choice of solution. Based on observations made by March (1971), it is common that the goals of leaders and organizations change over time. It is also common for leaders to discover their preferences through their actions and the experienced consequences of them. Thus it is not always the case that leaders first specify their preferences and then select the appropriate action. According to Cohen et al. (1972) decision making in organizations is characterized by the fact that problems, potential solutions and actors are erratically combined. For this reason, preferences, technology options, potential solutions, and participants do not always have a strong connection to the fundamental problem. It has therefore been suggested by Lindblom (1988) that objectives and means cannot be separated in the decision process, since they are intertwined. As a result the decision maker has to evaluate the objectives and the means simultaneously.

Similarly, Brunsson (1982, 1985) has noted that the more rational the decisions of different actors are, the more likely it is that these decisions will not lead to action. When the participants in a decision process perceive that the chosen alternative constitutes only one of several possible options, this can lead to a lack of commitment. A similar effect can occur when they discover that the chosen alternative could lead to a variety of consequences that are difficult to predict. Therefore, it is more likely that the participants in a decision process take action when they cannot see any alternatives and only expect good results. For this reason, irrational decisions more often lead to action.

However there are occasions when leaders can make use of rational theories as an ideal and yet arrive at prompt and vigorous action. These rational theories generally assume that (March, 1997):

1. Every decision maker is aware of all the options.
2. Every decision maker is aware of the consequences of all the options, at least in terms of probabilities.
3. Every decision maker has a consistent preference order for all the options.
4. Every decision maker uses decision rules from which a single action can be selected.

In real life decision makers frequently use a model where they scan for information in two or more layers (Etzioni, 1985, 1986). This is done in order to eliminate alternatives. Rational theories can normally be used as an ideal in situations where the political dimension is not so significant.

According to Brunsson (1989, 2007) decision making constitutes a verbal process that leaders use as an instrument to support their actions through creating visions for the future and mobilizing resources. It is often the case that an organization has different stakeholders and objectives which cannot be satisfied simultaneously. For this reason it is common that leaders are forced to present and support various visions at different times. This two-sidedness can sometimes help the organization to make controversial decisions that may result in forceful action. In addition, the decision process creates responsibilities. If a leader has contributed to a decision in public he or she is also responsible for it. The way a decision process unfolds has an impact on how the organization as a decision-making body is perceived.

Based on partially similar arguments, Weick (1969) has criticized the idea of organizational decisions as stable and objective phenomena. Instead, these decisions are highly subject to how individual leaders interpret them. Leaders create meaningful interpretations of organizational decisions based on their impressions and experiences. It is these interpretations that form the basis of how the leaders subsequently act in different situations. Thus organizations operate in environments of human interpretation. For Weick, the information process is central to all organizational activity. Organizations cannot be regarded as static systems as they evolve

continuously. This development affects ideas, impressions, data, values and practices. Due to this development an organization can be equated with a system of interpretation (Daft and Weick, 1984; see also Schutz, 1932).

As a result of this research Weick (1995) has developed the concept of *sense-making*. With the help of sense-making it is possible for leaders to:

1. Change their perceptions so that they become mutually consistent.
2. Modify their goals and expectations so that they are consistent in relation to their perceptions.
3. Change their perceptions so that they are consistent with activities that have already taken place.
4. Manipulate the environment to make it consistent with their perceptions and needs.

It has been suggested by Weick that it is through the sharing of perceptions and expectations that top executive teams are able to function in a crisis situation. *This form of shared understanding is referred to as a collective mind*. When such a mind works optimally the team members do not need to communicate openly. All understand each other without having to speak (Weick and Roberts, 1993). Giddens (1993) has suggested that decision makers to some extent are guided by tacit knowledge on how to act. He states that most of the rules implicated in the production and reproduction of social practices are only tacitly grasped by actors.

A thorough discussion of the concept of rationality in relation to leadership and organizational decisions is to be found in Hodgkinson and Starbuck (2008).

## Knowing the organizational culture

An important ingredient in all decision making is the organization's culture. All decisions are both affected by, and affect, this culture. If the organization's culture is authoritarian and conformist, this implies that it is often tied to a bureaucracy. This generally results in limitations when it comes to making dynamic decisions. When the organization's own culture is innovative and progressive, this normally implies that leaders are expected to be more adventurous and make decisions based on their own initiative. There are also examples of organizations that vary between an authoritarian and innovative culture. Here it is important to be able to sense what is happening at any given moment and act accordingly. The essence of culture is a set of values that has a number of norms related to it (Schein, 1991). These norms define what is considered to be correct or incorrect behavior and what counts as valuable to the organization. Examples are: power distance between individuals, equality between men and women, whether or not it is important to avoid risk, and whether or not it is acceptable to take chances. The values are not always observable, but are often taken for granted. A strong culture is characterized by the organization being so ideologically driven that an individual action is affected and inhibited by the pattern of shared basic assumptions (Schein, 1991). Some theorists say that a leader can make use of a strong culture as a form of ideological control (Morgan, 1997). According to this view, to lead an activity is equivalent to an ideological practice that reinforces the «right» attitudes, values and norms of an organization. Consequently, the employees can be controlled.

*In the research literature three perspectives on organizational culture are for the most part represented (Frost et al, 1991; Meyerson and Martin, 1987):*

1. *The integration perspective* means that the organizational culture is seen as a unifying and inclusive force, and that one has to do with a unified culture. *Central concepts are «shared values», «common goals»*

and «common beliefs» (Deal and Kennedy, 1982; Peters and Waterman, 1982),

2. *The differentiation perspective* involves a focus on cultural differences and the existence of subcultures. Individuals and groups are expected to have their own needs, perceptions and values, be they organizational or personal. Since cultures, by definition, are interpretation systems, variations between individuals and between groups must be expected. A group can differentiate by standing in contradiction to the main culture, or by representing something additional (Meyer-son and Martin, 1987). Alvesson (2002) uses the concept of «limited ambiguity» on the organizations' limits for what is considered to be acceptable and effective variation.

3. *The fragmentation or uncertainty perspective* is characterized by the organization being regarded as an arena in which social actors constantly negotiate and renegotiate what is perceived as meaningful.

The leader of an organization is usually in the best position to be able to influence the organization's own culture. In stable organizations the leaders are usually part of the culture. They must know it and be able to express it in order to appear legitimate. Culture controls management as much as management controls culture. This sets the limits for what is possible when it comes to changing attitudes and behavior. Leaders who come from outside or strong reformers can often count on a strong opposition (Strand, 2007). According to Trice and Beyer (1993), there exist four different roles that leaders can take if they want to influence their own culture:

1. Leaders can mitigate conflict by creating consensus around what is considered to be common.
2. Leaders can express culture through their personality, their role and their way of being, and may thus provide a platform to change the culture.

3. Leaders can develop entirely new organizations and try to make their mark on them.
4. Leaders can try to take the opportunity to change the organization on special favorable occasions, for example, during crises, mergers, etc.

It is important to remember that the type of organization has an impact on the leader's opportunities to change and manage the culture. We can roughly distinguish between four main types of organizations (Strand, 2007):

1. The team-oriented organization.
2. The contractor-oriented organization.
3. The bureaucratic organization.
4. The expert organization.

## **Strategic aspects of decision making**

Traditionally, leadership research has focused on middle managers in organizations. A shift has taken place, in the sense that many theorists have started to become seriously interested in how top managers make strategic decisions, often through team collaboration (Cannelle and Monroe, 1997). This newfound interest reflects a growing interest in creating an understanding about how large organizations must change in order to assert themselves in international competition.

A strategic decision is characterized by the fact that it is new, complex and open. It often extends over a longer period of time and involves a number of dynamic factors. The process is generally uncertain, and nothing can be taken for granted (Mintzberg, 1979, 1983). It usually ends with a choice being implemented. Strategic leaders usually do not make a large number of decisions. Instead, they concentrate on the most important ones. Moreover, they think through the characteristics of a strategic decision and concentrate on these rather than solve problems. They make



a few important decisions based on thorough analyses of consequence.

As stated by Michael Porter (1980), the most important objective for a strategic decision is to develop and take advantage of an opportunity in the market where the competition is absent. Such an opportunity will most likely create a protected position for the firm (Porter, 1980). When competition is high, the prices of the products will fall and the opportunities for the firms to make a profit will be lowered. According to Jay Barney (1991) the point of departure for a strategic decision should be made elsewhere. Leaders should instead focus on the resources that the organization is in possession of, either alone, or together with others (Barney, 1991). The assumption is made that it is the different and unique combinations of resources that create sustainable competitive advantage. The resources can include machinery, patents, production procedures, skills, brands, or favorable locations. Some resources are dynamic in nature, in the sense that they are developed when used, creating knowledge (Teece, Pisano and Shuen, 1997).

Typically, organizational decisions can be divided into three different levels. *The highest level is referred to as strategic decisions.* These decisions affect an organization's general direction, long-term objectives, philosophy and values. Uncertainty is generally high. *The middle level is referred to as tactical decisions.* These support the strategic decisions, and tend to be of moderate importance and to have moderate impact. *The lowest level is known as operational decisions.* These take place every day and support the tactical decisions. They are immediate and usually have short-term consequences generally to a low cost. However, there are important interactions between the different levels, for example, in the making of a strategic agenda (Dutton, 1997). Such an agenda is not only the product of the top leadership's perception. Middle managers also play an important role as active agents in the design. The strategic agenda is also affected by an organization's routines and ecological processes.

Strategic decisions are primarily concerned with the top leadership of an organization. The decisions are usually very important for the organization and often have long-term consequences. Since the

decisions are so important to the organization, they must be closely linked with each other. In this way a consistent pattern of decisions is created, or a strategy that can guide the organization. Strategic decisions are usually the result of collaboration between the most influential members of a top leadership team. Strategic choices may for example include the development of new products to address new markets, or the investment in new technology (Harrison, 1999). But a top leadership team must also be able to take advantage of the organization's knowledge to create a successful strategy (Wright, 2001). *The organization's key resource in the creation of a strategy is heterogeneity in the knowledge that employees possess.*

An important theme of leadership research is what kind of role top leadership has for the performance of a major organization. There is research showing that leaders have a significant impact on the organization's performance (Finkelstein and Hambrick, 1996; Katz and Kahn, 1978; Peters and Waterman, 1982). Other results point in the opposite direction, i.e., a leader has limited influence on how the organization performs (Hannan and Freeman, 1984; Meindl, Ehrlich, Duke and Rich, 1985; Pfeffer, 1977). The type of industry may matter with regard to this issue. Doubters present three main arguments for their position:

1. An organization's performance is determined largely by factors that the leader has no control over. Such factors include the economic situation, the market, fiscal and technological change.
2. Internal and external barriers imply that only political coalitions are strong enough to change the organization.
3. Individual leaders' ability to influence organizations is exaggerated on a regular basis. They are often given more credit than they deserve if things go well for the organization, while they often get more criticism than they deserve if it goes bad.

There is a whole series of internal barriers to change in an organization that a leader may face (Hambrick and Finkelstein, 1987). One type consists of strong coalitions within the organization itself. These may involve trade unions or other leaders with a strong power base.

Another type is manifested by a strong organizational culture that is resistant to changes. Larger organizations are often characterized by standardized routines that are difficult to change. Generally, people are opposed to changes that threaten their status and power. They are also against negative actions which are contrary to their values and perceptions. In addition, they are disinclined towards demands that require that they do things in new ways.

There are also a number of external change barriers that can meet a leader. An organization's products and services constitute such. Even the market in which the organization operates can be seen as some kind of barrier. If an organization is dependent on a few major customers or suppliers it may also be considered as an obstacle. Another obstacle is the governmental laws and regulations.

To conclude, Hambrick and Finkelstein (1987) suggest that managerial discretion is based on three principal components:

1. The task environment.
2. The internal organization.
3. The managerial characteristics.

*The task environment* includes factors such as product differentiability, market growth, industry structure (especially oligopoly), demand instability, quasi-legal constraints, and powerful outside forces.

*The internal organization* includes factors such as inertial forces (age, culture, capital, intensity), resource availability and powerful inside forces.

*The managerial characteristics* includes factors such as aspiration level, commitment, tolerance of ambiguity, cognitive complexity, internal locus of control, power base and political acumen.

Most large organizations have a top management team that includes a CEO and other top leaders. However, how this group works varies from organization to organization. In some organizations there is a hierarchy of authority within the group, while in others the power is allocated a relatively egalitarian way (Ancona and Nadler, 1989). In the latter case, it is not uncommon for all team members to help the CEO in formulating strategies. This is

known as a top management team. It is notable that there may well be autocratic CEOs of organizations that formally work with leadership teams, as well as cases where democratic CEOs of organizations formally work with traditional hierarchies within the top management team.

There are many benefits to an organization with a top management team (Ancona and Nadler, 1989; Bradford and Cohen, 1984; Eisenstat and Cohen, 1990; Nadler, 1988). For instance, a top management team has the potential to make better strategic decisions when its members possess the relevant knowledge which the CEO lacks. Strategies designed by top management teams are usually perceived as better than those in which the team had no influence (Korsgaard, Schweiger and Sapienza, 1995). Strategies rooted in the team are also perceived as more equitable, and they make the team feel more confident in the leader. In addition, the team will be more motivated to implement the decisions.

Indications exist that the current situation of an organization has an effect on the top management team's potential success (Ancona and Nadler, 1989). A team usually experiences success in environments characterized by complexity and rapid change, and a team is also effective in situations where the external requirements of the CEO are high. Research conducted by Eisenstat and Cohen (1990) shows that the top management team is often more successful when the CEO is allowed to choose its members. Such a team should be based on the skills and experiences that the members have. It is important to remember that the team members' individual characteristics are just as important as that of the CEO for the organization's effectiveness (Bantel and Jackson, 1989; Edmondson, Roberto and Watkins, 2003; Hitt and Tyler, 1991; Keck and Tushman, 1993).

In addition the CEO should give the team a broad mandate but should make clear where the boundaries are between the CEO's responsibility and that of the team. It is also positive if the CEO indicates that the climate of cooperation in the team is characterized by openness and trust. He or she should at the same time avoid actions that encourage competition and distrust in the team. It is also not

good if the CEO regularly invites only part of the team to meetings on issues that are of relevance and interest to all.

An important part of strategic management decisions is to be able to control all external factors affecting the decisions. It is not wrong to develop a monitoring system in this area, and research suggests five activities that are all important in a surveillance context:

1. To identify what information is relevant to collect (Bates, 1985; Narchal, Kittappa and Bhattacharya, 1987).
2. To use multiple relevant sources of information (Milliken and Vollrath, 1991).
3. To learn what customers and clients need and desire (Peters and Austin, 1985).
4. To learn about competitors' products and activities.
5. To relate ecological information to the strategic plans (Hambrick, 1982).

One of the most difficult tasks of a leader is to develop a successful strategy for the organization. Yet there are rarely simple answers as to how to do this effectively. Research suggests seven activities that are essential in this context (Bennis and Nanus, 1985, Kotter, 1996; Nanus, 1992, Wall and Wall, 1995; Worley, Hitchin, and Ross, 1996):

1. To decide on the long-term objectives and priorities.
2. To assess the organization's strengths and weaknesses.
3. To identify core competencies.
4. To evaluate whether there is a need for a major change of strategy.
5. To identify promising strategies.
6. To evaluate a strategy's likely outcome.
7. To involve other leaders in the determination of strategy.

Leaders can sometimes have quite different views on what the organization's primary goals are, although research shows that successful companies are characterized by a higher degree of consensus on what these goals are (Hard Aker and Ward, 1987; Grønhaug and Falkenberg, 1990). Consensus seems to have a coor-

dinating effect in relation to other organizations and has an ability to facilitate cooperation within. Existing techniques can be used in order to draw attention to differences in a management group's perception of the organization's main goals. These techniques are designed to build a consensus around the new objectives, and this is achieved by means of probability judgments and causal analysis, among other methods (Strand, 2002).

Different leaders learn from their experiences in different ways, and there are three basic factors that can influence leaders to learn from their strategic experiences (Camerer and Ho, 2001): These are:

1. Reflection.
2. Change.
3. Dedication.

*Reflection:* Leaders who are good at learning tend to have a «high reflection index». This means that they actively reflect on what move they should have made in a strategic game. Leaders who have a «low reflection index» can be trapped by using a strategy that is not necessarily bad, but not in the vicinity of alternative strategies.

*Change:* The second factor is the leader's perception of how fast the surroundings change. When change is rapid, leaders should attach little importance to prior experience because what worked a few years ago may have become irrelevant. However, when the environment is stable, leaders can afford to learn over longer periods of time and give equal weight to past successes and failures. In the latter case, managers use a long history of profits and losses when selecting a strategy.

*Dedication:* The third factor is how quickly a leader hangs on to a strategy that has proved effective in practice. There is a tendency among leaders to repeat what has previously worked well. This can lead to very good performance, since this kind of repetition often improves efficiency. But something needs to change. This happens when a previous correct decision is no longer adequate; that is,

when the environment changes rapidly. If leaders are unsure of how fast the surroundings change, it may be justifiable to consider all decisions as first-time choices. If it feels wrong to follow previously implemented solutions it is probably time to find a new one. An alternative strategy may be found that works better.

## **Political aspects of decision making**

Decision makers are often forced to use political means to achieve their goals. To act politically means to exercise influence in any possible way. A leader can use power to mobilize resources, energy and information in accordance with a goal or a strategy. In addition, power and other resources may be acquired, developed and used in situations of uncertainty or disagreement (Pfeffer, 1981). There is, in other words, clearly a need for competence in a leader's use of political means. Since both power and politics are key phenomena in all organizational life, these phenomena constitute a major component of all leadership decisions, and leaders who understand the politics, political behavior, and political effects usually make better decisions. Political power is used by leaders to make choices that ensure pre-determined conclusions in conformance with the leader's preferences. The political context affects how groups make decisions, and this context is constantly subject to change. When leaders interact or compete against each other as political actors this kind of strategic behavior impacts on others.

All legitimate power in formal organizations derives from top management. Only this tier of management has the power to intervene anywhere in the decision process and set the tone for the important decisions. The relation between organizational politics and power ought to be straightforward. A power base facilitates the use of political means to achieve more power. Power is thus both a target and a means. Effective decision makers are generally aware of their power and use it in their efforts to influence and determine the outcomes of various decisions (Ferris and Kacmar,

1992; Bacharach, et al. 1995; Madison, et al. 1980; Feldman, 1988).

Leaders can also build a power base by organizing themselves into networks. They do so in order to reduce uncertainty. Organizations are created to exercise control and provide an overview. However, they are constantly threatened by circumstances over which they have no complete knowledge or control. By participating in a network, leaders can increase their ability to preserve relevant control, and yet still remain exploratory and open to the outside world. Nevertheless, they must give up some of their autonomy in order to be eligible for benefits and also demonstrate trust which may not necessarily result in mutual trust. The benefits of engaging in a network can be divided into four categories (Strand, 2007):

1. Market advantages.
2. Adaptation and uncertainty control.
3. Learning opportunities.
4. Governance and internal simplification.

*A distinction is made in the literature between seven different kinds of basic types of power that a leader can use:*

1. *Legitimate power*, the power a leader receives as a result of his or her *position* in an organization's formal hierarchy.
2. *Information power*, the power a leader receives by the possession and control of information.
3. *Expert power*, the power that stems from the special knowledge and skills of the leader.
4. *Reference power*, the power that is based on identification, namely that the employees can identify themselves with the leader or the organization.
5. *Charismatic power*, the power a leader can exercise by virtue of his or her personality,
6. *Coercive power*, the power that is based on the fact that leaders can punish employees.



7. *Reward power*, the power that builds on the fact that leadership can reward employees.

A discussion has arisen in the research literature about whether or not the use of political behavior in itself should be regarded as legitimate or illegitimate when leaders are about to make decisions (Mintzberg, 1983; Pfeffer, 1981). According to Mintzberg, leaders have four choices in their daily work:

1. To pretend that political behavior does not exist.
2. To recognize the existence of political behavior and to regard it as illegitimate by trying to eliminate and prevent it.
3. To acknowledge its existence but choose not to interfere.
4. To acknowledge its existence as something inevitable and to participate actively in the political game.

Whatever choice the leader makes, he or she may after a while experience that it is difficult not to participate in the political game. Mintzberg (1983) describes organizations in terms of internal and external coalitions. The internal coalitions receive their power from four different sources, or what he chooses to call systems:

1. The authoritarian system.
2. The ideological system.
3. The expert system.
4. The political system.

The first three systems are considered by Mintzberg as legitimate because they exist in order to help the organization achieve its goals. The political system on the other hand, seeks to displace the legitimate power derived from the top management.

There are clear similarities between the concepts of «leadership» and «power». For instance, leaders use power as an important means to achieve goals. But there are also differences between the concepts. A leader needs to exercise leadership in order to have similar objectives as the employees, but this is not necessary for the exercise of

power. *In addition, a leader must, in order to exercise leadership, also focus on his or her leadership style. Exercising power, however, is more about focusing on the inter-subjective level to ensure control over individuals and groups.*

Management decisions can be manifested in the context of three different types of profiles of political power:

1. The creation of goals (Etzioni, 1964; Cyert and March, 1963).
2. The allocation of resources (Ackoff, 1970).
3. The use of dominance and autonomy (Dahrendorf, 1959).

These profiles are not mutually exclusive. For example, creating objectives has implications for resource allocation. Similarly, the use of an internal resource may create a dominant position in the sense that those who have control over the resource acquire power over consumers. The critical resources for a task or scarce resources tend to have a high value as power bases.

The power of leadership decision-making is essentially economic in nature. It is up to the leadership to determine the allocation, utilization and outcomes of the resources it disposes of. In large organizations the power to determine how large new investments will be is central, as is the power to decide where, when and how such investments are implemented.

Considerable research emphasizes that the need for power is an important prerequisite for leadership, but organizational and personal success also depend on *how* power is used (Strand, 2007). According to McClelland (1999), power, performance and contact need all have the ability to explain how leaders behave in the organization. For instance, entrepreneurial leaders have a great need for achievement and power, but generally have less need for relationships. Performance motives are important in any leadership, but very strong motives may often be inconsistent with the organization's functions as seen in a wider context. If one measures all success as own success and strongly link results with one's own effort, other stakeholders and the needs of the organization are at risk of fading into the background. Performance-hungry leaders

often have trouble delegating responsibility to their employees. For these, surpassing others is more important than ensuring that others are performing. Power motives are more typical of the leaders of successful organizations. The mature form of power is characterized by a focus on relevant organizational objectives often in combination with socially acceptable ways of exercising power. Unacceptable behavior is characterized by coercion, manipulation, impulsive aggression, authoritarian behavior and the use of force (Strand, 2007).

It is of course interesting to study power as a source of influence, but it is also possible to study what types of behavior are used by leaders to exert influence. *Such behavior is often referred to as an influence tactic.* The literature defines three main types of influence tactics (Yukl and Chavez, 2002):

*Impression management tactics* are aimed at influencing people to like or make positive assessments of the leader. Often the leader praises employees or offers help without demanding anything in return. It is also effective for leaders to regularly speak of their accomplishments and qualifications. Note that this kind of tactic can be as effectively used by employees as by leaders.

*Political tactics* are used to influence organizational decisions or encourage the interests of individuals or groups (Kacmar and Baron, 1999; Pfeffer, 1992; Porter, Allen and Angle, 1981). A relatively common political tactic is to try to influence how key decisions are made and by whom. As a leader one may be tempted to select decision makers who are known to support one's suggestions. Another popular approach is to try to influence a meeting agenda or to get policy makers to employ criteria known to favor one's proposal. Often it is effective to use facts and figures (Stone, 2002). In order to quantify, decisions about categorization are needed, i.e., what should be included and excluded in a particular context. When measuring a phenomenon this means creating standards around what is considered to be too little, too much and just right. Political tactics are also used in order to defend oneself against the opposition and to silence criticism (Valle and Perrewe, 2000). Another way to influence is to frame the problems to suit one's purposes. A leader

can also be interested in preventing certain types of decisions from being made through control of the agenda (Lukes, 1986). The trick is to monitor the decisions that will be made, but equally those which are not made. It is not uncommon for leaders to sometimes withhold important information and merely present selected facts in order to avoid certain decisions, and in order to escape criticism after a decision is made, their public expression of what the decision is about is couched in as vague and imprecise terms as possible. This is especially true for top leaders (Stone, 2002). Some political tactics will include the use of deception, manipulation, or abuse of power (Zanzi and O'Neill, 2001).

*Proactive influence tactics* are often aimed at changing how a task is performed, in one way or another. It may be about getting an employee to perform a new task or changing procedures on an existing task. Other application areas for these types of tactics may be to provide support for a project or for a proposed change. Both persuasion and legitimate power can be used to achieve these goals.

The image of political behavior in organizations may seem to be negative, manipulative and malicious, but it is important to remember that this type of behavior can actually support the organization (Mintzberg, 1983). It is important that leaders realize that political action can:

1. Correct weaknesses and create flexibility.
2. Ensure that the most suitable organization members receive leadership roles.
3. Ensure that all views on an issue will be vetted.
4. Support necessary organizational changes.
5. Support decision making, particularly in the implementation phase, of a choice involving several different stakeholders.

## Ethical aspects of decision making

*Leadership research indicates that there are a number of key ethical decision-making perspectives that govern decisions:*

*The utilitarian perspective*

*The rights perspective*

*The fairness perspective*

*The utilitarian perspective:* Dominant in business decisions, the goal of this perspective is to create as much benefit as possible for an organization, and important key concepts are efficiency, productivity and profitability. The approach can sometimes imply that a minority will be deprived in order for the majority to be better off. It has been suggested that utility maximization is the best approach for leaders to achieve their stated objectives (Baron, 1993). It is based on their goals that leaders can argue for taking into account different norms as a guide to their decisions. The use of a norm can be seen as a decision.

*The human rights perspective:* According to this perspective, decisions should be made with regard to key policy documents such as the Declaration of Human Rights. The so-called precautionary principle means that every leader must be alert to avoiding injury when making decisions. Individual rights, such as the right of free speech, are often stressed. This perspective also emphasized that everyone has certain basic rights.

*The justice perspective:* A distinction is made in the literature between distributive and procedural justice. Distributive justice is about distributing resources as equitably as possible, either in full equality or on the basis of need or performance (equity). Procedural justice assumes that the actual process of creating justice is as fair as possible, even if the outcome may be different for different individuals.

Almost all leaders seek to influence in any way. The main issue is not whether leaders use power or not, the essential issue is *how* they use

their power (Gini, 1998). Leaders who have power can use authority to further their own careers and finances at the expense of the organization's employees and the public. In addition, leaders can by the introduction of various unethical practices affect others in a negative direction (Beu and Buckley, 2004). It is therefore not strange that the abuse of power leads to many people being interested in the ethical aspects of leadership. Another reason is the general public's declining trust in leaders, fueled by scandals published in the media (Kouzes and Posner, 1993). Despite great interest in ethical leadership, there is at present no consensus on how this term should be defined or measured. One reason for this is that there is no neutral basis. Theories about ethical leadership almost always involve values and implicit assumptions (Heifetz, 1994).

It is important to be able to make a distinction between ethics tied to an individual leader and the ethics of various specific types of leadership behaviors (Bass and Steidlmeier, 1999). Both types of ethics are difficult to evaluate. Regarding the assessment of individual leaders, there is a wealth of relevant criteria, for example, the leader's values, moral development, conscious intentions, possible choices, influence, and behavior. Many leaders often possess a mix of strengths and weaknesses with respect to these criteria. One problem that emerges when we evaluate individual leaders is when to determine the criteria to be used and their relative priority, and the final assessment can be colored as much by the assessor as by the leader's qualities.

Assessments that focus on ethics related to specific decisions or actions are most likely to include objectives (ends), whether or not the behavior is consistent with moral standards (means), and the results (outcomes). These three criteria are considered most often in relation to each other. A common issue is whether the objectives still justify the means. Can leaders for example engage in behavior such as lying to avoid injury to their employees?

There are many types of leadership behaviors that are characterized as unethical by the majority. These include falsifying information, stealing assets for personal gain, blaming mistakes on others, selling trade secrets to competitors, accepting bribes in

exchange for services, and pursuing a ruthless leadership style that injures others. It is important that leaders at all levels have respect for their fellow human beings' equal and high value, and seek ethical awareness and maturity. Furthermore, leaders should use their professional position with responsibility and objectivity, and keep their role as leader separate from that of citizen and stakeholder. Leaders must also be aware of the limits of their own competence and be open for critical review of their leadership. It is therefore important for leaders to constantly maintain and develop their professional skills (see also Blenberger, 2007, for detailed discussions).

A leader should, as far as possible, seek to maintain loyalty to the board of the organization. Here, an important key word is transparency. In addition, a leader should work to develop the organization and ensure that its resources do not become overharvested. Working in accordance with the organization's basic mission and character is advantageous, and leaders should not pursue salaries and other allowances that are not proportional to labor input value to the organization or compatible with fair practice in the labor market. Recently the issue has been raised as to whether a board can give its CEO a bonus in instances of profit loss (see also Blenberger, 2007, for detailed discussions).

It is essential that leaders have respect for managerial colleagues and try to maintain loyalty to them and other employees in various positions. A leader has a specific responsibility for employees' conditions and development and should pay particular attention to vulnerable individuals and groups. Sensitive information about employees or job seekers should be handled with great care. Leaders must take responsibility for their own workplace being a constructive, respectful and generous social environment. Significant changes in work which adversely affects employees should have a factual basis and be implemented with respect, honesty and care. Should a leader notice that others in the organization fail to respect the laws or the correctly made decisions, he or she is obliged to take action. This may involve colleagues or members of the board, etc. It can also imply that others in the organization exhibit offensive or discriminatory attitudes and actions. These can be reflected

in the board's working methods, or in other leaders' or co-workers' conduct. In such cases the ethical leader should respond strongly. If a leader himself/herself becomes the subject of criticism, it is important to treat this constructively, with a conciliatory and generous attitude (see also Blenninger, 2007, for detailed discussions).

It should be emphasized that a leader should make sure that the organization inspires confidence and protects customers, partners and stakeholders. In addition, he or she should ensure that the organization handles competitive situations in accordance with good business practice. Consider for example if only two airlines operate a line between a Scandinavian metropolis and a tourist resort on the Mediterranean. It can be tempting for the financial managers in both companies to negotiate for as high a ticket price as possible instead of engaging in price competition. This runs counter to good business practice and can also be regarded as cartel conduct. (see also Blenninger, 2007, for detailed discussions).

A general rule of conduct is that the ethical leader must act in such a way that the organization and its activities generate confidence. A leader must ensure that those seeking work in the organization are treated in a respectful and non-discriminatory manner. In view of the environmental debate, a leader must also ensure that the activities of the organization are compatible with a sustainable development. Efforts should be made such that the organization adopts suitable forms of social responsibility, based on its goals and conditions (see also Blenninger, 2007, for detailed discussions).

Most leaders possess an opportunity to develop themselves to become guided by their values (Kohlberg, 1984). This means that leaders strive to develop an advanced moral reasoning. Value-driven leaders are concerned that their daily activities reflect important ethical values such as honesty, fairness and personal integrity (Trevino, 1986; Trevino and Youngblood, 1990). They have a highly developed moral sensitivity and are driven by formulating ethical problems. Faced with difficult decisions, they know what they stand for and often have the courage to act according to their principles. Not infrequently this type of leader integrates codes of ethics in the formal organizational systems in order to communicate to employees



what the company stands for. For example, they can act to establish ethics committees, etc. Also, they actively seek to facilitate an ethical discourse within the organization by stimulating the development of an ethical vocabulary. Since moral reality is a moving target, value-driven leaders realize that they must reiteratively formulate and reformulate the ethical problems of the organization. They also understand that ethical problems can emerge everywhere in the organization and that more than just the human resources department must be involved in detecting and solving them. Moreover, value-driven leaders are often anxious to scrutinize the manner in which they formulate the problems they face in an organizational context. When an ethical issue arises, they make sure that the intersubjective nature of the issue is acknowledged within the organization (Pedersen, 2009).

Ethical leadership decisions may in addition be related to leaders' individual needs and personalities (Mumford, Gessner, Connelly, O'Connor and Clifton, 1993; O'Connor, Mumford, Clifton, Gessner and Connelly, 1995). Leaders who possess such personality characteristics as narcissism, power orientation and lack of emotional maturity more often engage in destructive self-oriented behavior than others. These leaders also have problems with trust in others. They often treat others as objects that are subject to manipulation. Such leaders use power to exploit others and promote their own careers, rather than to achieve objectives that are essential for the organization.

There is also a link between ethical leadership decisions and social context, in the sense that these decisions are strongly influenced by the situation (Trevino, 1986; Trevino, Butterfield and McCabe, 1998). Unethical behavior can easily be observed in organizations characterized by the following factors:

1. High productivity demands.
2. Internal competition for rewards and advancement.
3. Strong emphasis on obedience and authority.
4. A lack of standards for ethical behavior and individual responsibility.

Emotionally mature leaders who have achieved a high level moral of development have in addition been shown to be reasonably well able to resist the social pressure to use destructive and unethical practices. Leaders are normally exposed to greater ethical challenges than the average citizen. They are also more exposed and vulnerable to claims about fairness, and thus they are exposed to a range of situations involving value choices and ethical values. Leaders are often exposed to moral choices that have the character of paradoxes and dilemmas.

Leaders must take into account both the values of their own culture, as well as market and societal demands. For example, whether to hire foreign workers at lower wages or not can be a dilemma for many leaders. They are, after all, better off than in their home countries. Another dilemma is whether a leader should be eligible to receive stock options in his or her own company to enhance his or her motivation. This may have implications for social contracts of any kind. A third dilemma is whether leaders should hold back or delay information that they have exclusive access to and that is likely to harm the stock price. Finally, a fourth dilemma arises when leaders keep wages down within their own organizations while raising their personal salaries drastically.

A problem of practical leadership is that a leader's values and actions are not always in line with each other (Irwin and Baron, 2001). For example, a leader can be a member of various environmental protection associations while he or she at the same time makes a decision that goes against the environmental concerns in his or her own industry. *A useful practical guideline might be to ask yourself as a leader if you can stand before a group and openly declare that I have done this and that.* Several self-critical questions could be put such as:

1. What would a person that likes me say?
2. What would a person that does not wish me well say?
3. How would I react if someone else had done the same thing?
4. What would the press be able to write?

In recent years, corporate governance has been suggested as a remedy for moral corruption. The term «corporate governance» refers to a governance form that allows stakeholders in the company, especially shareholders, to get insight into the business. Central phenomena are transparency, strict reporting rules, leadership accountability and good structure. Scandals such as Enron, Arthur Andersen, Skandia Liv, etc. have fed this way of thinking, and the need for it seems to have increased since the millennium shift.

Ethical decision-making often starts at the individual level, but mostly includes both group and organizational decisions made by people who may well be in different places in the world. Depending on background factors such as age, experience, culture and context the definition of what is considered ethically or morally correct may vary. What ethical values we choose to prioritize may thus also vary, and this creates particular problems in a globalized business world. Leaders who have a background in different cultures can, for example, have problems in establishing an ethical code of conduct for a special project or a particular commercial transaction. An important issue is how the leaders can maintain their own ethical standards when doing business with others who do not share these standards. At present, we know very little about how the heterogeneity of moral norms affects ethical decision-making in different business contexts. A practical solution could be to try to develop some form of decision rules that can be helpful in ethical trade-off situations.

## Conclusions

The concepts of leadership and organization are closely linked. A leader should get to know the corporate culture as well as possible which can, for example, be authoritarian and conformist or innovative and progressive in nature. The premise is that leaders are both affected by, and influence, their own culture.

Strategic decisions are characterized by the fact that they are new, complex and open in nature. To develop a strategy is one of the

most difficult tasks of a leader. Traditionally, it is primarily the top management in an organization that works with strategic decisions. It is becoming increasingly common for a top management team to be created in order to concentrate on strategic issues. This is related to the globalization of business and to the fact that the pace of work has increased significantly.

In order to exercise leadership, a leader must have access to power. A power base can be created by leaders organizing themselves into networks, or by using different political tactics. However, it is important not to make use of political tactics for own personal profit but rather to promote the organization's interests. When a leader has built up a power base, it is important that power is used properly. The decisions that leaders make must be ethically correct and must not violate universal human values. In addition, the decisions should not have negative consequences for others within or outside the organization. Evidence suggests that the majority of leaders have the potential to develop as ethical decision-makers and that it is possible to discern various phases of an overall development curve.

**Checklist**

1. How can an organizational culture influence you as a leader? How can you as a leader influence an organizational culture?
2. Why are strategic decisions considered so important for an organization?
3. What are the benefits of letting a top management team address the strategic decisions in an organization?
4. What is the CEO's main role in relation to his team when a new strategy is about to be developed?
5. What kind of power is most important for you as a leader to hold?
6. What are the pros and cons of the use of political tactics to attain power?
7. How can you as a leader develop yourself to become a good ethical decision-maker?
8. What are the main problems of ethical leadership decisions in the globalized business world?





**Kapittel 3**

**Analyzing a decision**

## Intuition and logic

Research shows that one side of our brain controls emotions, intuition and creativity, while the other half is the centre of logic, language, math and analysis. Most of us have a side that dominates. However, this does not mean that one must either be an intuitive decision-maker who decides creatively and spontaneously or a logical decision-maker who works with logics and facts. Regardless of which side dominates a decision-maker, a balance between the two faculties should always be sought after. It is important for leaders to be able to evaluate their own decision-making capacity and try to improve it. Many times it is easier to gain sympathy for arguments if one generally argues on the basis of logic and facts rather than on the basis of emotion. It is therefore important for leaders to be able to frame their intuitively developed options in analytical language. Intuition may be misleading when emotional memories are too salient. Then it is usual that the relevant information that managers have access to does not have a chance to influence the assessments. Intuitive decisions also tend to fail in areas where leaders have no or limited experience. *It is important to emphasize that it is often difficult for leaders to transfer the intuition that has emerged in a particular area to another.*

It has been shown that time-pressed leaders often use so-called intuitive simplification rules, in order to make it relatively easy to manage a complex environment. By using these simple rules leaders are often able to produce correct or partially correct judgments. Leaders simply must be able to simplify decision making in many situations. However, it is relatively common that leaders use the rules without really being aware of them. Then it is easy to go astray. The conclusion is that leaders must be aware of the potential of different simplification rules. They can then decide when and how these should be used. (Tversky and Kahneman, 1974).

*For example, in their decisions leaders are influenced by an event's availability in mind. An event that is lively and gives rise to emotions is more available from one's memory than an event that does not give rise to emotions. Highly frequent events are also more available*



in memory, as well as events that are highly covered in the media. Leaders can use the availability rule for strategic purposes; however, they must first be aware of how the rule works. What are the factors which are highlighted? What are the factors which are ignored? Leaders must be aware of these often unconscious processes (Blake, 2008). It is also good if they continually keep account of their decisions in order to calibrate their judgments. *Leaders are also influenced in their decisions by an event's representativeness. We therefore speak of an intuitively based representativeness rule.* In addition, there is also an intuitively based *anchoring and adjustment rule*. If a leader is predicting an employee's performance during a year, he or she is often doing so on the basis of what he or she knows from experience about the group to which the employee belongs. If a leader is predicting a product's success in the market for a year, this is often done on the basis of past successes and failures. *How an event is anchored back in time also has an impact on a leader's decision. Intuitive decisions are also affected by various types of framing. A frame is a stable, coherent, cognitive structure that organizes and simplifies the complex reality that a leader operates in (Schoemaker and Russo, 2001; Kuvaas and Selart, 2004). Many frames are memory-based and usually activated automatically. There are mainly three types:*

1. Problem frames (used to generate solutions).
2. Decision frames (used to choose between alternatives).
3. Schematic frames (deeper mental structures that have been developed through years of experience; for instance, mental models. See Senge, 1990 ).

Kahneman and Tversky (1979) have demonstrated the importance of decision frames. They revealed that small changes in the surface structure of a decision setting have great importance for the decision made. *What they found was that people are risk averse when faced with gains situations, while they are risk-seekers when they face loss situations. It all depends on the frame of the decision.* For instance, let's say a leader is able to choose between two personal bonus alternatives. The first offers \$1000 with a 100% certainty while the other offers

\$2000 with a 50% certainty. In this case the leader is likely to choose the riskless alternative. But if the same amounts for some reason were due to be deducted from personal salary on a specific occasion, the leader would most likely have chosen the risky alternative. The reason is that from a psychological point of view, people in general have great difficulties in accepting safe losses.

Emotions also play an important role in a leader's intuitive decision. Most judgments are preceded by an affective or emotional valuation, which takes place before conscious reasoning arises (Kahneman, 2003). Despite the fact that these emotional valuations are not conscious, they play an important role in the individual decision-making process (Slovic, Finucane, Peters and MacGregor, 2002). Often they mean more for the decision outcome than the conscious analytical processes. Leaders who are happy tend to overestimate the likelihood of positive outcomes, while those who find themselves in a bad mood often overestimate the likelihood of the negative ones (Schwarz, 2000; Hambrick, Finkelstein and Mooney, 2005; Ganster, 2005; Clor, Wyer, Dienes et al. 2001; Daniels, 2008).

It is therefore important to remember that emotional stability is needed if affective feelings are to bring something to the decision. Positive emotions normally signal that the environmental situation is under control and that one can fall back on routine and existing knowledge. However, negative emotions signal that this is not so and that environmental factors must be examined carefully (Elsbach and Barr, 1999). Experienced leaders who are aware of this fact can make use of their emotions as valuable information in the decision situation. However, one should be aware that various negative emotions cannot be interpreted as having an equal impact (Lerner, Small and Loewenstein, 2004). Research shows that affective simplification rules based on intuition are frequently employed when leaders have much to do and are under time pressure (Gilbert, 2002). It is important for leaders to note that emotions can serve as a valuable guide for their decisions, but that they also may prevent optimal decisions from being made. Therefore, some researchers argue that leaders must develop strategies to avoid too many emotions influencing the process (Luce, Payne and Bettman, 2001).

-Many decision researchers have been negative to the role of intuition. They look at intuition as a drawback causing errors and shortcomings in the decision. The process is admittedly fast and the results acceptable, however it rarely leads to the optimal decisions. Others are of the opinion that errors can occur due to both intuition and logical thinking (Payne, Bettman and Johnson, 1992). It is common to make mistakes when we reason intuitively, but these errors are usually less severe compared to errors that arise as a result of logical thinking. *One can therefore argue that a good decision is characterized by a systematic information search, analysis and good intuition* (Shiloh and Rotem, 1994). Some scientists believe that intuitive decisions should not be confused with chance, impulse and emotionally driven decisions (Eneroth, 1992). On the contrary, it is assumed that the leader who makes intuitive decisions is well informed and that he or she has a great familiarity with the issues. This means that the decision maker has repeatedly been in the situation in a maximum number of contexts.

Some decision situations are better suited to intuition than others (Agor, 1991). Such situations are usually characterized by a high level of risk and uncertainty. Other characteristics include little previous precedent, the existence of several plausible solutions, limited time, limited valuable available facts, and muddy cause-and-effect relationships (see also Sadler-Smith, 2008). In addition the decision maker often has access to either too little or too much information. If the availability of data is limited and the facts we have at hand are difficult to interpret, intuition can help us. With its help, we can create a synthesis of the fragmented data and thereby grasp an overall picture. Such a picture, in turn, often generates some kind of «aha» experience. Intuition can then be more effective in certain situations compared to more systematic forms of assessment. With the help of intuition, we can very quickly discover that a problem exists, as compared with traditional analysis (Isenberg, 1991). Leaders can therefore use intuition as a tool when exploring the unknown or the future. With the help of intuition, they can generate unusual scenarios and new options in ways that would be impossible using traditional data analysis. Intuition can also be used

in the final stages of an information process as an aid to synthesis and integration. There is research showing that leaders often have to look away from rational decision-making and rely on their intuition (Klein, 1998, 2003). For instance, Isenberg (1984) has demonstrated how leaders make use of intuition to solve problems in everyday life. He has identified five different ways in which leaders make use of intuition:

1. To identify when a problem exists (to «smell» a problem)
2. To implement quickly learned procedures (just carry on)
3. To piece together various bits of information into a meaningful creative design (creativity)
4. To make a test of logical analysis based on gut feeling (this is not right)
5. To bypass logical analysis directly in favor of a plausible solution (this will not work)

Making decisions is about searching for alternatives, information and goals. The art of decision-making is therefore quite a lot about the art of determining when it is time to stop searching for information (Gigerenzer et al, 1999), either because we think of an alternative or recognize one. Leaders can often use their intuitive reasoning ability to quickly reach the right decision. One need not always engage in a very time-consuming hunt for the best option, driven by rational analysis. In many cases it is sufficient to identify an alternative that is «good enough». This is particularly important when we talk about operational leadership decisions. Note that social intelligence, for example, relies on powerful intuitive tools such as trust, deception, identification, rumor, wishful thinking, and cooperation (Gigerenzer, 2007). *The trick is not to amass information, but to discard it, that is, to know intuitively what one doesn't need to know* (Gigerenzer, 2007). Intuitive decisions usually work best in situations where they have been made many times before in familiar contexts, allow fast feedback, and involve a low cost. Then they can be made both quickly and accurately. Research also shows that intuitive decisions perform better in unstructured decision contexts than rational analysis (Dane

and Pratt, 2007; Klein, 2003; McMackin and Slovic, 2000; Selart, Johansen, Holmesland and Grønhaug, 2008 ).

Nevertheless, intuition also has a bearing on strategic decisions. For instance, it has been found that the use of intuition in strategic decision-making is much greater in unstable business environments (computing) than in environments that may be labeled stable (utilities) or moderately stable (banking) (Khatri and Ng, 2000). A conclusion that can be made is that decision making in uncertain environments needs to be less routine than in stable situations. This means that decision makers faced with uncertainty have to shift away from treating problems as structured and resolvable using standard procedures. As a consequence, decision making becomes less analytical and much more judgmental, with a reliance upon informed intuitions (Dane and Pratt, 2007; see also Sadler-Smith, 2008, for a discussion).

One way to minimize the risks of intuitive decisions is to try to apply a so-called outside perspective. This is when leaders mentally try to distance themselves from the specific situation. One can also create a class of decisions to which the problem is addressed (Kahneman and Lovallo, 1993). It has been shown that leaders who have the ability to take an outside perspective are less overconfident in relation to their general knowledge, use of time and perception of entrepreneurial success (Kahneman and Lovallo, 1993; Cooper, Woo and Dunkel Berg, 1988). A leader could also try to imagine what would have happened if he or she had made the opposite decision. This has been shown to have a positive effect on the reduction of overconfidence and other types of decision errors (Larrick, 2004; Mussweiler, Strack and Pfeiffer, 2000). An additional method which has proved successful is to create a «decision environment» that minimizes the risks of intuitive decision-making (Thaler and Sunstein, 2008; Ritov and Baron, 1992).

As a leader one can also do a lot to avoid being influenced by different frames against one's own will. According to Schoemaker and Russo, there are five basic strategies that can be applied:

1. Change the metaphor and thus regain control of the frame.
2. Challenge others' points of reference.
3. Extend the frame.
4. Construct new frames for new situations.
5. Try to influence others' frames.

In addition, it is useful for leaders to be brutally realistic in their attitude. Leaders must continually collect contradictory evidence. One can, for example, ask other people what they think and feel, especially those with whom one tends to disagree. One may not always like the answers one gets, but no matter how embarrassing they are, leaders can use them to develop their frames.

It is also important to recognize that other people often have emotional connections to their frames, particularly if they are linked to core values. People generally need a lot of time to adapt. One should also remember that complex issues rarely can be solved by using a single frame. Leaders are responsible for ensuring that their employees use appropriate and robust frames (Schoemaker and Russo, 2001). The higher a leader is in an organization, the more time should be invested in creating frames around key issues. Top leaders must make sure that employees throughout the organization are framing the issues in an intelligent manner. They must also ensure that the dominant frames used by the organization are adequate and updated. Complex decisions must be evaluated using many different methods of framing.

For that to happen, leaders must recognize the limitations of their own frames and appreciate the value of others' perspectives, and they must learn to recognize and challenge other people's frames. It is also important that leaders master the techniques that will help others accept better frames more easily. It is here that management differs from leadership. Managers operate within an existing frame and do what has to be done, while leaders ask deeper questions, provoke new ideas and operate across different frames, moving the organization from an old to a new setting. Effective leaders challenge the old frames, visualize new ones and contrast old frames with new ones (Schoemaker and Russo, 2001).

## Creative Problem Solving

Successful leaders are often willing to experiment actively with innovative ways of solving their problems. Such an approach can be seen as an alternative to spending lots of time studying them. These experiments often take place on a small scale and at low cost. Many types of action take place even without the leader's conviction that they are the best solutions to a given problem. Rather, limited action is sometimes the only way to create an adequate understanding of a problem. If a leader is to achieve success with this kind of approach it may be useful to apply various forms of creative problem-solving. These forms are to some extent based on traditional analysis of the problem. But they are also based on leaders being able to create new problem definitions. This is done through the use of metaphors, images, imagination and provocation. Basically, leaders can use their creativity in order to either accept or reject an existing paradigm. In instances of acceptance, leaders usually work with methods such as replication, redefinition or forward incrementation; in rejecting a paradigm, they are more apt to take methods like redirection, reinitiation or synthesis into account.

Creative people often rely on intuition (Policastro, 1995). Einstein, for example, argued many times that intuition meant more than logical thinking for the scientific discoveries he made. The French mathematician Henri Poincaré has made similar reflections. He indicated that intuition was the most basic instrument for all creative work. It was by intuition that he was able to recognize new and valuable ideas and separate them from a considerable amount of uninteresting ideas. Another feature is that creative people have a relatively high tolerance for uncertainty. Antoine Lavoisier, who founded organic chemistry, is an example. His research was marked by a very long period of inconsistent results when it came down to determining the composition of air. The reason for this was a lack of metering equipment, but he did not draw any fast conclusions. His notebooks indicate that he was rather inclined to accept this uncertainty as an integral part of his creative work (Holmes, 1985). The ability to live with, and even capitalize on, high levels of uncer-

tainty and apparent inconsistency, seems to be a core component of the creative personality (Lubart and Sternberg, 1995, Sternberg and Lubart, 1991, 1995; Stoycheva and Lubart, 2001). Another characteristic is that creative people are largely driven by internal rather than external motivation (Amabile, 1996); they enjoy working with new and complex tasks and see this as a reward in itself. They do not need external rewards in the form of bonuses, words of appreciation, etc. to motivate themselves to create. Instead, they are driven by the interesting features of the tasks and see those as stimulating challenges.

Three basic functions work together when we think and reason, namely analysis, synthesis and evaluation. *An analysis* is a means to disassemble a whole into its component parts, to dissect, if you like. A *synthesis* means the opposite, namely to build a complex from a number of parts, creating concepts, ideas and theories. *An evaluation* is ultimately to measure the benefit in any way, particularly in relation to other things. Evaluation is closely related to creative thinking because the concept of creativity is tied to evaluation in many ways. Describing something as creative means giving it external or internal value. The interesting thing is that our subconscious has the ability to analyze, synthesize and evaluate without us being aware of it. The subconscious sometimes «announces» its record of such a process at the conscious level. This could almost be likened to some form of reporting. It is during this reporting that many may feel joy just before they are about to make a discovery. This is an indication that they are on the right track. The human creative process may thus be seen as a bucket thrown down into the subconscious bringing up something that one normally cannot reach. This finding is then mixed with normal experience, and something is created that can be likened to a work of art (Adair, 2007).

Creative problem-solving processes are characterized by leaders exploring many possible solutions on a general level. Leaders are also interested in the paths leading to the solutions, and what conclusions can be drawn. These processes have both a divergent and a convergent phase. It is important not to draw conclusions too early in the process, but to explore all the potential of the presented material.



The fundamental principle is based on free association, which is to say that no evaluation is made, that all possible and impossible ideas are welcomed and included in the process. The aim is to provide new and useful solutions, and at the end of the process, the positive and negative aspects of the new solutions are generally defined and evaluated. At this point, attempts are often made to find possible ways to overcome the negative aspects (Strand, 2007).

Individuals can often be more productive in generating new ideas compared to groups (Sinclair, 1992). A creative leader is characterized by the following features:

1. Cognitive flexibility.
2. An ability to understand complexity.
3. An ability to keep probability open as long as possible.
4. A non-judgmental attitude. .

A leader who works well in the creative process has the ability to use broad categories, has a good memory, and can relatively easily break behavioral patterns that appear to be fixed.

An important method is based on analogy. Leaders can for example study nature if they want to initiate a new innovation. It was by studying how bats navigate that scientists were able to invent the radar, and the design of airplane doors was inspired by how mussels open and close themselves. Yet leaders can also make use of analogy in a more subtle way. It is said that the founder of Honda was not satisfied with the design of one of their motorcycle engines. He then went to Kyoto and visited various Buddhist temples, and by carefully studying the statues of Buddha, he gained inspiration for the new design of the engine (Adair, 2007). Analogies also serve a purpose when it comes to selling a new idea to others. For example, a product or service can be coined «the Rolls Royce of X».

Another method is based on incremental analysis. Almost like being on a ladder, leaders are often faced with problems in which they either have to climb up to more general levels or climb down to more specific ones (Proctor, 1999). At the top of the ladder are the strategic and conceptual levels. In the middle one finds the

operational levels, and at the bottom, the most immediate problems to be solved urgently. By asking the question «Why?» one moves up the ladder, and by asking «How?» one moves down. A practical example of the three levels can be found in the reasoning of a sales director:

1. How do we improve our sales techniques? (high level).
2. How can we provide sales training in the best way? (middle).
3. How can we produce a manual for our sales people? (low level).

Leaders can also make use of lateral thinking (de Bono, 1971), that is to say, considering problems from new perspectives in order to create more innovative solutions and be able to distance themselves from conventional ideas. Contrary to logical and vertical thinking, there is no paradigm to follow. Vertical thinking is based on continuity, while the lateral is structured around discontinuity. People are generally more accustomed to thinking vertically and are unaccustomed to dealing with illogical thought patterns. However, one can practice by looking at a problem from several angles. New ideas, which not only represent variants of old ones, can be developed. The new ideas may seem to be impractical at first, but upon examination they will often provide a useful solution.

Another method is to make the known unknown and the unknown known in order to get away from habitual thought patterns (Gordon, 1961; Prince, 1970). The aim is to discern links between the new and what we already understand. This method is particularly useful for identifying and developing ideas. The analogies used may be personal, direct, symbolic, or based on fantasy. A practical example of making the unknown familiar is represented by the following story: On a course in leadership for university teachers the distinction between leadership and management was explained. Many of the students felt that they were faced with many new and difficult concepts. A chemistry professor suddenly seized the opportunity to use the familiar to explain the unknown. Many chemical processes are characterized by being slow, or completely stagnant, if a catalyst is not added. He said that leadership could be seen as a

sort of catalyst for an organizational process, that with the help of management, problems could be diagnosed (Adair, 2007).

A practical example of making the known unknown is represented by this story: A Scandinavian manufacturer of building slabs for the construction industry saw a TV program about Japanese culture. He had had problems with the sale of the slabs recently. The program revealed that according to the Japanese tradition people were sitting down while eating at festive occasions. The factory owner had an idea. He asked himself: Perhaps I could sell my building slabs to Japan to be used as foundations for traditional dinners? The idea was realized on a small scale and was almost immediately a success. The slabs sold better than they had ever done before. The Japanese households also wanted these slabs to be stamped with the correct name tag before entering their living rooms. What the factory owner in fact had done was to make the known unknown by questioning whether he necessarily had to sell his building slabs to the construction industry, which he always had done previously.

## **To take risks and be systematic**

Risk-taking is not something that is only associated with intuition since every decision contains some form of risk. Thus even people who are completely logical in their thinking are taking risks. The difference is that intuitive thinkers back an alternative that they believe is safe with arguments, while logical thinkers calculate all the odds. In both cases, it is important to avoid decisions that are characterized by too much chance. What characterizes effective leaders is that they are often willing to take responsibility for problems. They are also quite prone to relying on their intuition, even if this sometimes leads to errors due to inadequate data (Isenberg, 1984). In other words, it's positive if a leader demonstrates traits such as aggressiveness, risk-seeking and the need to achieve results, yet these personality traits have to be rooted in business experience. Otherwise, they may be even dangerous for the organization. It is in this way that new leaders recruited from MBA programs often

fail; they simply do not have the business experience and network of contacts needed.

Leaders typically define risk from subjective starting points, with a focus on negative rather than on positive outcomes (Shapira, 1994). It is therefore not unusual that leaders understand a risky situation better aided by their intuition rather than the use of statistical tables (Shapira, 1994). In addition, they find it difficult to understand risk when it is expressed by means of percentages (Gigerenzer and Hoffrage, 1995). It is simply easier to build up a mental scenario of a worst possible outcome from their business experience, compared to calculating its risk. The perception among leaders is that they take more risks than they actually do in reality (March and Shapira, 1987). They also believe that they learn more from risky decisions than is actually the case.

How managers perceive risk depends on a variety of individual and social processes. Many times, it is unclear how these processes interact. Many incidents are neglected until leaders pay attention to them and communicate them to others. In this communication process the information passes employees who transforms it through «raising or lowering the volume» (Kasperson, Kasperson, Pidgeon, and Slovic, 2003; Maule, 2008).

*Regardless of what decision-making style a leader has, it is advantageous to be systematic.* Systematic methods ensure that as many angles as possible are considered in the decision, that the necessary information is sought after, and that all options are evaluated and compared. They also help identify difficulties and consider consequences of alternatives. A systematic approach has the further advantage of enabling the decision maker to develop a logical and effective plan of action. Such a plan is often easy to explain to colleagues and clients who may be affected by it.

## Identifying problems

Research shows that leaders in general have to deal with all sorts of problems, and that this also applies to top leaders (McCall and Kaplan, 1990). Leaders are confronted daily with a stream of routine and new problems, which often have their origin in the environment (Browne, 1993). In other words, leaders face many different, often interrelated problems. The actions that leaders take in relation to a problem must, therefore, often be related to other problems. It is therefore important to look for relationships between problems, rather than assuming that they are independent of each other (Isenberg, 1984). By relating problems to each other and to informal strategic objectives leaders improve their ability to solve several problems at the same time. A prerequisite for this is that leaders are flexible and open in their attitude to how a problem is defined, i.e., that they have the ability to actively evaluate various definitions of the same problem.

Decisions that tend to only address a specific part of a problem often fail. Any decision affects one or more components of a complex business system. It is therefore important that leaders determine whether or not the problem in question concerns the whole company or a single event. Let's say a department is characterized by too many unresolved negative conflicts. A practical measure in such a case might be to relocate one of the employees considered central to the problem. However, it may be that the root of the problem lies in poor leadership or in a poor recruitment policy. Thus the measure taken has in such a case not solved the problem in the real sense. Leaders must therefore be inclined to carry out research and dig deep into why a particular decision is required. This will often lead to good results. There are decision analysts who argue that leaders should not spend too much time analyzing problems, but instead push for development of objectives (Nutt, 2002). The reason is that it is relatively easy to get caught up in apparent problems. To start from a number of objectives instead allows for new opportunities. It also makes it easier for decision makers to move away from the stereotypical responses and traditional ways of thinking.

The lower down the scale one is as a manager and the smaller the organization, the more likely it is that one does not have to look for problems. They often present themselves, perhaps by someone knocking on the door. The problems we receive are often either well-defined and neatly packaged or very poorly defined. It is relatively common for middle managers to view or define problems as simple. Perhaps only a part of the problem has been presented, and it is mistaken for the whole problem. Such simplifications can lead to simplified and rapid responses. Leaders sometimes choose to define problems in ways that make them suitable for solutions already existing. Resources that have not been allocated are examples of solutions looking for a problem. A leader may relatively easily define a problem whose quick and easy solution is to budget some non-allocated resources to it. Of course, there are many cases in which a leader perceives that the problem is complex but still chooses to focus on the solution options that match the simple problems. The reasons may be that the risk of failure is small, the cost of a bad decision is low, or that the decision can be reversed at a later date.

New problems emerge every day, and many of these are made worse when leaders ignore them. Thus it is important for leaders to identify problems early and nip them in the bud. This is not only important in the leader's daily decision making, but also when it comes to dealing with crises. However, it may sometimes be beneficial to wait before solving an identified problem, for various reasons. It may for example be due to the fact that several groups are involved in a process spanning several years, and that no crisis arises (Brown, 1993). In such a process it is common that a problem is addressed and acknowledged repeatedly, at regular intervals.

For many leaders it is quite natural to consider a problem as something they are not part of. But in many organizational decisions leaders themselves play an important role, as manifested, for example, by their leadership style. It is therefore important to consider one's own role as a leader in certain types of problems (Torbert, 1987; McCall and Kaplan, 1990). It must be clear that different managers in an organization have a tendency to define

problems from their own perspectives and areas of expertise. The definition of a problem varies with those involved in, or interested in, the situation. What is perceived as a problem in one part of the organization may not be perceived in the same way in another. Therefore, a financial manager, a marketing manager and an IT manager will not define their problems in the same way (Jennings and Wattam, (1994). Unfortunately, it often happens that leaders cannot agree on how problems should be defined, regardless of how much time they spend on diagnosing and analyzing them (Browne, 1993).

### **Preconditions for effective problem solving**

Successful leaders are aware that they must dig in order to obtain relevant information. They therefore seek the company of supervisors, suppliers, customers, competitors or bankers. Their own hierarchy is not always the most relevant information channel. Conversations are usually not only focused on a given problem, but range over a variety of topics. The leader can be seen as a sponge that absorbs the relevant information. Two activities are essential: listening and asking questions. When the leader receives responses, the focus is usually on both the sender's verbal and nonverbal communication.

*Another important factor is to know your own business.* This means knowing as much as possible about your job and the area you work within. Often, this implies deep knowledge about the people you work with (employees, suppliers, customers, etc.). This type of knowledge is often gained by leaders who have worked many years within the same industry, but it is also a product of the leader's intense efforts to learn everything worthwhile. It is therefore very important for a newly appointed leader to get to know the industry and the people as quickly as possible (Gabarró, 1985). Effective leaders do not spend too much time drilling for all things that can go wrong or for any human weaknesses. They go further, more intuitively, searching for new problems to solve. These leaders make

many mistakes, but can often quickly parry them and learn from them. What is referred to as «intuition» by this type of leader often has a behavioral basis. The way in which leaders of this kind gather, process, and compile information governs the way they define their problems (McCall and Kaplan, 1990).

Leaders must also be aware of time constraints when making decisions. However, the quality of thinking and execution is more important than the time available. One should not rush the decision, but it is also important not to slow down. Timely decision-making arises when one considers having enough relevant information, and that all relevant issues have been addressed. Delays are only beneficial when we need to gather more vital information or when circumstances change and the problems must be re-evaluated. Time pressure may, paradoxically, often be positive. It can, under favorable circumstances, result in better focus and narrowing down options.

A leader who decides must learn to prioritize which factors are most important. Some factors are always more important than others in the process. To give each factor equal weight is only relevant when they are equally important, and this is rarely the case. As a leader, one has to divide the factors into categories. In the next step it is important to prioritize these categories accurately, and to allocate time so that the vital aspects of a decision are not rushed through and less important aspects do not require too much time.

When a leader is to make a strategic decision, it is important to begin by identifying the problems. Because of their weight, strategic problems often complicate the decision-making process. There are no ready solutions waiting for this kind of problem. Solutions must be developed, which take time and add to the complexity of decision making. Strategic problems are also characterized by uncertainty and risk. One effect of uncertainty is that in order to obtain information and advice, leaders must involve more people from their network in the decision-making process. In addition, uncertainty necessitates the use of several criteria in the evaluation of options. One effect of a high degree of uncertainty is that more analysis is required to understand the problem (McCall and Kaplan, 1990).



The first part of a strategic plan often focuses on defining positive aspects of a negative situation. In the next step it is important to be able to establish where the organization is positioned in terms of performance. For example, what does the environment in which the organization operates look like? What are the comparative advantages of the organization, and what are the external requirements? What is the price of inaction? If performance gaps are discovered, it is important to thoroughly analyze their causes. Once finished with this step, the next one arrives. Where should the organization be, and what decisions are required for it to get there? Here it is important to identify the contextual areas in which the organization has fallen short and then analyze actions regarding the extent to which they are needed to fill the gaps. Such actions often imply:

1. Correcting poor performance.
2. Meeting customer requirements.
3. Removing the causes of various failures.

## **Defining a leadership decision**

A decision is characterized by a choice between several different options. It is the decision-maker who makes such a choice. The choice can be made directly, but usually the decision-maker is involved in a process that incorporates identification, analysis, evaluation, selection and planning. To arrive at a decision a leader must define the purpose of it, must clarify the options available, choose between options, and then transform the current option into action. To discuss the problems with peers is often the best way to approach a decision. When people get together they often generate unexpected solutions. It is important that each option is examined carefully before a decision is made. Both the decisions and the decision-making process are fundamental to all management processes. If you find that past decisions are still applicable you should take advantage of them.

A leader's decisions can be characterized by routine, but they can also be acute or strategic. Many decisions are characterized by routine. This implies that the same conditions recur, and when they do it is wise to choose a tried and tested option. However, some situations present no history of successful decisions. In situations like these, leaders are forced to decide on the spot based on the events taking place. This type of emergency decision-making can often take up most of a leader's time. The most challenging and most important form of decision making entails strategic choices. Here the leader must decide on goals and convert them into specific plans and decisions. A good default might be to try to make long-term decisions taking into account the short-term perspective. Decisions that are no longer relevant should be changed.

In order to reach a decision some kind of methodological thinking process will usually be necessary. The first step is to identify the subject being addressed and to set priorities among the objectives. Through a situation analysis, it is possible to sort out all the options that, for practical reasons, are impossible to implement. A manageable number of alternatives will be left that must be evaluated in detail. Each option's pros and cons are carefully evaluated based on the ultimate goal. It is important that a leader also involve others in this process if he or she has not done it before. Finally, leaders must create a plan that shows exactly how the decision will be made, that is, which actions must be implemented. It is important to remember that the implications of every decision must be considered since these can be substantial. A leader must also be able to anticipate and prepare for any type of change that can occur in a given situation. Leaders must always ask themselves what can go wrong when making a decision.

Usually such decisions involve many types of problem solving, and leaders arrive at their responses in a variety of ways. Some solutions are based on facts and figures, while others are rooted in insights that simply feel right. Some solutions have to be tested or simulated, while others work only in the short term. There are also examples of solutions that work without having clear limitations.

Sometimes the risk that a decision involves can be reduced by various tests, conducted either on the market or through simulation. Most decisions are characterized by some form of risk, and some decisions are riskier than others. An important issue for a leader is whether it is financially riskier to continue with a project that is proving to be problematic or to terminate it by a variety of measures. If one chooses the latter, one can simulate the economic effects of these measures. In conclusion, it is important that the leader takes into account all possible outcomes when making decisions.

### **To delimit the problem**

To be able to delimit an analysis, a first step is to create a structure of the problem. Such a structure can be split into separate elements that do not overlap. It is important that no dimensions that are relevant to the problem are infringed. The next step is to create a model or a conceptual framework. There is no need to reinvent the wheel. The organization itself can often provide existing frameworks which should be used wherever possible, and examples of frameworks that reflect the result of other organizations' experience in structured problem-solving can be found in the literature (Rasiel and Friga, 2002).

The next step is to develop a hypothesis about the likely solution. Experience shows that the use of a hypothesis as a guiding principle for analytical and research work enhances the efficiency of decision making. This is because it is many times easier to analyze the facts of a problem with a starting point in the confirmation or rejection of a hypothesis than to analyze all the facts divided into separate components. First, the hypothesis provides a map of problem resolution. It makes it easier to ask the right questions and make the correct analysis to arrive at an answer. Secondly, it entails a good assumption that it is easier to identify the blind track, and thus save time. A leader develops a hypothesis by drawing conclusions from the limited knowledge he or she has about the problem. This can be achieved without too much additional research, after which the

leader can spend an hour or two with his or her team to outline some possible solutions to the problem (Rasiel and Friga, 2002).

The final step is to arrive at what analyses should be conducted and what questions should be asked to confirm or reject the hypothesis. In this context, a so-called problem tree can be used as a method of presenting issues. Any problem can usually be broken up into sub-problems, which in turn can be further sub-divided. A framework such as this will create a sort of bridge between the structure and the hypothesis (Rasiel and Friga, 2002).

## To design the analysis

Most companies stand on several legs in order to succeed, but one of these is usually more important than others. The challenge is therefore to identify the key drivers of the organization. When time and resources are limited, a leader often cannot afford to examine each factor in detail. It is therefore important that leaders focus on the factors that are most central to the problem when they design their analysis. It is often better to dig down to the core of the problem than to pick apart every single element. Leaders should from time to time ask themselves what they are trying to achieve. If what they seek to reach does not fit into the overall picture, or does not draw them closer to their objectives, it is usually a waste of time. One has to work smarter, not harder. It is easy to analyze every aspect of a problem to death. But if an analysis does not add any significant benefit to the problem-solving process, the time spent carrying it out is wasted (Rasiel and Friga, 2002).

*When it comes time to start designing the analysis, intuition must be balanced against robust data. The secret of achieving balance is to put quality over quantity.* Focused analysis anchored in a good problem definition is often more important than a variety of untargeted analyses. One way to perform the analysis in a more focused way is to allow the hypothesis to determine the analysis on the basis of a problem tree. Another way is to start by thinking about the end result so that one does not deceive oneself into unnecessary analysis. One can also try

to define the type of analysis that should not be implemented. This is a natural consequence of letting the hypothesis control analysis (Rasiel and Friga, 2002).

It is important to remember that leading an organization is not an exact science. This means that one sometimes has to accept that leaders cannot achieve absolute precision in their models. By definition, strategic decisions involve a high degree of uncertainty. Leaders can spend a lot of time trying to improve the accuracy of their models (Montgomery, 1983). However, eventually they come to a point where diminishing marginal utility is taking place or else the market window is missed. A practical approach is characterized by trying to get started as quickly as possible to create profit and simultaneously continuing to work to improve the model over time. In some cases leaders are met with situations where a problem seems unsolvable. They should not despair. Many times they can successfully make use of analogies from, for example, competitors. This will in most cases throw some light on their own problem (Rasiel and Friga, 2002).

*The ability to make clear decisions in a timely manner constitutes an essential part of good leadership.* One has to be in control of decision-making. An important aspect of a decision, for example, is whether it can be made directly or be postponed. However, different situations require different types of decisions, and thus it is important for leaders to learn about the implications of different types of decisions. A decision may, for example, be either reversible or irreversible in nature. A reversible decision can be changed completely, either before, during, or after it has been put into practice. An irreversible decision is taken only once and cannot be undone. An example of such a decision is a contract that has been signed. Another example is the purchase or sale of a business. A decision may also be experimental in nature. This means that the decision is not final until the leaders have analyzed the first results, and they have proved to be satisfactory. A variant of this is making sequential decisions in several steps based on how the process unfolds. Another variation is making conditional decisions, that is, predicating a decision on certain circumstances. One can also postpone a decision until the time is deemed right.

## Conclusions

Leaders who make decisions are usually engaging both their intuition and their analytical thought processes. Modern research shows that intuitive thinking has the potential to support analytical thought, if intuition is used properly. However, leaders must be aware of the possibilities and limitations. Since fresh thinking and innovation are key elements in any problem analysis, creative problem-solving is an important complement to traditional and convergent thinking. Creative leaders are working extensively with both intuition and logic with the added advantage of being continually nourished by their subconscious minds. They also work with a lot of metaphors, analogies, and images to create dynamics in the analysis of a problem.

Many leaders come in daily contact with problems that are not necessarily self-generated. It is therefore important that they have the opportunity to adopt an outside perspective on the situation and define the problems which are of strategic importance for the activity. They should not allow themselves to be overly stressed by various everyday problems, yet still understand that everyday problems cannot be ignored – or they are likely to grow. After delineating a problem leaders should think through what trials should be conducted to test a given hypothesis about reality. This can be done on the basis of a so-called problem tree that has been created, showing how different problems are related to each other. When analyzing various problems, it is important to make clear to what type of decision these relate. Some decisions must be made directly, while others can be postponed. Some decisions are reversible in nature while others are irreversible.

**Checklist**

1. What are the pros and cons of thinking intuitively while making decisions?
2. How can you as a leader make use of intuition as a tool?
3. What characterizes creative people?
4. How is it that individuals are often more productive than groups when it comes to producing ideas?
5. What creative problem solving techniques can you as a leader use?
6. Why is it sometimes difficult for leaders to define risk?
7. Do you as a leader always have to solve a problem as quickly as possible?
8. How do you as a leader best identify a problem?
9. What characterizes the effective problem-solver?
10. What problems can you as a leader experience in defining a decision?
11. How can you as a leader delimit a problem?
12. What is important for you as a leader to consider when formulating your analysis?







**Kapittel 4**

**Facilitating leadership  
decisions**

## Who should be involved in a decision?

*A very important decision for a leader is determining who should be included in the decision-making process, and how* (Vroom and Yetton, 1973; Vroom and Yago, 1988; Sowell, 1996). The fundamental question is to what extent leaders are able to make decisions themselves. In many situations they need the help of others, perhaps the entire team, in a search for consensus. In order to address this, one must first carry out a situation analysis focusing on how easy or difficult it will be to engage employees in the decision-making process. Would they enjoy collaborating on the decision or would they prefer that the leader make an autocratic decision? One should also consider to what extent a decision problem is structured and how it is communicated between managers and employees. Similarly, it is also important to clarify whether or not employees have a shared vision of the problems related to the decision, or if they have very different opinions. Another important question to ask is how important the decision is. The main point is that it is the situation analysis that controls which decision-making style the leader should apply.

Should one choose to make the decision alone, it may be appropriate to consult experts, such as decision analysts or IT specialists. Nevertheless the leader will be solely responsible for the decisions being made and implemented. One option might be to involve senior managers, whose testimonial is respected. This is generally good even in situations where no requirement that decisions must be sanctioned from above is imposed. As a rule, it is easier to get help and support from leaders at higher levels when they are fully informed throughout the decision-making process.

Should leaders consult with others in the process, it is essential that this is done efficiently. It is important that the people consulted can really contribute knowledge to the decision. The need is greatest when the decisions are complex in nature, and a good network is invaluable in this context. Leaders must also inspire others to want to collaborate in the decision-making process. This can usually be achieved by informing about the significance of the decision and pointing out that others have influence over it. This increases the

likelihood of implementing the decision successfully. It is through involvement that one is able to create engagement. It is therefore essential that leaders clearly demonstrate how the views they receive will be considered in the final decision (Yukl, 2005). In a first stage, it is common for the leader to evaluate the possibilities of involving different people in different types of decisions, and here the leader must create an image of the susceptibility of the employees that have been thought to be involved in the process. The next step is to actively go out and persuade various employees to participate in the process. This can be achieved using various influence and advocacy techniques.

Sometimes the problem may be that leaders do not want to share work-related information with employees, usually for one of two reasons: Either the leader is very ambitious when it comes to his or her own advancement within the organization, or simply does not trust the employees (Read, 1962; Selart, 2005).

Yet consulting others can sometimes lead to more drawbacks than advantages. For instance, the time factor usually works against the leader – the more people consulted in the decision process, the longer it will take, regardless of whether the comments obtained merit the time taken. Leaders should also keep in mind that the more people involved, the higher the probability that a leader may become confused by conflicting opinions, and when too many people are consulted one risks losing control over the entire decision-making process. These problems can be avoided if firm control is implemented, and only the people that are really needed in the process are included. When one involves others in a decision, it is important to tell the whole story, as relating selected parts can easily lead to rumors and a decrease in morale. A consultation should in other words be neither vague nor partial in nature. Making an autocratic decision without involving others might be an option. Yet it requires a very strong power base, or the ability to sell the decision successfully.

One alternative is to hold a group meeting. Here, one may be met with critical comments, but the leader who changes a decision because of an impression he or she received at a meeting is strong

rather than weak. The challenge for the leader is thus to be a good listener, which entails not just listening in general, but really getting acquainted with what is said, with commitment. Leaders must therefore encourage others to speak freely and from their hearts, and it is also a good idea to write down others' ideas and suggestions and try to look for ways to build on their proposals. The leader should not become defensive but rather listen with interest even if some of the ideas appear to be too different. The proposal eventually arrived at should not be described as definitive, but rather as tentative. In that way leaders do not close the process to new initiatives. It is important that the leader encounter the greatest variety of thoughts and ideas possible from his/her employees during team meetings. Therefore it makes sense to try to achieve a relatively large spread of interests and views when considering the participants of the meeting.

*It is good to remember that a consultation of others in decision making does not necessarily mean an invitation to endless discussions.* It is important to seek views and information and to listen carefully to what is being said. However it is up to the leader to decide which course of action is needed. An inherent risk with group meetings is that employees are sometimes reluctant to give voice to problems. In such situations the leader may question this seeming absence of problems and propose individual discussions with each of the meeting participants. A successful leader must sometimes be aggressive in order to obtain relevant information (McCall and Kaplan, 1990).

Holding group meetings can be difficult if many employees are involved and they are located in various regions, and if the organization is in crisis, it may be counterproductive for the leader to involve many others in the process. In such instances an autocratic leadership style may be preferable. The leader must always be open to impressions and ready to respond to suggestions from knowledgeable employees. In a crisis, it is likely that the leader does not have time to pay attention to all the problems that arise, nor time to think through all the steps that have to be taken (Yukl, 2005).

Many top leaders are of the opinion that one sometimes has to circumvent one's own hierarchy to obtain additional relevant information. There are sometimes just too many obstacles in the

organization impeding the flow of information. One must then be both aggressive and unconventional to be able to obtain the information one is interested in. Leaders should simply try to create new information channels and feedback systems of their own (McCall and Kaplan, 1990).

Not all information is new information (Sowell, 1996). History is an incredibly extensive stock of experience that has evolved through generations and centuries. In addition, traditions can be seen as the result of millions of people's experiences over thousands of years, and as history tends to repeat itself, leaders ought to try to learn from past mistakes. They should also familiarize themselves with relevant traditions and see them as important channels of information.

## **Generating and validating ideas**

An important method for obtaining new ideas is brainstorming. The method is based on groups or sessions, often initiated by the leader gathering three to eight people to a specific brainstorming session. Everyone is given the task of developing a number of ideas that are relevant to the decision problem. Each idea presented is recorded accurately. It behooves leaders to be democratic; that is to say, ideas presented by junior group members should be given equal consideration as those presented by seniors. The more ideas presented, the better, and the ideas should not be judged or analyzed within the framework of the meeting. They should not be the basis for decisions, i.e., they need not be explained or defended (Proctor, 2002). When a sufficient number of ideas have been presented, the meeting is adjourned, and best ideas are then selected for further analysis. For this purpose, the same group could be used with advantage.

It is important to remember that the ideas we share with others in this type of meeting can inspire further ideas. By combining and modifying ideas, new and even better ideas are created. It is not unusual for ideas to be expanded or given new angles and directions, and combining two ideas that initially did not seem compatible can result in a better idea. The whole purpose of brainstorming is to

allow people's thoughts to stimulate each other and lead to a chain reaction of ideas.

Nevertheless there are a number of problems related to brainstorming. One is that many leaders believe any discussion of ideas constitutes a form of brainstorming (Rickards, 1985). Moreover, the success of this method depends on an experienced and competent group leader. The method is furthermore based on a surface analysis which implies that it may not be appropriate if one is mired in a problem or working with a strategic decision (Rogers, 1993). Acceptable problems must therefore be defined as structurally easy (Hicks, 1991). For this reason, brainstorming is not suitable for addressing advanced technological problems, personnel matters or problems that involve a lot of written material.

However, there are a number of positive effects of the method if used in a proper context which have the potential to promote innovation (Sutton and Hargardon, 1996). One such effect is that the process supports the organization's memory, that is, knowledge of clients and products arrive at the table. Another important effect is that the process results in a variety of skills. Employees with different backgrounds are given the opportunity to interact in a way that does not normally occur in the organization. A third important effect is that using the process may involve customers and suppliers, and this usually leads to improved opportunities for commercialization of a product or service.

An alternative to brainstorming is brain writing. Here, invited group members are instructed to write down their ideas without discussing them with others. The leader sets up all the ideas on a bulletin board, so everyone can see them, and the members are then instructed to build on the ideas listed or add new ideas stimulated by studying of the list. The leader will then evaluate the list based on its relevance to the problem. In modern variants of brain writing, the evaluation of ideas takes place at a later meeting. Group members are encouraged to continue thinking about the problem and write down new ideas in the meantime (Paulus and Yang, 2000). The reason for using a follow-up meeting is that group members do not have enough time to reflect on each other's ideas within a session

in which they are busy producing ideas of their own. Brain writing is especially useful when working with large groups. All parties will then get the chance to present their ideas without being overshadowed by others in the conversation.

In order to evaluate the ideas generated some form of consequence analysis must be made. We should ask ourselves what the consequences are if we decide A, B or C. This can be done in a group that tries to illuminate the issue from as many angles as possible, and in such a situation it can be advantageous to have each group member present their views one by one rather than letting the discussion be fully open. The best way to reduce a long list of ideas is usually to use criteria. For instance, if it is an investment decision the criteria could relate to the maximum amount of investment, the return on capital and strategic relevance. Once criteria have been established, it is relatively easy to dismiss options that fall outside them. A variant of the method is to evaluate the positive and negative characteristics of each option based on the criteria. This variant is sometimes used in recruitment decisions.

## **Collecting information in the right way**

Once options have been narrowed down, it is often useful to examine the remaining ones in more detail, with an eye to their shortcomings and implications. For this reason it is necessary to obtain more information, and today there are more sources than ever before. Leaders must therefore focus on the type of information they are most in need of when faced with a decision. This can be done by writing down what information is ideally seen as needed, and then investigating how much of this is available, and where. Leaders should not needlessly sacrifice their ideals without trying to obtain as much relevant information as possible.

Leaders normally have access to a lot of vital information by virtue of their positions in the organization. They also possess control over how information is distributed to others (Pettigrew, 1972), and in fact sending information to employees in the organization

can actually be seen as a method for collecting information. Some leadership positions provide access to information that is not available to employees (Mintzberg, 1973, 1983). For example, marketing managers, purchasing managers and information managers often have access to information about events in an organization's external environment. However, it is not enough to hold a certain position in order to ensure access to all the relevant information. Every leader must actively create a network of information sources and retrieve information from it regularly (Kotter, 1982). A leader can, in principle, make three errors in this context:

1. The leader does not use existing information.
2. The leader makes a decision first and then searches for information.
3. The leader uses information that is irrelevant to a decision.

Leaders in information-intensive organizations are alert and attentive when it comes to discovering opportunities in the market. They are also able to identify threats in the environment earlier than others (Dutton, 1993; Huber and Daft, 1987). This allows these leaders to be quick in exploiting market opportunities and making strategic moves to avoid being hit by threats. They may even be able to turn threats into opportunities for the organization. Thus the ability of a leader to monitor the environment is a success factor for companies operating in turbulent and uncertain environments (Daft and Weick, 1984; Stoffels, 1994). There is also empirical evidence revealing that leaders in information-intensive organizations make strategic choices before other leaders do and that their organizations have higher revenue (Dollinger, 1984; Gannon, Smith and Grimm, 1992; Jennings and Lumpkin, 1989; Reid, 1984, Smith, Grimm, Gannon and Chen (1991).

An organization's own information systems can be an important source of information. Here one can discover data that has not been analyzed previously. Reading annual reports is always instructive, and it is wise to focus on anything seemingly abnormal in them. Many companies today also have access to their own advanced



computer systems, and by using these systems leaders are able to monitor the internal processes and generate relevant information for strategic decisions. With, for example, ERP systems and data warehouses, one can obtain very valuable information and also control important production processes. Leaders can also let IT professionals customize decision systems so that they become relevant to their own operations.

Yet attitudes towards the use of modern information systems vary among leaders. Earlier systems were often complex and time consuming to work with, and there comes a point when the expenses of time and effort exceed the benefits of new emerging information (Harrison, 1999) – and it often arrives quicker than one would think. Many leaders declare that it is not the shortage of information that is the dominating problem today. On the contrary, leaders are drowning in it. The data collection process has changed in that it is now easy to find a wealth of information on the Internet; today there is much more information available than just a few years ago. In addition, many leaders have access to volumes of complex scientific data. This does not mean that leaders want to have access to as much information as possible. Rather, they want access to the most relevant information as quickly as possible in order to be able to concentrate on producing one or two key indicators. There is often no time for more. Alvesson (1989) has suggested that the search for information in itself gives the leader status, that information and the search for it reflect competence. For this reason, some leaders collect more information than they need.

The new technology makes it possible for leaders to build highly efficient databases using data warehouses, etc. By taking into account powerful evaluation tools based on optimization and simulation, these databases make it possible to create excellent conditions for both richer and more accurate decision analysis. Hence, business platforms are developed in support of entire decision contexts (Kleindorfer, 2001). But one must remember that many ingenious IT systems have a tendency to fail, often because information systems age too quickly or do not meet the needs of the organization in other ways. Leaders should therefore ensure that people

outside the subject area can understand what has been entered into the systems, and also ensure that each document can be retrieved by using keywords or other search methods. Remember that such systems lose an incredible amount of value if there are no incentives to use them (see for instance Hansen, Nohria and Tierney, 1999).

Another important source of information is the electronic media. The information industry has grown tremendously, and there are currently consulting companies that offer valuable assistance, particularly with regard to competitors' activities. When it comes to networking, conferences and seminars are important arenas. It is also good if a leader can build a small library of interesting information that he or she wants to save for future reference. Such a library might include reference books, press cuttings and relevant reports. Leaders must focus both on the overall problem and on the details when collecting such information.

The accessed information must be organized and carefully examined. Reports by external consultants or internal working groups should be organized so that the summary comes first. A report should in addition be structured in a logical manner, and supporting data should be organized into tables and figures that are easy to comprehend. Reports should be treated as any other information. It is important not to take anything for granted. Data may very well come from small or unrepresentative samples. It may also be that the questions raised have deficiencies in objectivity or validity. In these cases, leaders should not rely on the information, but rather double-check it if given the opportunity to do so. Once satisfied, a leader can use the various reports in order to create consistency. This information is very valuable as support for a decision and as a basis for an action plan.

Another source of information consists of interviews. It is important that these are structured carefully, and leaders should therefore create an interview guide containing the key questions that they want answers to. In order to achieve best results, generally speaking anyone interviewed, whether internally or externally, should receive the guide in advance. Sensitive issues should be avoided at the beginning of the interview and instead added at

the end. Leaders may well begin their interviews with «small talk» about everyday issues, and once the interview is over, may ask to put another, less relevant question. This question may in fact be the most important one. Interviewees will have by then started to relax and usually answer the question with ease.

The people who are interviewed can often learn as much from the interview as the one asking the questions, as illustrated by this real life story: A researcher had been allowed to interview the directors of an industrial site belonging to a multinational electronics company. The interview focused on the potential strategies management had for getting employees with long-term illnesses back to work. When the researcher arrived at the site, one of the leaders asked her how long the interview would last. She said it would take about an hour. The immediate reaction of the leaders was very hostile, the researcher was barraged with sour comments about how much this would cost the company, etc. However, once the interview started, all the leaders became very involved in it. In fact, they refused to leave before a couple of hours had passed (see also Tengblad, 2006).

Interviews are very much about being able to listen actively. If you are the new chairman of the board it could be wise to implement three-hour interviews with all formal and informal leaders in the organization. One learns a substantial amount about a company simply by listening to the key decision-makers. The fact is that effective leaders use most of their time listening to others. *Many believe that the primary purpose of an interview is to absorb as much information as possible from an interviewee. However, this is a misunderstanding.* Leaders should instead use the opportunity to become acquainted with the new person and involve him or her in the problem-solving process. Interviewees should not be undressed and left without their clothes. Following up the interview at a later date is also advisable is, in order to confirm that one heard and understood everything correctly (Rasiel and Friga, 2004).

A shortcut that many leaders take is following the decisions of other colleagues in the industry (Abrahamson, 1996; Scott, 1995), on the assumption that this is an effective way to learn from others. Thus many leaders let themselves be influenced by «information

cascades» created by peers. This is, for example, quite common in the purchase of computer equipment. When asked why they have invested in the purchase of some equipment many IT managers respond that «everybody is investing in this technology right now, so we must of course keep up with developments.» This behavior is especially common in situations of uncertainty, and yet it is often has devastating consequences. If one needs to follow what others do, it is important that the situation calls for effective action. In such decisions intuition should not play an important role, and one should also be alert to external changes (Oberholzer-Gee, 2001).

As this reasoning reveals, there are two different ways of defining information (Debon, King, Mansfield and Shirey, 1981). Both have epistemological roots. One definition emphasizes that information exists independent of people and organizations as a raw material of some kind. This definition is reassuring for many leaders. It makes them feel that what they have available in their systems is the «real thing». The second definition states that information only exists among the organization members. Symbols and signals become information when they are absorbed in human cognitive structures. When people interact the information is changed and moves on to become a social construction (Brown, 1993). A common approach among leaders is to consider data consisting of facts, observations, events and figures, while information is some kind of synthesis of data. Many leaders believe knowledge to be a mixture of information, experience and context. These components are seen to interact in a value-creating process. However, such a value creation often has a clear political dimension. For example, complex decision-making can be seen as a manipulative technique, a tool for management to use in order to convince and motivate others on their own line of action (Brunsson, 1985). Leaders can thus use information as leverage to influence.

## Making future predictions

Much decision making in organizations is based on a predictable future and manifested events following some sort of action plan. Leaders should therefore seek to develop methods to improve their own forecasts, and also try to find ways to make use of other's predictions. Most forecasts are based on what leaders extrapolate from figures and numbers. A more dynamic alternative is to work backwards from the future. A model of the future may simply be created in such a way that leaders can decide where they want the organization to be in terms of performance at any given time. Internal factors such as financial standing, structure, and development of personnel may be included in the model, but it may also address external factors such as customers, markets, competitors and investors. When the model is developed, the leaders can start planning what actions must be implemented to achieve its objectives. This approach is about creating rather than predicting the future, and many argue that it therefore constitutes the key to progressive and pro-active decision-making (Heller, 1998).

Consider, for example, a company that sold expensive products and was affected by low-cost competition from new entrants. Predictions showed that this trend would hold in a growing market, and by extrapolating the numbers from their own results the leader of the company could see that they would lose both in profits and market share in a very short time. The leader then decided to create a future in which the company became more competitive in terms of prices and costs. He anticipated that the company could triple its market share within four years if measures were taken in these areas. To achieve this, the company predicted a rise in production and sales figures. Based on this high ambition strategists worked backwards to determine the forecast of costs, margins, production and introduction of new products. The leader's vision of a triple market share was then realized two years in advance according to plan (Heller, 1998).

There is much to consider when making predictions. First, leaders must ensure that all relevant variables and options are included in

the forecast. In doing so they must also ask the question: How easy or difficult is it to assess the probability of each possible outcome of the forecast? In this context it is important that the probabilities can be estimated as rationally as possible. They should perhaps also build in margins of error in the forecast and make them as realistic as possible. The cornerstone of all forecasts is the assessments made. With this in mind, one can work with predictions as a diagnostic tool. For example, ask oneself what will happen with the next quarterly budget if the sales forecast goes up, etc. (Heller, 1998).

The evidence suggests that the most successful forecasts are based on the interaction between experts and statistical models (Hoch, 2001). This is because experts are usually more able to identify and assess the relevant dimensions of the decision. The statistical models are better at integrating these dimensions as part of an overall analysis.

## Minimizing risks

Most decisions contain some degree of uncertainty, and leaders must therefore use their experience and assessment capabilities to eliminate as many doubts about the situation as possible. It is important to carefully think through the consequences of the different options. Leaders should also be willing to compromise and to think through actions so that they are timely.

One way to minimize risks is to draw up a list of all possible negative consequences of a given decision and assess their likelihood. It is also important to think about the damage risks may result in. Leaders may also want to experiment with different time horizons, that is, ask themselves what the short-term and long-term risks are. A common mistake many leaders make is being too short-sighted in their assessments – the important thing is to be able to show good results for the next quarterly report, and then one often looks no further. However, it is better for the leader to succeed with a short-sighted assessment than to fail when applying longer time horizons. After all, environmental change is very rapid these days.

Leaders should clarify for themselves what external factors may affect a decision. Then they should ask themselves what the likelihood of these factors manifesting themselves and negatively influencing the decision may be. Such analyses increase the chance that the decision will be successful.

Many projects fail because they are not well timed. Either they start too early or too late. Take, for instance, the launch of a product. Usually there is a conflict between getting all the details right and introducing the product to the market as quickly as possible. Often it is beneficial to decide and implement quickly, and thus important to avoid unnecessary delays. However, leaders must never risk other people's lives or health. Therefore it is important also to consider the implementation of the decision carefully. A good leader must be able to take risks, and the social norm stipulates that a good leader must take good risks, but he or she should avoid being a player (Shapira, 1994).

It must be clear that successful leadership always involves compromises of some kind, since a decision is influenced by several factors. For instance, a leader cannot maximize investments and profits at the same time. The short-term gain may sometimes have to be sacrificed in order to achieve long-term success. Many products are also made in such a way that one can find built-in contradictions – it is difficult to maximize a car's acceleration while minimizing its consumption, for example. One way of overcoming this dilemma is to create a list of priorities and also try to estimate which of these are governing the competitors. The next step is to make a list of the customer's priorities. Then it becomes relatively easy for leaders to eliminate the less significant ones. However when it comes to customer priorities, it goes without saying that most customers are not willing to sacrifice quality to price (Heller, 1998).

In order to minimize risks, once we have appreciated them it is appropriate to try to build in safety nets of various kinds, and here it can be advantageous to gather a few colleagues and discuss. A first step might be to outline best and worst case scenarios. A moderate degree of optimism and pessimism is good to have when doing this. For example, leaders should ask themselves if the best possible

profit justifies taking the worst possible risks. Excessive risks are not worthwhile if the benefits are small. It is also important to understand that reality is not polarized, comprised of only best and worst possible outcomes. There is always an outcome that lies in between and which perhaps is the most plausible one.

While planning for the best outcome, we must be prepared for the worst. Plans that allow for only one type of outcome are often more risky compared to those that leave room for many potential ones. Take, for example, three scenarios where competitors either raise, lower or maintain their prices. These three options lead to three different strategies. One option is to choose a goal that is consistent with the most positive scenario outcome and make decisions that optimize the chances of achieving that goal. If it turns out that none of the scenarios appear to be particularly attractive one should probably rethink the whole situation (Heller, 1998). It is also important to remember that the costs of the worst possible outcome can be reversible or irreversible (Shapira, 1994). In the latter case, the consequences for the organization can be devastating.

Projects involving innovation and creative processes contain a lot of risk. However, research shows that many leaders find it difficult to assess these risks in terms of probabilities and profits. (March and Shapira, 1988). Even if leaders feel it is part of the job to take risks, they usually have not developed analytical concepts in order to calculate the probabilities of gains and losses. This is an area where leaders have to train themselves. Leaders should also be observant of the social context in which risk occurs, for how risk is perceived is of great importance. For example, opportunities that are farther off in time are usually ascribed another status than opportunities that are closer. Entrepreneurs and innovators have a tendency to consider risks differently than other leaders, breaking away from standards more easily. In practice this means that they are willing to take risks and live with them, even though they try to minimize them as best as they can (Strand, 2007). International leaders should in addition be aware that attitudes to uncertainty vary from country to country (Hofstede, 1991).



## Presenting ideas

When ideas are to be presented, it is important that they be structured clearly. Leaders must start with themselves; they must ask themselves whether or not it is possible to explain the key messages of the presentation to any other person in 30 seconds. At McKinsey this is called the «elevator test». To be able to do this, leaders must limit themselves to one message per slide, and thus it is important to work with graphs and diagrams to illustrate potential complex relationships. Another good piece of advice is to start with the conclusions. This is called *inductive* reasoning. The following formula is based on induction: We believe X because of A, B and C. This differs from *deductive* reasoning, which could be formulated as: A is, B is and C is, therefore, we believe X. The advantage of inductive reasoning is that leaders can arrive at a point much faster, and this creates momentum. (Rasiel and Friga, 2004).

Another important aspect is that the inductive reasoning forces one to be more prescriptive in the presentations. The following story was told by the head of Ernst & Young's local office in a small Scandinavian town. Their office played an important role as a link between the local university and surrounding businesses, which were predominantly small firms, primarily in the agricultural sector. The university educated economists, among others, and the local office helped recruit them to jobs in local businesses. A newly graduated economist was once recruited by a small business, a mature, energetic entrepreneur's one-man shop. After a few weeks the local head of Ernst & Young called the entrepreneur and asked if he was satisfied with his newly employed economist. Unfortunately, he was not. The entrepreneur explained that the next time the office might just as well send him a «one-armed» economist. The head of the local office asked what he meant by this and got the following response. «Well, at every presentation he (the economist) always provides two alternative interpretations or recommendations. Either we should do this or that. We are looking for someone to tell us which course of action we should take and not leave the decision to us». In other words, the business simply wanted to have someone who did

X because of A, B and C. Many business schools train their graduates for larger organizations where it is expected that the CEO is the one who makes the strategic decisions. The role of the employees is to provide support. Small businesses are often quite different, and may want employees to be more normative.

Another bit of advice is to try to gain acceptance for ideas by presenting them in advance. A good business presentation should not contain any major surprises for the audience. The relevant decision-makers in the organization should be guided through the results before the presentation starts. An advantage of this method is that it prevents threatening and major objections from arising out of a blind zone. It is usually easier to build consensus on a solution if the persons who are to approve or implement it are informed in advance. If it is "pre-vetted", that is to say, the persons involved have been given ample opportunity to review circumstances and information in advance of the process, the solution will often be better attuned to the political realities of the organization. When first informing others about a solution this can be done face to face with each key person, thereby opening up the thinking process in a more informal way that is perhaps impossible to do in more structured surroundings. Face to face, it is relatively easy to find out what others consider to be problematic in relation to one's solution, and start working on it. If someone expresses concerns with the solution, a compromise can be reached before the big meeting, thereby ensuring the critics' support when the time comes (Rasiel and Friga, 2004). It is important to note that vetting a decision is not to be confused with similar processes that may take place later. For example, it is not uncommon for an autocratic leader to make a decision and then try to sell it internally and externally through persuasion (Hedelin and Allwood, 2001).

Empirical research shows that top managers use much of their time both to search for information and to vet decisions (Hedelin and Allwood, 2001). The results also reveal that there is often one major decision option that is gradually built up by vetting. It is relatively seldom different options are built up in this way simultaneously. The vetted option often relates to a practical problem rather

than to a vision of some sort. Many leaders consider communicating around a decision option with others, both internally and externally, as an arena for learning. There are many negotiations between the promoter and other key individuals and groups on the option's various properties. The purpose of these negotiations is usually to inform the other party and get a picture of the reaction pattern. Different reactions may in turn lead to further communication. Negotiations of this kind aim to clear up misconceptions and to arrive at changes to the proposed option. The goal is to reach consensus in terms of a common understanding of the current option. In this way many important decision alternatives emerge through communication, in which many actors can participate. This creates a commitment to the option and also a moral responsibility.

There are, however, some problems with the method. One is that the leader who initiates the process often finds it difficult to assess how long vetting the decision will take. Leaders simply do not have control over this factor (Hedelin and Allwood, 2001). Another problem is that the initiating leader often does not reach a consensus. This may be due to several things. Insufficient financial arguments, for example, can be a factor. If one does not have the relevant financial figures on hand, it can often be difficult to convince others about the viability of the option. Second, perhaps not enough time was spent talking to the relevant key persons, and just sending out information was presumed to be sufficient. Or third, perhaps in an effort to obtain a decision quickly one had as little contact with relevant key people as possible. Unfortunately, all this often leads to failure. One problem that new managers in particular have is simply not knowing whether the «sale» of the decision to relevant key people has been made.

When presenting ideas one should also try to tailor the presentation to the audience. An error that many make is that they do not adjust the language to the particular audience they are addressing. They may for example include the use of excessively academic language, or too many terms derived from the consultancy world. The same presentation can rarely be used in different contexts, and it is often beneficial to use the language and jargon the audience is

used to. One should also have an idea of how interested the audience is in the presentation of background information. Certain types of audiences, in particular top leaders, often want the presentation to be as brief as possible (see also Gioia and Chittipeddi, 1991, for an elaborated discussion).

## Negotiating

Negotiations are important both in formal and informal settings. An example of a formal context is when leaders are negotiating a contract which is of great importance for the entire organization. Informal negotiations often take place internally. The results of these affect the organization's future course, the relationship between employers and unions, and employee motivation to comply with a decision. It is through negotiations that leaders are able to reach important agreements, and the manner in which negotiations are handled is crucial for the results obtained (Rognes, 2008).

When two or more parties cooperate to reach a joint decision, they are negotiating. This does not mean that they need to sit at a negotiating table, nor does it mean that they need to give explicit offers and counter-offers. It may even be that they state that they are on the same side. As long as their preferences for the joint decision are not identical, they must negotiate to reach a mutually acceptable outcome (Bazerman, 2006).

It is common among leaders to treat every negotiation as a form of volitional struggle, but this approach is often counterproductive (Thompson, 2005). They should instead consider the negotiation as a decision-making process where analysis and relational understanding are the key elements. However, it is challenging to arrive at the best possible agreement with people that one partially disagrees with. The dependence of the other party, and the desire to safeguard one's own interests as well as possible, create a number of challenges that must be addressed. Such challenges concern the relationship between cooperation and competition, the focus on substance and the handling of relationships. They also affect how we should

analyze, design and carry out negotiations. Leaders should therefore develop a negotiation strategy, that is, a plan for how they wish to behave in the negotiation process. Such a plan should be based on a survey of interests, issues and options, and it should also include solution opportunities as well as the formulation of procedures for the negotiation process. In addition, it is positive if a negotiating strategy addresses the leader's own possible steps in the negotiation process (Rognes, 2008).

Many leaders believe that their negotiation achievements are somehow inevitable. They imagine that the situational factors mean a lot. However, experience from many leadership programs shows otherwise – the results from simulated negotiations vary enormously. Often leaders negotiate in pairs, where one half of the group may play one role and the other half another. The groups involved are relatively homogeneous, and the data used is similar. The conclusion that can be drawn is that how one behaves and makes decisions in the negotiation situation is important (Bazerman, 2006).

Leaders negotiate in order to safeguard their own interests. However, the interests of the other party must also be taken into account. Any negotiator depends on the other party accepting the agreement. Therefore, it is helpful to identify the other party's interests as early as possible so that solutions can be developed that both parties can accept. Inexperienced negotiators are poor at identifying both their own and the other party's interests, and this often leads to difficulties in finding good solutions to the negotiating problem. There are often several different themes or dimensions that can be negotiated in order to protect the underlying interests. This is how value is created in the negotiation situation. The most common mistake many leaders make is that they hang on to a single dimension. For example, consider that money is to be shared among a number of different departments within an organization. Looking at several other dimensions enables one to create solutions and reduce the risk of the negotiations breaking down (Bazerman, 2006; Rognes, 2008).

Creative negotiators are aware of this and can switch between different themes/dimensions in order to promote of their own

interests. Many managers focus exclusively on obvious negotiating themes and forget the underlying interests. It is by being attentive to both interests and themes at the same time that leaders can clarify the negotiating problem and allow for new creative approaches. The best way to do this is to build trust with the other party and share information. Trust can be created by demonstrating a willingness to go beyond what is probably expected in a given situation. The sharing of information may well be gradual, but it encourages the other party to act similarly. A general rule in negotiations is that the parties often treat each other as they are treated. Of course one should not divulge strategic information that might undermine one's position. Asking questions is also beneficial in that one may glean critical information from the other party (Bazerman, 2006; Malhotra and Bazerman, 2007; Rognes, 2008).

Leaders are frequently content with having created a situation where both sides win and finish the negotiations as a result of this. However, in such situations a mediator can be brought in for the purpose of looking at the situation and trying to ensure that both parties gain something further as a result of the process (Raiffa, 1985; Bazerman, 2006; Malhotra and Bazerman, 2007).

A leader should also be clear about what the alternatives to a negotiated solution are (Fisher, Ury and Patton, 1981). An important question is whether such alternatives are better or worse than the negotiated agreement. Leaders can therefore actively try to make these alternatives as attractive as possible. It is part of the game.

## Conclusions

In order to reach a decision a leader must determine which persons should be involved in the process and when. Ultimately, it is the decision situation that determines which people are to be involved. A leader must learn by experience which situations require the involvement of others and how. A relatively common method of involving others is to delegate the decision to a group. A main objective of this is often to generate as many innovative ideas as possible

in order to inform the process. Different techniques can be used for this, including brainstorming. The proposals generated must be validated by the group and this can be achieved through the introduction of various criteria, and based on these criteria, it becomes relatively easy to filter out proposals that do not reach the goals that have been set.

In addition, a leader needs to collect information in order to reach a decision. Many times, the problem is not that leaders have too little access to information but that they more or less drown in it. It is therefore important to get enough relevant information as soon as possible, often by the use of some form of filtering method. With the help of relevant information, forecasts can be created and risks minimized. Leaders must also be able to present their ideas in the most attractive way possible in order to obtain approval and arrive at decisions. There are two important aspects of this, namely the groundwork that has to be made before a presentation, and the design of the presentation itself. Sometimes it is not enough to present an idea. A leader may then be needed to negotiate in order to reach a decision. A negotiation should not be viewed as a volitional struggle but as a decision-making process where analysis and relational understanding are key elements.

**Checklist**

1. What are the problems for you as a leader in involving others in the decision-making process?
2. What are the advantages and disadvantages of brainstorming?
3. What is brain writing, and what are the advantages of this method?
4. What are your most important sources of information as a leader?
5. How can you as a leader use the interview as a tool to obtain information and build relationships?
6. What should you as a leader consider when making future predictions?
7. How can you as a leader minimize risks associated with a decision?
8. How can you as a leader present your ideas as effectively as possible?
9. What is important for you as a leader to consider when you negotiate?



## **Kapittel 5**

# **Structuring the decision process**

## Working with structured group processes

The basic idea of structured group processes is that a panel of experts can make more realistic predictions than a group of laymen. These processes are commonly referred to as the Delphi technique. The number of respondents is usually between 30 – 40 participants, although Wright and Goodwin (2008) suggest that 5–20 participants is optimal. It is important that the participants are guaranteed anonymity. All participants receive comprehensive feedback from the whole group so that each member has the opportunity to adjust their own assessments. Often a special research group is created to plan exercises, test questions, and analyze the results. A group of experts initially responds to a well-designed questionnaire, giving their views on when a number of events of strategic importance will appear in the future, if at all. After this first round is completed, the results are summarized for each event, in quartiles for the whole group. Then it can prove, for example, that one quarter of the group felt that the event X would fall before 2015, that half the group was of the view that it would fall between 2015 and 2025, and that the remaining quarter responded later than 2025 or never (Coyle, 2004).

When the experts are informed about the response pattern of the group, they are given the opportunity to adjust their assessments. If, for example, an expert is in the outer edge of the distribution he or she is able to either change position or give arguments to stand by the assessment. The procedure usually lasts for up to three such rounds, and therefore, the use of this technology to a large extent resembles a controlled debate. A variant of the technique is to ask participants to estimate on a five-point scale how important it would be if the event X occurred before 2025. In addition, the participants can be asked to estimate the probability of the occurrence of event X on a five-point scale. Later on they can also be asked to confidence rate their own responses (Coyle, 2004).

One problem with this method is that it can be difficult for many experts to make predictions as far as 25 years into the future, not knowing how the world will evolve. Thus describing a possible future

world development in the beginning of the survey can be useful. Will, for example, people in general be governed by prosperity and optimism or by poverty and pessimism? (Coyle, 2004). Another problem with this method is that it is usually expensive and time consuming.

Research shows that Delphi groups generally perform better than traditional teams do (Rowe and Wright, 1999, 2001). This suggests that individuals make more accurate predictions in the Delphi groups than in the unstructured groups, and that the Delphi technique therefore should be favored. However, one should remember that individuals recruited to the Delphi groups often consist of selected experts as opposed to natural groups in the workplace. These experts are quite concerned about how they perform and often know their colleagues' strengths and weaknesses. Still, one should bear in mind that natural groups are often more risk-seeking or more risk averse compared with individuals performing the same tasks in isolation from others. A distinction between *risky shifts* (when groups are more risk-seeking than individuals) and *conservative shifts* (when groups are more risk averse than individuals) can thus be made. The phenomenon is usually referred to as group polarization. The attitudes that the group members bring with them determine whether or not the phenomenon will occur and how, and these attitudes tend to be reinforced in group discussion.

## Working with scenarios

When working with scenario planning the focus is on how the future might unfold. It is therefore necessary to include some sort of time horizon, for example, ten years into the future. Leaders must make clear to themselves the underlying reasoning governing assessments made about the future. These assessments are often about what we know with certainty and what we perceive as uncertain. In addition, they often address the trends that can be perceived in advance. The uncertainty factors may involve the pace of technological developments, how quickly the market is willing to accept a new product and

how the media will deal with events that somehow can be related to the product. The certainty factors are more closely related to the predictions that can be made ahead of people's buying habits on the foundation of basic needs. Recent trends suggest such things as in what direction technological development moves. The relationship between these three factors (uncertainty factors, certainty factors and trends) is central to the design of scenarios. However, how the various key actors will behave in order to defend their interests in the market must also be considered (Heller, 1998; Wright, 2001).

A common way of working with scenarios is to make them as extreme as possible. The basic idea is that the business idea that has been developed should undergo some form of sensitivity test that resembles a wind tunnel. The business idea can thus be compared with the design of a new aircraft, and the scenarios can be equated with the wind conditions which may be more or less extreme. Like an airplane, the business idea should be able to fly more or less well in all conditions. An alternative way of working with scenarios is to test an entire arsenal of strategies against a number of scenarios. These strategies can be available, planned or alternative in nature. Sometimes whole cities can be used as alternatives, for example when a strategic decision is about where in the world to build a new central warehouse. In such a case the urban properties are tested against various possible future scenarios before a decision is made on where the new warehouse is to be built (Heller, 1998; Wright, 2001).

Leaders can also work to develop scenarios based on an analysis of driving forces. With this method one tries to get an idea of how various influential events gradually differ with respect to two key dimensions: 1) how predictable they are, and 2) what effects they will have. One can start by writing down on post-it notes which events are likely to affect the problem that one is interested in. A time horizon must also be specified. These notes are then attached to a whiteboard where two coordinates are plotted. The two axes illustrate how predictable the events are (much /little) and what impact they will have (big /small). The next step involves trying to group events together in clusters and considering what underlying drivers/

motivators might link the events together in each cluster. When a number of drivers/motivators have been identified, it is appropriate to clarify which of them really matter for one's organization. These are then analyzed with respect to what possible outcomes they may result in. In this way a variation range for the possible outcome of each driver/motivator is created. Leaders can then experiment with combining the extreme outcomes from one driver/motivator with the extreme outcomes from another. Based on these results, skeletons of 3–4 scenarios can be created in the next phase. These can be given names that summarize the essence of them. Leaders' next task is trying to place copies of their post-it notes with the proposed events on a new whiteboard where the skeletons of the scenarios are mounted. In addition, one can try to create a story around each scenario by placing all of «the events» along a notional timeline. Here it is important to look for causality between events, and in this context it may be worthwhile to analyze past events. They are often good clues to causal connections between the events that one is experimenting with. Then it's time to revert to the old whiteboard. Are there any remaining post-it notes with events that have not been associated with any scenario? If this is the case, one can try to create new scenarios that also include these events. The final task is to evaluate the developed business proposals and strategies against the prospects represented by the various scenarios (Heller, 1998; Wright, 2001).

By reasoning with the help of scenarios leaders are given the opportunity to create a platform for communication about the future of an organization. Leaders can thus communicate to the organization's members how they look at the outside world. When a scenario has been created and the reasoning behind it has been presented, the organization is mentally prepared for the future. When the early events related to a scenario begin to appear, the leader has an opportunity to better understand how the future will turn out. Such events are, therefore, important information that affects the leader's behavior. To be able to recognize early signals in this manner and put them in stories related to the future is regarded as important by many leaders. Some argue that this approach is even

more important than that which advocates the creation of robust strategic options.

The major advantage of developing scenarios is that a leader's often poor ability to create valid future predictions is overcome. With the help of this method leaders can develop a range of possible future scenarios that capture fundamental uncertainties. The method therefore stimulates the heterogeneity of top executive teams and thus discourages a rigid consensus culture.

### **Developing an outside perspective**

Positive illusions can be seen as a necessary evil in relation to decision making. They occur in the intersection between cognition and affect (Bazerman, 2006). These illusions are vital but can likewise be disastrous. There is research showing that most leaders see themselves the outside world, and the future in a more positive light than what reality acknowledges (Taylor and Brown, 1989). An optimistic attitude can have both positive and negative outcomes. According to Taylor and Brown (1988, 1994) optimism can enhance a leader's self-reliance and contribute to endurance when difficult tasks are to be solved and unsafe situations are to be handled. However, it is worrisome when the positive attitude impacts negatively on decision quality. There are many examples where positive illusions have led to wrong investments, cracked budgets, failed mergers and unsuccessful projects. According to Lovallo and Kahneman (2003) many decision-makers fall short in their planning. Many decisions are made on the basis of illusory optimism. In such a context, the decision-makers do not engage in a rational assessment of potential benefits and drawbacks, but rather overestimate the potential benefits while the drawbacks are underestimated. This can have catastrophic consequences (Kahneman and Lovallo, 1993; Lovallo and Kahneman, 2003; Bazerman, 2006; Moore, Kurtz Berg, Fox and Bazerman, 1999).

Managers often experience a high degree of control and security that may be indicative of over-confidence and illusions of control

which can be explained in several ways (Kuvaas, 2002). First, widespread participation and involvement in a discussion of strategic issues can in itself give a false impression that the issues are thoroughly analyzed (Das and Teng, 1999). This can easily lead to wishful thinking (Lyles and Thomas, 1988). Second, presenting arguments can in itself make leaders become more confident in the tenability of those arguments (Heath and Gonzalez, 1995). This means that leaders to a greater extent trust their own arguments the minute they have been presented to others.

Most leaders have an optimistic attitude to the businesses they are working in. A major reason for this is that leaders often perceive themselves as better than the average, and this tendency is reinforced by the fact that most managers like to take credit for positive results. Negative results, however, are often associated with external environmental factors. It has also been observed that leaders often link positive results with factors that have been brought under control, such as corporate strategy, while negative results are often associated with uncontrollable factors such as the weather or inflation. Often, there are numerous organizational mechanisms that encourage optimism. Because of the limitation of resources, different departments are sometimes pressed to compete with each other in terms of producing attractive plans and forecasts (Kahneman and Lovallo, 1993; Lovallo and Kahneman, 2003).

There is also a tendency among leaders to overestimate the control they have over a given situation. For example, leaders sometimes argue that there are no risks associated with prepared plans. Many leaders think that risks are synonymous with challenges that can be addressed with the help of skilled action. Another common misperception is that the results obtained can only be linked to one's own actions in the organization. The self-image that exists is that leadership is synonymous with control of the events. It has nothing to do with gambling. By being so focused on their own plans and conditions leaders often neglect the possibilities for competitors to act. Events like price wars and overcapacity can therefore be neglected. In designing their forecasts, leaders therefore tend to ignore the likelihood that chance or uncontrollable factors will

play into the process. (Kahneman and Lovallo, 1993; Lovallo and Kahneman, 2003).

The factors that produce over-optimism are thus rooted in the limitations of the human imagination. No matter how detailed a description of a possible scenario is, there are bound to be weaknesses, and the explanation for this is simple. Any complex project can be viewed as a myriad of different problems. Examples range from technological errors to currency fluctuations to bad weather. The point is that it is outside the human imagination to be able to perceive all these potential issues. The result is that as leaders develop different scenarios they underestimate the risk that something can go wrong. When developing «the most likely scenario», it is assumed to also be the most probable one. The assumption can be wrong. Unforeseen events are often been neglected, as the probability of such events occurring is very little, if one considers the situation in isolation. But if you combine the probabilities of several such incidents, the risk of any of these occurring is sometimes greater than one would expect (Kahneman and Lovallo, 1993; Lovallo and Kahneman, 2003).

To guard against over-optimism, leaders must be able to take an *outside perspective* as a complement to the inside perspective. This means being able to identify a reference class of similar past projects, studying their results, and placing one's own project in the distribution of results. In order to protect against over-optimism one should then estimate the reliability of one's own prediction and make a correction of the intuitive estimate. Leaders do not have to be experts in estimating competitors' plans and capabilities; the effects of these are already in the results of previous projects that are part of the reference class. When taking an *outside perspective*, leaders are less focused on details that can be linked to their own project, and taking such a perspective also means that they refrain from making predictions about events that could affect their project's future. A limitation with the outside perspective is that it can be difficult to use in predicting extreme outcomes. There simply may not be a project with a similar prehistory among earlier projects. But for most projects, the method



is viable (Kahneman and Lovallo, 1993; Lovallo and Kahneman, 2003).

Many may think that optimism is in itself a bad thing for the organization, or that it is every leader's job to try to eradicate it when it appears. This is not the case. Each organization needs optimism as a key driver and as a source of enthusiasm. Realism, unfortunately, does not motivate people. The organization needs optimism to motivate employees and get them focused. However, the organization must also be able to generate realistic forecasts, something that is particularly important when large amounts of money are at stake. Leaders must therefore seek to strike a balance between optimism and realism. Employing an overly optimistic financial manager can be as bad as taking on a too realistic sales manager. Leaders must also be able to strike a balance between the objectives and the predictions. Aggressive goals can often motivate employees and thereby increase the chances of success. This requires, however, that forecasts be constructed using an outside perspective to determine what is initially worth investing in (Kahneman and Lovallo, 1993; Lovallo and Kahneman, 2003). Aggressive goals also need sufficient resources.

*A related issue concerns the escalation of commitment (Staw, 1976; Staw and Ross, 1978), which is the tendency to repeat an apparently bad decision or allocate more resources to a failing course of action.* Let's say a leader of a private equity firm makes a decision to invest \$2 million in a start-up venture. He personally argues for the investment against some skeptics in the firm. One year later, the CEO from the start-up appears in the leader's office saying that the company is running out of cash, and without additional funds the firm will definitely go under. The leader will then lose the \$2 million. However, the good news is that if the leader invests another \$1 million, the CEO says he is confident that the problems will be worked out. The project will then still be a great success. In a situation like this the leader is likely to make the additional investment. Thus, he is willing to escalate his commitment (Bazerman, 2006). Similarly, an escalation of commitment often occurs in organizations where significant investment has been made in a project, but the decision-makers do not

want to go back on that decision and cancel the funding. Sometimes this phenomenon is referred to as *the sunk-cost trap*. People have a natural tendency to make new decisions in order to justify past choices. Even when the past choices no longer seem valid, leaders are too often unwilling to give them up. Some leaders would do anything but admit that they made a mistake and realize the loss. Organizations often make enormous efforts to improve the performance of an employee who should not have been hired in the first place. To let the person quit would be equal to acknowledging that past decisions and the associated investments in time or money would be irrecoverable. It has been suggested by Svenson (1992) that decision-makers invest a lot of mental effort in consolidating their choices after they have been made. There are several measures management can take into account in order to remedy the escalation of commitment (Ahlstrom and Bruton, 2008). These measures include:

1. To separate decision choosers from decision evaluators.
2. To publicly establish a preset threshold.
3. To seek to avoid creating a failure-fearing culture that leads employees to perpetuate their mistakes.
4. To recognize that the source of escalation of commitment has deep psychological roots in our desire to protect our egos or prove to others that we are correct.
5. To look at the quality of decisions when people are rewarded.

### **Making sound leadership decisions under stress**

In recent decades, flexibility has become a central concept in most organizations. Flexibility is *what* a leader is working with, *when* a leader is working, and what type of employment he or she has. By using flexibility you can allow a leader or an organization to create unfettered capacity to handle new situations. Futurists predict that managers will change jobs even more often over a career than is

the practice today. Nobody is expected to have – or even want – a lifetime employment with one employer. Many CEOs do not work more than three or four years for major international companies. During this period they are expected to do everything. The working day often lasts 12–14 hours. To change jobs after a couple of years is stressful and may have health consequences. This is especially the case when leaving a job not of one's own volition. In the 70s there was talk of monotony and alienation; today it may be appropriate to talk about the danger of having too much meaningful work. Some leaders who work unconstrained in relation to space and time might think that their work is more interesting than anything else. It is important to remember that when the leader's work expands it is often at the expense of something else, such as family life or other activities. There is a danger in today's society that a conflict arises between the heated world of work and the slow world outside, where children and the elderly live at a completely different tempo.

Stress is a power issue in the sense that leaders must take power over their own lives. When leaders are able to balance their professional and personal lives, they also feel the power to control their situation. The power of one's life is also about the balance between responsibility and authority. If leaders feel that they have responsibilities that they cannot manage or do not have time for, the work environment must be permissive.

How much a leader is affected varies from individual to individual. The following factors can lead to negative stress:

- |                                |  |
|--------------------------------|--|
| 1. High demands.               | 11. Lack of time.  |
| 2. A lack of empowerment.      | 12. Lack of feedback and recognition.                      |
| 3. Poor support.               | 13. Precarious employment.                                 |
| 4. Too few requirements.       | 14. Lack of influence.                                     |
| 5. Unclear objectives.         | 15. Irregular working hours.                               |
| 6. A lack of clear leadership. | 16. Lack of balance between private and professional life. |
| 7. Unclear roles.              | 15. Poor control over own work situation.                  |
| 8. Unclear instructions.       | 16. Bullying, discrimination and harassment.               |
| 9. Too much to do.             |  |
| 10. Too little to do.          |  |

Research has indicated a clear link between leaders' stress tolerance and their ability to operate effectively (Bass, 1990; Howard and Bray, 1988). With the help of high stress tolerance, leaders are capable to adapt to the hectic environments, long hours and constant demands of the organization. Physical vitality and emotional strength make it easier for leaders to deal with stressful interpersonal situations, whether they involve superiors, colleagues or customers. Leaders often feel stressed by the pressure to make important decisions without having enough information. Role conflicts and incompatible needs may also be inherent in the decision situation. A leader must be able to retain his or her composure and ability to focus in order to solve problems effectively. It is usually not a good strategy to pretend that the problems do not exist or try to delegate them to someone else (Yukl, 2006).

In a model launched by Karasek (1979) the control leaders possess in a decision situation is related to the psychological demands. The conclusion is that high psychological demands combined with a low degree of control in the decision situation leads to a high stress level that is harmful. When low psychological demands are combined with a high degree of control it leads to a low stress level. When low

psychological demands are accompanied by a low degree of control it leads to inaction. Finally, high psychological demands combined with a high degree of control leads to a stressful situation where the leader has the potential to develop. In the latter situation leaders are provided with an opportunity to deal with stressful situations by trying different coping techniques, often based on self-control, a search for social support, an acceptance of responsibility, or a positive reappraisal.

Leaders sometimes feel that they are keen to avoid making decisions when the stakes are high. But it is unfortunately part of the leadership role to make decisions. There can be many motives for a leader to make decisions. One important reason may be to demonstrate the ability to act, and another to solve the problem itself (Goffman, 1959). Not doing anything at all can often be perceived as the hardest choice because it can be interpreted as if the decision-maker is trying to escape the problem. There is research showing that most leaders are experiencing stress in a choice situation where all options can be associated with potential losses (Janis and Mann, 1977). In other words, a conflict exists in the decision situation, and as a rule, the more important a decision is, the more conflict and stress it contains.

Some organizations hire consultants to train their leaders in coping techniques which enable them to improve their ability to handle stress. Examples include relaxation techniques, communication techniques and conflict management techniques. Leaders are also trained to re-evaluate situations that they perceive lead to stress. Consultants can also analyze the leader's organization and suggest improvements in this area.

When bad decisions are made, it is common for leaders to put the blame on stress, although this is often an overly simplified explanation. There is research showing that stress does not necessarily lead to poorer management decisions (Klein, 1996). Some leaders must be able to work under constant stress in their professional capacity, such as fire officers, chief surgeons, pilots, etc. There have also been studies of masters of chess which show that even under extreme time pressure, the ability to maintain a style of play on a master

level does not change. The quality of the chess masters' decisions is not affected. It is therefore difficult to conclude that stress inevitably leads to poor decisions (Klein, 1998).

Nevertheless, it is not difficult to understand that stressors have an effect on leaders' decisions. It has been shown that stress has an impact on how we make decisions. For instance, time pressure easily leads to limited focus and cognitive biases (Svenson and Maule, 1993). It also affords leaders less access to external information sources (Chistensen and Kohls, 2003). Still, stress does not lead to poor decisions based on the information we have on hand. It can be safely said that stress reduces our ability to gather information and that it impairs our ability to analyze using the working memory. In addition, stress makes it harder for us to concentrate on a current task. If a leader's decision deteriorates, it is usually not because he or she has been blinded by stress, but rather that the leader has not had time to gather all the relevant information. Experienced leaders know this and can adapt to time pressure by focusing on the most important variables in a decision situation and ignoring the others (Klein, 1998).

### **Avoiding problems with unstructured group decision-making**

*«Groupthink» refers to a mode of thought whereby individuals intentionally and prematurely conform to what they perceive to be the consensus of the group and preference of the leader. It often results in incorrect group decisions that stem from the fact that team members put consensus above everything else. Groups who indulge in groupthink prefer consensus over decision quality. What is characteristic of this phenomenon is the lack of mental efficiency, reality testing and moral attitude which has its origin in peer pressure and strong cohesion. The pressure to reach consensus can convince a team to ignore the information coming from outside, and lure members into feeling too sure of themselves, almost as though they were invincible. External observers may have difficulties measuring symptoms*

of groupthink. Rather, the fact is that most of the symptoms represent private feelings or perceptions that team members possess. There are three symptoms that have been shown to be central. First, the group perceives itself to be larger than it actually is, due to the feelings of invincibility and moral superiority. Second, team members may reveal a high degree of narrow-mindedness. This is often rooted in collective rationalizations and stereotypical perspectives of members outside the group. Bad decisions are likely to be rationalized. Third, team members often develop an intolerant view towards dissenting views within the group. Outliers often encounter enormous social pressure. This leads to different group members holding back their reservations. They simply do not reveal their true feelings (Janis, 1972; Thompson, 2008).

Weaknesses arising from groupthink can lead to several problems in decision making such as not taking various alternatives sufficiently into account, not considering various objectives well enough, and not evaluating the decisions made. Other problems relate to the high degree of selectivity in the information gathering, lack of criticism of each other's ideas, lack of transparency in the early decision phase, poor communication with experts outside the group, and poor planning of emergency measures (Janis, 1972; Peterson, Owens, Tetlock, Fan and Martorana, 1998; Thompson, 2008). Factors that could cause groupthink are:

1. A strong cohesion of the group.
2. A homogeneous group composition.
3. An isolation of the group from other influences.
4. A lack of clear rules governing decision making.
5. Stress.
6. Leadership that favors their own ideas.

There are a number of measures one can take to avoid groupthink. First, team size must be adapted. Research shows that a team's size is positively correlated with the groupthink phenomenon (McCauley, 1998). People have a tendency to hold back their opinions when the group size increases. Many feel an anguish to «appear» before

an audience. As a rule of thumb, avoid creating teams with more than ten members.

Second, build procedures that enable the team to avoid losing face as a result of a bad decision. Downplay the team responsible for the decision if the results of it are unfavorable (Turner, Probasco, Pratkanis and Leve, 1992).

Third, the team may use a so-called risk technique in order to minimize the problems with groupthink. The technology implies that a structured discussion is carried out so that team members may be instructed to talk about the dangers or risks they perceive. The goal is to create an atmosphere where team members can express doubts and criticism without fear of aggression or anger from the group. Often it is helpful if the leader is directed to remain neutral. An alternative way to work with this technique is to let a facilitator play the role of «devil's advocate», usually someone recruited from outside the group since it often can be difficult for team members themselves to criticize their leaders' ideas. Research also shows that genuine criticism from a devil's advocate works better than the team's carefully constructed criticism (Nemeth, Connell, Rogers and Brown, 2001; Schulz-Hardt, Jochim and Frey, 2002). In a variation of this technology team members may imagine that they are representing other parties with an interest in the decision (Turner and Pratkanis, 1998). A larger group can be divided into subgroups and discuss their differences and then report back. In some contexts it may be useful to work with various policy-making groups for different decision tasks.

Fourth, one can work with a technique where the task of the team is to identify a second alternative to the chosen one. This technique improves the team's problem-solving capacity and enhances its idea-generation skill. It also has a positive impact on the team's ability to make high-quality decisions. A variant of this technique is to hold a «second-choice meeting» in which the team is given a chance to choose another direction.

Fifth, it is important to avoid time pressure. Often it is easier for leaders to be guided by moral principles in decisions whose consequences will occur in the distant future. In a decision that has



immediate consequences, leaders often compromise their values. It is also true that the pressure from the environment generally is less if the consequences will occur far in the future. For this reason, time pressure may create leadership stress, which in turn may negatively impact the effectiveness of team decision-making (Morgan and Bowers, 1995; Liberman and Tropen, 1998).

## **Coping with dilemmas in organizations**

One of the hardest things a leader has to deal with is navigating between goals which are in strong conflict with each other. What can be done is to first identify the overarching goals and then try to set a successful course. A common dilemma in organizations is that both top managers and middle managers want to decide and be seen as much as possible. When top leaders dominate too much, this has the negative consequence of impeding opportunities for others to speak. Of course, the top leadership must be dominant in its role in order to be able to implement change. However, it requires a full cadre of dedicated middle managers and team leaders to ensure that the measures taken are successful (Stewart, 2009).

Another dilemma is that department managers on the one hand are expected to act independently while on the other hand, they must have the ability to interact with each other as a team. Department managers may for example be mandated by a CEO to make decisions that transcend their budgets, respectively. But when they do so on a large scale, it is not unusual that these managers will be called up to the CEO and told that they must act more as team players (Stewart, 2009).

Many leaders feel that a dilemma also exists between short-term and long-term perspectives on business. In larger organizations, the quarterly reports play a critical role for stock price developments. Many CEOs of larger organizations do not hold their positions for more than about three to four years. During this period they are expected to generate a maximum return. A leader of one of the world's largest IT companies expressed it like this after a strategy

meeting: «We have talked about the history and the future of the organization during the meeting, but outside this room a couple of security analysts are waiting, and the only thing they care about is next quarter» (Stewart, 2009).

There is also a dilemma between creativity and discipline in organizations. All department managers are expected to be entrepreneurial free-thinkers, but they must also comply with the budget and follow the management. This dilemma is particularly apparent in the management of R&D activities. Here, group members often compete with each other in order to produce the most creative ideas, and this may create a situation where the department head must be in regular contact with management to get access to more resources. For this reason, none of an organization's employees are in reality allowed to be creative, because that would collapse the entire system. The innovative achievements of an organization may therefore be created in very small isolated units characterized by different standards compared with the rest of the organization, where discipline and efficiency govern.

There is also a dilemma reflected in the conflict between trust and change. Many may not perceive that there is a conflict between these phenomena, but there actually is, at least partially. The problem is that major organizational changes are often detrimental to the existing trust relationships. Old work groups are destroyed while new managers are installed with a new approach. Suddenly all are looking for who is number one. Even positive change can sometimes impair trust, yet at the same time all change requires trust (Stewart, 2009).

There is also a dilemma related to the conflict between productivity and human welfare. A leader must ensure that all employees will contribute 110% to the business, but the fact is that most employees, to be able to perform, are in need of a rich private life and a healthy work environment. At some companies dedicated engineers may work overtime each evening, if not stopped. This behavior may even occur if they are not paid extra money for their contribution. Thus, the force of intrinsic motivation can sometimes be devastating to individuals.

Finally, it is not unusual a dilemma is reflected in the conflict between leadership and the ability to execute strategies. To be able to function, leaders today must be able to deal with people and also sell visions. These skills differ considerably from the more technical ability that is needed in order to put these visions into action through various operations. Many leaders know that the best strategy in the world does not work if it is poorly implemented. At the same time, a poor strategy that is effectively implemented leads to a poor development being created earlier than it otherwise would have been.

What all these dilemmas have in common is the tension between control and independence. Here you have to strike the right balance between the two poles in each area. What leaders can do is make self-assessments, area by area. In some dilemma situations, control is perhaps emphasized too much, while in others the leadership attitude may be a little too loose. A leader must in addition be able to create meaning from contradictory signals and purposes. Suppose that the results of the latest customer poll show that some customers require so much service that they actually depress profitability. Then the leader must reflect on the results and create plans based on the insights that he or she has gained (Stewart, 2009).

Dilemma situations can often result in conflicts between different department managers. In this connection, the internal division of responsibilities and resources is a critical issue. It is important that a CEO can intervene promptly, so that the conflict between, for instance, two department managers does not spread to others. A good way to handle the situation for the CEO is to address each department manager individually and give his or her views on the matter without reproach. Each party must then be given the chance to give his or her version of the story. The trick is for the CEO to listen objectively to these stories even if he or she does not share all the views. In the next step, the parties may meet and work together to resolve the problem by coming up with new solutions. In this context the CEO must emphasize that the aim of the discussion is not to determine who is right or wrong, but rather to help the team to function more harmoniously. As leader, one can very well serve as a guide in this type of discussion. Nevertheless, one should make

clear that it is the responsibility of both parties to reach an agreement.

## **Being able to build trust**

To be able to trust normally implies a positive expectation that others will not act opportunistically (Rousseau, Sitkin, Burt and Camera, 1998). This means that trust relates to intimacy, familiarity and risk. To be able to host positive expectations about another person one must have knowledge of the other party, which can be derived through historical experience based on a number of events. These can be limited in number, but the important thing is that they are relevant (Rotter, 1980). It therefore takes time to shape, build, maintain and strengthen trust. For many leaders, it can be difficult to have confidence in someone one has just met and know nothing about. However, after a while, when one comes to know this new person and the relationship matures, one feels safe and develops positive expectations. To feel confident as a leader means to become vulnerable, something which occurs when exchanging confidential information or relying on others' promises. Trust is not about risk in itself, but about the willingness to take risks (Mayer, Davis and Schoorman, 1995). So when we trust someone, we expect that this person will not exploit the trust. There are five basic variables that influence whether a person has trust in another: integrity, competence, consistency, loyalty and openness (Schindler and Thomas, 1993). The ability to communicate is also important.

Trust is a phenomenon that is closely associated with leadership. When the trust in a leader is broken, there can be serious consequences for a group's performance. Several studies show that both honesty and integrity are among the leadership characteristics that are valued the most. A very important part of a leader's job is to work with others to find and solve problems, and thus it is very important for leaders to have the trust of their employees. If not, they jeopardize their access to the knowledge and creative thinking that they need. Trust is therefore a leader's key to knowledge and coopera-

tion (Zand, 1997). Employees find it difficult to look up to or follow a leader who they perceive as either dishonest or exploitative. It is for this reason that honesty is a trait that people rank among those they appreciate most in a leader. Honesty is essential for all leadership. If employees are to follow a leader voluntarily, whether it be on the shop floor or in the boardroom, they must first satisfy themselves that the person in question is worthy of their trust (Kouzes and Posner, 1993).

There are mainly three types of trust in organizations. These are based on deterrence, knowledge, and identification (Shapiro, Sheppard and Cheraskin, 1992; Child, 2001). The most fragile relationships are based on trust through deterrence. In such relationships, it is common that a violation or inconsistency can destroy the relationship. This form of trust is based on a fear of reprisals should the trust be violated, and in this type of relationship people do what they say they must do because of fear of what might otherwise happen. Most new relationships are based on deterrence. For example, an employee often relies on a new manager, even if he or she knows little about him. This stems from the leader's authority being manifested in the power to punish should employees fail to fulfill their work-related duties (Robbins, 2005).

Another common form of trust in organizations is based on knowledge. To be able to predict how employees will behave, a leader must have access to a history of interaction. Such a history exists when there is enough information about the others for the leader to accurately predict their behavior. This knowledge evolves over time – the better one knows someone, the easier it is to predict what he or she will do. This form of trust is not easily broken because of inconsistent behavior. If one feels one adequately understands another's behavior, one can accept it, forgive the person concerned, and continue the relationship. In most organizations, the relationship between managers and employees is based on knowledge. Both parties have enough experience with each other and know what to expect from each other (Robbins, 2005).

Finally, there is trust based on identification in the organization. This is the highest form of trust, one that is brought about when

there is an emotional connection between the parties. It enables one party to act as an agent of the other and to act as a substitute for that party in interpersonal transactions. Trust exists because the parties understand each other's intentions as well as each other's needs. This mutual understanding can be developed to a level where one party can act effectively in the other's place. Control is minimal at this level. Quite simply, one does not have to monitor the other party because there is a loyalty that cannot be questioned. The married couple that has lived happily together for a long time epitomizes this form of trust. The man has learned what is important for the wife and therefore performs acts that demonstrate this without having to be asked. The woman, for her part, is confident that the man anticipates what is important to her without having to be asked. A high degree of identification allows for one party to think like the other, feel as the other, and respond as the other. This form of trust only exists between persons who have known each other for a very long time and have deep experience in cooperating with each other. It is likewise this kind of trust that leaders need in a team. It can happen that team members have such high confidence in each other that they know what is important for each other and can operate in each other's place if someone is absent. Unfortunately, this form of trust is not as common in larger organizations as it used to be, mainly because employment for life is less common today than it used to be. Knowledge-based trust dominates in the larger organizations that exist today (Robbins 2005).

For many leaders knowing whether or not one holds enough trust is central. Lacking trust one may need to invest both time and energy in order to convince others of a proposals' excellence, a task that can be avoided if one has the necessary trust. It is therefore important for many leaders to work on trust-building strategies. The first thing to do is to live up to the social contracts which apply generally in organizations. Leaders simply must live up to their expectations. This can be done by setting limits, delegating tasks, keeping promises and acting consistently. For this reason it is important that leaders not make promises that cannot be kept. Leaders should also make it a rule to inform stakeholders about why they

may be unable to take on certain tasks (Lines, Selart, Espedal and Johansen, 2005).

From this it follows that communication is important for a leader to be able to enjoy trust. Communication helps to create an environment of trust around leaders that allows them to lead more effectively, engage employees and deliver results. Leaders can use both formal and informal ways of communicating. There are several examples of good communication that may create trust. For instance, it is excellent if a leader can share available information with employees. Furthermore, it is always good to tell the truth but also show respect for employees. As a leader, one has to create transparency. When compromises are productive they should be communicated openly and not be kept by the leaders themselves. Leaders should also admit their mistakes and be able to both give and receive constructive feedback. The trick is to listen first. It is important for leaders to be able to communicate their expectations to the employees. If a leader has been shown trust, it is important to preserve this. Otherwise the trust will be lost. An important part of trust-building communication is to be able to walk around and mingle with people and ask unconditional questions. Thus, it is important for leaders to recognize that they can't control the activity entirely from behind a desk. This is more or less impossible from a communications perspective (Lines, Selart, Espedal and Johansen, 2005).

In order to create trust, it is important for leaders to engage in activities that enhance the building of competence among employees. Leaders must be able to assure themselves that their employees have access to the skills required to implement their decisions. Therefore, they can involve employees by allowing them to be included in the decisions (Lines, Selart, Espedal and Johansen, 2005).

## Conclusions

This chapter lists a number of techniques that leaders can use when having to predict the future under social pressure. One way to overcome this situation is to use the Delphi technique, a method in which a panel of experts may be subjected to a controlled debate. Its aim is to reach predictions that are as realistic as possible.

An alternative method is to work with scenarios. These can for example be as extreme as possible. With the help of scenario planning leaders can build different future worlds that allow them to associate early signals with contextual events. A scenario simply creates a platform for communication about the future. With the help of various future scenarios, one can anticipate fundamental uncertainties.

One problem with any future planning is that the leaders involved lose their sense of reality and become overly optimistic about their own projects. In such cases, leaders are looking for clues in the environment that strengthen the project idea and ignore warning signals simultaneously. One method to remedy this is to adopt a so-called outside perspective by which leaders identify a reference class of similar past projects and study their end results. The next step is to place their own project in the distribution of results. In addition, leaders are urged to estimate the reliability of their own prediction, and correct their intuitive estimate.

Many leaders are daily exposed to stress when making decisions, and there are often social reasons for this. Social standards prescribe that a leader must be proactive and make decisions and not flee a given situation. Conflicts in decision-making situations often create stress. As a rule, the more important a decision is, the more conflict and stress it contains. It is important for leaders to understand that it is not stress in itself that leads to bad decisions. Rather, the time pressure that leaders face may prevent them from gathering enough relevant information. Therefore, one way of overcoming stressful situations is to learn how to prioritize effectively.

In some situations, the leader chooses to delegate the decision-making to his team. Then it is important to guard against groupthink.



Poor group decisions stem from the fact that the members of a team put consensus before anything else, as a result of peer pressure. A number of methods are presented that enable leaders to avoid this phenomenon, which are based on various systematic ways to conjure up a self-critical climate in the team.

Often leaders find themselves in decision situations where they are forced to navigate between objectives that are in strong conflict with each other. We are talking about decision dilemmas. Top management often has a desire to control activities, while seeking at the same time to extend autonomy and independence to various units. It is important for leaders to strike a balance here and understand how to best manage conflicts when they arise.

In order for leadership to gain acceptance for its ideas its relationship with employees must be characterized by trust and respect. This can be achieved by working with concepts such as integrity, competence, consistency, loyalty and openness. The ability to communicate is also important. There are different levels of trust in an organization. The highest level is characterized by the ability to identify with others, for instance, within team cooperation. However, everyday trust in organizations is largely based on public knowledge and awareness of others.

**Checklist**

1. Why is it sometimes appropriate to work with the Delphi technique?
2. What are the benefits of working with scenarios in the design of strategic decisions?
3. Why can over-optimism sometimes create a problem in strategic decision-making? How can it help to take an outside perspective in order to remedy over-optimism?
4. How can you as a leader better cope with stress when making decisions?
5. What is groupthink, and how can you as leader best avoid it?
6. How can you as a leader best deal with different dilemma situations when you make decisions, from a general point of view?
7. How can you as a leader build trust by making use of social contract, communication skills and supportive measures?



**Kapittel 6**

**Implementing leadership  
decisions**

## Different types of decision implementations

Implicit in the implementation of a decision is that some form of change is executed in relation to the situation. Often, changes of various kinds create resistance in organizations, and it is therefore important that leaders focus on factors that are essential to achieving a desirable result. How leaders choose to implement a decision usually varies from situation to situation. *There are two main factors that influence how the process will be executed: the size of the strategic problem and the time horizon.* The implementation of decisions that have relatively small effects requires a completely different approach than the implementation of decisions that involve major changes and extensive use of resources. In some cases, the entire organizational structure is changing. An organization that is in a state of crisis requires a completely different implementation philosophy than one that is about to undertake changes in, for example, its product range. In the former it is important to act quickly, while in the latter a long and gradual process is more appropriate. Based on the dimensions and time horizons of strategic problems, Hrebiniak and Joyce (1984) have defined four basic types of decision implementations.

*The first type is referred to as evolutionary implementation* and is used when the strategic decision is negligible and the time horizon for implementation is relatively long. This kind of implementation often involves relatively day-to-day and routine management decisions. The plans developed are therefore quite simple. One example is when a leader implements local decisions aimed at improving the company's or entity's performance or safety. Evolutionary implementations do not usually imply substantial changes in business strategy or core work processes. Usually these changes are seen as realignments or differences over time in how things should be handled.

*The second type is referred to as managed implementation* and takes place when the strategic decision is marginal, yet the time available to implement it is limited. Often, the issue concerns minor changes in the surroundings of the firm that the management wants to adapt to

as quickly as possible. As the situation is relatively stable, the leader has the opportunity to focus on the individual problem area without other areas or tasks suffering.

*The third type is referred to as sequential implementation* and is used when the strategic decision is large and the time horizon for its implementation is long. In order to achieve a successful implementation the management must focus on a number of different areas and the relationships between them. As the time horizon is long, it is possible to analyze the underlying structures of the problems, and based on these analyses it is possible to design the chronological order of the various implementation measures.

*The fourth type is referred to as complex implementation* and is used when the strategic decision is significant and the time horizon is short. In such a situation, the leadership is forced to make decisions that significantly affect everyone in organization and then implement them. However, it is usually not sufficient to identify the various dependent relationships through a formal planning process. In order to ensure the necessary coordination and full understanding, the use of different groups and other forms of direct communication are required. Complex implementation processes are necessary in many of different contexts. A typical example is when the environment of an organization becomes more complex and turbulent (Roos, Von Krogh and Roos, 1994, Heller, 1998).

## **How to develop and follow an implementation plan**

Most managerial decisions are worthless if they cannot be translated into action. One problem is that many leadership meetings do not result in solutions or recommendations, only in a lot of free discussions. In addition, simply making a decision does not necessarily lead to implementation. One major reason for this is that the division of responsibilities is often unclear. Making decisions can often be easier than getting them implemented. There are several important dimensions to an implementation (Nobel, 1999). These include the

execution of a strategic plan, the allocation of resources, and the control and governance of the decision-making process.

When a strategic decision has been made, it is absolutely critical that the organization's resources follow it. When a strategic decision is made without money, skills, equipment and other resources following it, the decision will develop into a clean paper product. Hence, the allocation of resources shows the direction of the organization's operational strategy. This is especially important if an organization finds itself in a situation characterized by scaling or down-sizing. The organization must then make clear what units are ultimately going to maintain its competitiveness. One area that is especially sensitive to resource reductions is R&D, as the development of new products or new technology is relatively time-consuming. However, it is not only the internal allocation of resources that is relevant. The amount of the expected return that will go to strategic reinvestments is also of great importance for the business. As a rule, investors, managers, and employees are always interested in getting their share of the pie (Roos, Von Krogh and Roos, 1994; Heller, 1998).

One of the most important resources in an organization is its employees. How they are organized is therefore of great importance to how well one succeeds in implementing a strategic decision. An important aspect of this is how work is divided between groups and employees within a system. Much research reveals a strong link between strategy, structure and efficiency. In order to ensure effective implementation, it is important that the number of levels in a hierarchy is kept as low as possible, because as the number of levels increases communication tends to be more complicated (Roos, Von Krogh and Roos, 1994; Heller, 1998). A leader must in addition be focused on the employees' values. Employees use their value systems in order to create an opinion of the implementation process. This is largely an individually and socially constructed process in which values play a crucial role. Therefore, in reality leaders have only a limited ability to quickly modify or transform employee values.

In order to transform decisions into action it is necessary for the decision-maker to make a number of operational decisions in addi-

tion to the primary one. This means that the leader must focus on developing implementation plans as soon as the final decision is made. This work can start when a smaller number of options remain in the decision process, although it is best that the leader is confident about the outcome before he or she begins to create action plans. There are a number of different models for the implementation of a decision. Perhaps the simplest model is to disconnect the old solution when the new one is connected. The problem with this model is that there is no safety net; one bets everything on one card. A second model provides for gradually implementing the decision in stages. Here you can walk up gently and evaluate step by step. In a third model, the decision is implemented in a distinct environment as a test case. When everything is working correctly in this test environment the solution can be executed in the rest of the organization. In a fourth model the old and the new solution are tested simultaneously. This is a relatively safe but costly solution (Roos, Von Krogh and Roos, 1994; Heller, 1998).

It is important that leaders involve others in creating an implementation plan for the decisions, and often useful to consult people with relevant expertise in the field. Everyone involved in the process must understand the decision and the reasons behind it. This understanding can be conveyed in a so-called briefing session, where the leader of the team explains the circumstances which led to the decision and what measures can be made in order to make the decision effective. With the help of the team the leader analyzes the overall task and determines what measures will be implemented. It is also important that the team decides when the decision will be implemented. Each activity must have a beginning and an end date, and the plan should specify different breakpoints where different activities can be evaluated and modified. It should also clarify how others who have a stake in the project will be regularly informed. In addition, feedback systems can be established to encourage comments on the implementation of the decision (Roos, Von Krogh and Roos, 1994; Heller, 1998).

Many decisions are so complex that it is difficult for leaders to fully implement them independently. Needless to say, a leader can arrange

meetings. However, a whole team is required to, for example, introduce a new product, given the number of tasks and the extensive work. These tasks can be divided into categories and delegated to various members of the team. In this way distributed planning works effectively. The individual team members should be given a mandate to act independently and be personally responsible for the delegated tasks, as well as their share of the implementation of the overall decision. The team leader's role is to ensure that responsibilities are clear and can be monitored. It is also helpful if the leader receives feedback from team members about his/her guidance of the team to ensure the best possible collaboration (Roos, Von Krogh and Roos, 1994; Heller, 1998).

When a leader is building a project team, it is important for him or her to include people with different backgrounds, skills and experience. The objectives must be known to all of the team members and also shared by them. Despite this, the leader should continuously work with the relationships within the team. The leader's task is to make the rules clear to everyone. These rules should center around the following issues (Thompson, 2008):

1. When the team will meet.
2. Where the team will meet.
3. What questions should be addressed during the meetings.
4. How the team will work.
5. How decisions will be made and followed up.

In addition, the team's activities must be evaluated regularly (Thompson, 2008).

The role of the leader changes once a team is created, and monitoring, facilitation, and control become part of his or her role. The main task of the leader is to let the team work independently and ensure that both individuals and teams work in an appropriate manner. It is important to remember that individual differences in a team are there to create synergies. *The leader must ensure that team members understand and recognize that their individual differences are viewed as strengths* (Thompson, 2008).



A vital part of the decision process is to inform all those involved in it, and it is important that all participants involved understand why the decision was made and what the alternatives were. A leader must also be prepared to specify the consequences of the decision for each individual. In the information phase the leader must be responsive to questions and suggestions from those involved in the process. It is imperative for a leader to be as honest as possible when he or she communicates a decision to staff members.

A leader should try not to withhold information. Everyone must be informed, not just a select few. In traditional organizations, decisions are sometimes made behind closed doors and very little information is disseminated. This has the disadvantage that rumors are easily created and spread. Normally the result is that the employees become anxious and experience insecurity, which in turn can lower morale. Sometimes a leader may have to withhold certain information, even if it is positive in nature. There may be security reasons for this. However, many times it is counterproductive to withhold negative information. When a leader is forced to withhold certain information he or she should tell the people involved when they can expect to receive more details (Roos, Von Krogh and Roos, 1994; Heller, 1998).

When one calls for a meeting, it is best to distribute the agenda and other relevant information to meeting participants in advance. This will save time. It is often advantageous if the number of participants can be minimized as much as possible. During the meeting the leader should be focused on a limited number of issues which are linked to the implementation of the decision, and this requires a streamlining of the work process. Open critical discussions are not useful in this phase. Each issue should be treated carefully. The leader must ensure that all necessary data relating to the decision is included in the discussion, and it is good if as many participants as possible can be involved in solving the problems (Roos, Von Krogh and Roos, 1994; Heller, 1998).

Decisions made at follow-up meetings should result in an action agenda. Different participants can be responsible for ensuring that the agenda is kept. Follow-up meetings are just as important as the

initial discussions and should therefore be given the same status. Any planned action should then be given a deadline and the leader, or one of the participants, must make sure that the deadlines are met. The action agenda should be reviewed at every meeting, and discrepancies, changes and delays should be explained in detail. In addition, necessary decisions must be made. Sometimes a follow-up meeting may indicate that the original decision ought to be changed. In such cases, one should not hesitate to do so (Roos, Von Krogh and Roos, 1994; Heller, 1998).

The implementation of a decision should be followed up regularly, either at natural breaking points or at specific intervals, and the leader must constantly test the sustainability of the original decision. This is especially important when an individual decision affects an entire project. Sometimes drastic action is required to get a project back on track. Such measures may result in a substantial rewriting of the action plan, and therefore it is always wise to develop contingency plans in case the main plan does not work. At each breaking point the leader should ask whether or not to proceed with the project. Regardless of whether a decision has succeeded or failed, it should be evaluated after it has been implemented (Roos, Von Krogh and Roos, 1994; Heller, 1998).

## **Evaluating an implementation plan**

When evaluating a decision one should ask oneself whether or not one would make the same decision twice if given the opportunity to do it all over again. If the answer is no, one should go through the decision and change the parts that do not work. This may imply investing additional capital or changing the structure of the staff. For example, it is not unusual for a complete product concept to need to be changes as a result of an evaluation meeting. (Roos, Von Krogh and Roos, 1994; Heller, 1998).

In the evaluation, it may be found that the decision was inappropriate or has become a victim of events, and on occasion a leader may have to change a decision that someone else has made. At

such times it is important to be diplomatic. The best interests of the organization and its members must always be put first. If a decision is threatening the organization's financial situation the leader should act promptly. In such a situation he or she should talk with all persons involved in the implementation of the decision. Should the problem prove impossible to solve restarting the entire decision process should be considered (Roos, Von Krogh and Roos, 1994; Heller, 1998).

Through evaluation and control a leader can ensure that strategic decisions will be implemented in a satisfactory manner, and it is important to follow up on developments to adapt to required overall objectives. However, it can be difficult to establish good assessment criteria or standards for gauging whether the implementation of a decision has been effective or not. When choosing criteria, it is important to note that with their help the leader can measure whether the plan provides satisfactory results. The leader should also ensure that the choice of criteria results in the effectiveness of the implementation process itself (Roos, Von Krogh and Roos, 1994; Heller, 1998).

Traditionally, quantitative criteria have been used for evaluating the effectiveness of an implementation. Typical examples of such criteria consist of profits, share prices, returns on equity, market shares, sales growth, production costs, etc. The results obtained on these parameters may well be compared with the results of the same from previous years. Comparisons can also be made with current competitor performance on these parameters, making it possible to gain both an idea of the development over time and of the relative position one has established.

When selecting evaluation criteria, it is not the number that makes a difference. If too many criteria are chosen, it may lead to a lack of focus on those criteria that are truly critical for the organization's activities. The leader should therefore seek to define a number of critical success factors, and integrate them into the planning itself as well. In this way it becomes easier to determine quantitative and specific standards. In addition, critical values should be defined. These values express the weakest performance level with which an

organization can live without necessitating a comprehensive reassessment of the decision. When one makes use of quantitative criteria, it is important to note that these are by no means neutral or absolute. For instance, it can happen that changes in the external environment result in a criterion no longer being relevant. Thus it is important that leaders constantly monitor that the criteria used are truly essential for the organization's ability to achieve success. Taking into account to what degree long-term or short-term results are to be evaluated is also important, as it can have an impact on which factors are considered critical (Roos, Von Krogh and Roos, 1994; Heller, 1998).

## **How to measure the success of strategic decisions**

According to a study conducted by Nutt (1986) the success of an implemented decision is defined in three ways. The most common definition relates to whether the strategic objectives have been achieved or not. Another common definition is based on key informants' perception of the implementation. A third definition takes the cost-benefit analysis as a point of departure for determining whether an implementation has been successful or not.

An important precondition in gauging whether a strategic decision has been successful or not is that an action alternative has been chosen and implemented. The implementation of a decision often means that the leader detects obstacles, gaps and errors that have been overlooked in the choice between alternatives. The problem is that techniques such as scenarios, simulation and sequential implementation only provide limited information of the processes themselves. In addition, a leader cannot use the techniques to eliminate uncertainty completely. In order to succeed with their strategic decisions, leaders must often commit themselves to the use of certain resources to ensure that the implementation is successful. Reversing such commitments is often costly for the organization, and thus the focus should be on factors most likely to have the potential to affect

whether the strategic decision is successful or not. This should be done before the organization commits itself to following a course of action that is difficult or impossible to fulfill. In many cases measures to correct perceived defects and shortcomings have to be taken in the implementation of a decision. If the leader fails to implement a decision alternative he or she must immediately begin to search for a new one, and this is often costly for the organization. For this reason it is very important for the organization to make as informed decisions as possible (Harrison, 1999).

According to Harrison, to be successful, a strategic decision must be compatible with established business methods. There is usually an advantage if one is able to follow policies, procedures, and established practices. It will make succeeding with the strategic decisions easier. This is especially important when implementing strategies designed to reduce costs (Barney, 2007). «Timing» also has to be right. There is often an optimal timing for any strategic decision. Time is therefore a critical variable for all strategic decisions. A leader should also ensure that he or she has access to optimal amounts of relevant information before making a strategic decision. In this context, the relevance of the information is more important than the maximization of its volume. It is also positive if the leader has the opportunity to influence the decision as much as possible. For this reason, it can be useful if the top executive team can follow up the strategic decision. Regarding the implementation of the decision, it is important that the leader understands the link between risk and reward. It has been proved that leaders who fail to identify and evaluate risks in general have difficulties achieving success with their strategic decisions. These leaders usually also have a problem clarifying for themselves which risks they are willing to accept. It is important that all those involved in the implementation of the decision understand the reasons why it was made, who is going to implement it and the further implications of the strategic decision (Harrison, 1999).

It is not unusual for there to be a separation between the formulation and implementation of a strategic decision. Often, it is the top leadership that formulates the decision while middle managers

are the ones who implement it (Nobel, 1999). When a strategic decision is to be implemented, it is therefore common for middle managers to be given the task of translating the strategic objectives to the everyday working conditions (Whittington, 2003; Balogun & Johnson, 2004). This is accomplished by establishing operational plans based on a short-term perspective. In addition, the middle managers translate the strategic goals to individual goals and ensure that activities are started up in support of the top leadership's initiatives (Floyd & Wooldridge, 1992, 1997). It is fairly common for the top leadership to signal that the implementation of a strategic decision has been successful when the middle managers start to report positive results, sometimes even before much of the implementation has been concluded. One consequence of this is that an implementation's success is perceived differently depending on who is asked (Pettigrew, 1998).

There are several factors that can hinder a successful implementation. First, the knowledge that decision makers have access to when making the decision may be inadequate. The decision makers may not have grasped well enough what measures are necessary to implement the decision. Second, it may be that the resources the decision makers have access to are inadequate. A variant of this problem is when resources are available, but they are received at the wrong time in the process.

Third, the decision makers may be met with resistance from key groups that makes it difficult to implement their plans (Bryman, 1996). All of this implies that almost exactly the same decision can be made in two roughly similar organizations operating in the same branch with two completely different implementation processes. Often, an important difference lies in how quickly an organization is willing to implement a decision (Hickson & Miller, 1992).

It is impossible to get away from the fact that the evaluation of a decision is subject to interpretation, and this is particularly true of complex decisions whose results may only be detected months or perhaps years later. A practical problem is that leaders' decisions are difficult to separate from their values. For instance, leaders will usually rank various performance dimensions differently. When a

decision has many consequences the criteria used to evaluate it depend on which consequences are highlighted. Different leaders may emphasize different implications differently. The time factor is also important. In the late 1950s the development of a specific computer at IBM was regarded as a leadership failure because of the high development costs. Ten years later, however, the same leadership concluded that the development of this particular computer was the best investment they had ever made. Experience also shows that it can often take three to five years to get a company back on track after a serious crisis, and during this time, other factors may influence the process. For this reason, it is sometimes difficult to figure out the causes which actually brought about the effects. Another consequence is that the leaders who made the decisions that led to the crisis are, of necessity, not the same ones who are living with the consequences.

Decisions can often be rather vague and thus allow for different interpretations. This can imply that the persons who are implementing them do not really know what to do or what is expected of them. Since information is transmitted from one individual or group to another, the meaning of the content can very easily change. Nevertheless even if the directives are clearly articulated, it can happen that those who are to implement the decisions do not understand what to do. In such situations they are forced to «translate» the decisions to practical action, and often such translations take the form of reinterpretations which can lead to quite different implementations that what was originally intended (McCall & Kaplan, 1990; Nadler & Tushman, 1990; Bryman, 1996).

Leaders often inherit the task of implementing the decisions of others. In these situations, it is not unusual for them to receive criticism for results they did not give rise to. Determining whether the implementation of a decision has been successful or not can therefore often be a matter affected by negotiation and impression management. Leaders who have been involved in making a decision more often tend to regard the implementation as a success compared with those who have not been involved. Thus evaluations of an implemented decision are not always based entirely

on a process founded on facts and driven by continuous objective analyses (McCall & Kaplan, 1990; Nadler & Tushman, 1990; Bryman, 1996).

### **Factors that make the decision implementation a failure or a success**

Many leaders are aware of how to act in order to succeed in implementing a decision, yet these leaders often experience disappointments and setbacks in the implementation process. A first step towards success is therefore to create an understanding of why the implementation is not succeeding in relation to the needs and goals that have been established. According to Ulrich (1997), the following factors contribute to a decision implementation failure:

1. A lack of connection to the strategy.
2. The implementation is seen as a gimmick or a «quick fix».
3. A short-term perspective is used.
4. Political realities undermine the implementation.
5. Grandiose expectations.
6. An inflexible prescription for change.
7. A lack of implementation leadership.
8. A lack of measurable results.
9. A fear of the unknown.
10. An inability to mobilize commitment and responsibility in support of the implementation.

The renowned organization researcher J.P. Kotter (1996) has also identified a number of factors likely to have a negative effect on the implementation of decisions:



1. An inadequate perception of the implementation as necessary and important.
2. Lack of a coalition to take the lead and follow up the implementation.
3. Underestimation of the power of a meaningful, clear and inspiring vision.
4. A sub-communication of the vision in words and deeds.
5. An allowance of different events to block the new vision and thereby impede the implementation.
6. The failure to create short-term and visible results and forgetting to mark these.
7. A tendency to conclude the implementation process too soon with the explanation that it has been successful.
8. Underestimation of the importance of anchoring the implementation in the organizational culture.

In his book, *Why Decisions Fail*, Paul C. Nutt presents a thorough analysis of what often goes wrong when the implementation of a decision fails. A reflection he makes is that a leader or a team often has trouble handling the persuasion aspect. The leader or the team often gathers a number of arguments to support a particular line of action and then seeks evidence from experts that underpin them. In addition the leader or the team develops a strategy for how the implementation can best be pitched. If difficulties arise when it comes to pitching the arguments, it is not unusual for the leader or the team to try to dramatize what can be gained by various demonstrations. This fails too often. One problem is that the leader or the team often overestimates the benefits of trying to persuade others. Persuasion is often regarded as a low-risk strategy. When one has convinced oneself with the help of some arguments, one often assumes that it will be as easy to convince others. Unfortunately, the failure arises when one cannot convince others despite one's best arguments. Leaders and teams often expend too much time and energy documenting the appropriateness of a decision without simultaneously acquiring acceptance from the key people involved in it. When people have something to lose in an

implementation process, persuasion is often a poor method (Nutt, 2002).

Another problem that managers and teams face when they are about to implement decisions relates to charters and regulations. Often this problem centers on the regulation of who is going to implement the decision. This regulation is frequently made without consulting the people affected by the changes that the decision inevitably will bring about. In order to issue such a regulation, leaders and teams must make use of their position power within the organization. However, leaders and teams often overestimate their power and underestimate the resistance that the involved parties are able to mobilize. To succeed as a leader, one has to build up social credit in the form of trust and goodwill that can easily be exchanged for fast action. Nutt (2002) describes a case in which a top leader was interested in implementing a new IT system at one of his departments as a pilot project. When none of the department heads volunteered to undertake the mission, one of them was ordered to test the new system. As a result, people within the department concerned attempted in various ways to sabotage the new system by inputting incorrect data, while at the same time using their old system. A basic problem that leaders and teams face is that their use of position power to carry out implementation of a decision can undermine their social credit (Nutt, 2002).

Several studies have identified key factors which are important for the *successful* implementation of a decision (Tichy, 1983; Kanter et al., 1992; Jacobs, 1994; Drucker, 1995). From these studies, Ulrich (1997) has identified the following key factors for a successful implementation:

1. *Anchorage of the implementation.* Having a sponsor or someone who owns and leads the implementation initiative is important. It is also positive if every member of the team can at some point be in charge of the implementation.
2. *Providing an understanding of why the implementation is needed.* It is valuable for the people involved to understand why the implementation is necessary and for the need for the implementation

to be perceived as stronger than the resistance that may exist. Likewise it is important for the leader to ensure that the implementation is linked to the business objectives and outcomes.

3. *Creating a vision.* It is useful if the leader or the team can formulate the outcomes that are desirable as a result of the implementation. The vision must be linked to values and needs so that an active responsible citizenship could be created.
4. *Mobilizing commitments.* It is important to identify, involve, and convince the principal «owners» of the implementation initiative. Any resistance to the implementation must be overcome, and all participants must actively commit themselves and take responsibility.
5. *Changing systems and structures.* The leader and the team should make use of personnel management tools to ensure that the implementation of the decision is built into the organization's infrastructure. Such tools can relate to staffing, personnel development, rewards, organizational design, communication, etc. Frequently both leadership functions and roles need to be renewed when a major decision is being implemented.
6. *Monitoring the implementation progression.* The task of defining methods to measure and demonstrating the success of the implementation falls to leaders and teams. In addition, they ought to try to draw as much attention to the implementation as possible.
7. *Enabling the implementation to persist.* The leader and the team must ensure that the implementation is carried out by the use of established plans for each phase. In addition, accountabilities and responsibilities must be sorted out., and an environment conducive to learning based on action and reflection should be established. Both the allocation of responsibilities and deadlines are important.

According to research conducted by Nutt (2002) leaders and teams should use intervention as a method to position an implementation as early as possible in the decision process. Many decision makers assume that the reasons they have for acting are obvious to others. Unfortunately, it is often the case that key stakeholders are

completely unaware of these reasons, or perhaps think that they are not so significant. Sometimes they even wonder if there is a hidden agenda at work, even if this is not the case. A good way to convince key stakeholders is to compare the organization's performance with that of other more successful organizations through benchmarking, and the next step is to show what standards these organizations work with and what makes them successful. One can then network with the key stakeholders and explain the new standards, documenting achievements and focusing on ideas that might work.

One should also let as many key stakeholders as possible participate in the decision process – create, for example, a special task force group where they are included. In this way the key stakeholders will share the power when it comes to both making the decision and implementing it. There are many who argue that there actually is an ethical imperative tied to letting key stakeholders be involved in the decision process. In order to make the method successful, it is important that the key stakeholders involved are provided with tasks that are perceived as relevant to their interests, thus creating motivation. It is also critical that trust be established between all parties involved and that there is no undue questioning of each other's views.

One reason why it is of consequence to let key stakeholders be involved in the implementation process is that business life in general has become increasingly complex. Modern leaders cannot anticipate all the interests that the key stakeholders have. Moreover, it is less likely that the key stakeholders will try to undermine the implementation if they are allowed to play an active role in the process as early as possible. Involving key stakeholders in the process also means that they are likely to perceive their role as more interesting and meaningful (see for instance Kotter, 1996; Quinn, 1980; Hrebiniak, 2005). A notable point is to strike a balance between the commitment of the key stakeholders and the range of tasks that the work group will be responsible for. One can only expect a limited commitment from key stakeholders if the group receives unlimited tasks, yet if the tasks are limited, it is natural that the key stakeholders can be involved to a greater extent (Nutt, 2002). It is important to remember that an

overly participatory implementation process risks interfering negatively with everyday activities (Harrison & Freeman, 2004). *Using consultants in the implementation of decisions*

It is not uncommon for an organization to hire consultants in connection with the implementation of strategic decisions. Often, the consultant plays the role of an expert, and can be likened to a «company doctor» whose counsel is sought in order to help a client. Hiring external consultants has several advantages. The first is that external consultants often have a more free approach to the organization than those working within it. Employees in an organization often develop what are usually called «blind spots», that is, one no longer sees certain things because one has become so used to them. External consultants are not hampered by these blinkers and therefore often arrive at accurate diagnoses more easily.

The second advantage is that external consultants are often specialists in the fields of organization and leadership. Their skills are generally lacking among leaders and employees in the organization. This fact implies that the consultants are often in a better position to diagnose a situation and find the right solutions to problems.

Third, it is often easier for external consultants to take a holistic approach to the organization. Employees frequently see problems and solutions from their perspective, consequently placing great emphasis on problems and solutions that are directly related to what they are working with on a daily basis. In addition, external consultants' use of analytical tools forces them to consider more elements in the organization (Schein, 1987; Ginsberg & Abrahamson, 1991; Neill & Mindrum, 2000; Jacobsen, 2008).

Many large consulting firms routinely prepare reports that contain overviews and action recommendations. Often these reports also include proposals that focus on how the consulting firm would like to implement these recommendations. The proposals routinely specify actions, timetables and costs associated with the implementation of the decision. It is often not so difficult for a client to persuade leading consulting firms to produce reports of this nature. For most larger projects the lion's share of the resources is linked to the imple-

mentation phase and not to research and survey work. Therefore, occasionally consulting firms will undertake this kind of work more or less gratis, in the hope of also being retained on the implementation part. When a client asks for an implementation plan, this normally implies that the consultant's preliminary work is perceived as serious (Stroh & Johnson, 2006).

A close link is often established between the consultants and the formal leadership. As a result consultants seldom create deeper relationships with everyone in the organization, but mainly with the key decision-makers. On occasion, it happens that the consultants themselves are part of the formal leadership. This is a trend that is becoming more common in the implementation of strategic decisions. In this context, there is often little difference between the consultants and the formal leadership (Jacobsen, 2008), and this can have negative consequences.

## **Symbolic decision-making**

There are many cases where the primary purpose of making a decision is not to implement it. The point of making such decisions is often that the leadership of an organization wants to reveal its ability to act or express its opinion. In these situations, decision makers are primarily interested in the symbolic or expressive aspects of the decision. They are usually less interested in following up this kind of decision on a concrete level. Symbolic decisions are therefore designed to gain legitimacy by showing a willingness to carry some things through without necessarily intending to implement them. These decisions must be distinguished from the purely instrumental, which aim to solve concrete problems. It is easy to perceive symbolic decisions as something negative; however, the use of symbols can have strong effects on the organization's functioning. An organization is to a greater extent characterized by common perceptions than by formal structures. These perceptions have to be created and sustained. Symbolic decisions signal the ways in which the leadership believes the organization should develop. Thus

symbolic decisions express core organizational values in a simple and straightforward manner, and therefore these decisions seldom have a motivating power inside the organization. When leaders outline visions for the organization, not unexpectedly it has a motivating effect on staff. Since visions are often both vague and hard to reach, they possess a highly developed symbolic side. Through this similarity with visions, symbolic decisions may also serve as interpretations of what has happened in the past (Podsakoff et al., 2000, Pfeffer & Sutton, 2006).

## Conclusions

How a leader chooses to implement a decision heavily depends on the nature of the decision, that is, whether the leader is dealing with a strategic, tactical or operational decision. Another significant factor is the time horizon that the leader is working with. The first thing a leader should do is develop a plan for how he or she intends to implement the decision. In this context it is important to be clear about what resources are needed to carry out the implementation and how the leader intends to involve others in the process. Often it may be expedient to create a team that works together to implement the decision. The leader should also create an action agenda for each meeting, specifying the responsibilities of each person. It is essential for the leader to be as open as possible and not withhold information from the persons involved in the process. For instance, the leader should distribute as much relevant information as possible to meeting participants before a meeting. At the same time, one must be able to steer the process, and for this reason, open critical discussions should be forbidden during the meetings.

The implementation plan that has been created must be evaluated and monitored regularly. This is most easily accomplished by working with critical evaluation criteria. A common way to determine whether an implementation has been successful is to focus on the achievement of the strategic objectives. It is also usual to inform oneself about how the key stakeholders have perceived the process.

Additionally, a cost-benefit analysis can be used as a starting point for deciding whether the implementation has been successful or not. A separation between the formulation of a decision and its implementation of it is not uncommon. Often, it is the top leadership which formulates the decision and the middle managers that implement it. For this reason, it is relatively routine for top leadership to signal that the implementation has been successful when the middle managers begin to report positive results, even when a significant portion of the implementation remains unfinished. However, cases also exist where top leaders have judged certain implementation processes as failures and they are later found to have been successful. A problem in organizations is that leaders often inherit the task of implementing decisions that past leaders have made.

There are many factors that can lead to the failure of a decision's implementation. One major reason is that the leader or the team does not really take the task seriously – often they simply do not understand how important the task is. Another important reason is that leaders fail to communicate with the people that are most concerned by the process. For example, a clear vision may be lacking, or interested parties may not have been allowed to participate actively in the process. A third important reason is that the leader or team announces the victory in advance and overestimates the progress being made. In order to succeed with an implementation, it is necessary to understand the significance of the process, communicate the vision clearly, evaluate and monitor continuously, and allow interested parties to participate actively in the process. Leaders should also understand that what at first may look like a failure at a later stage may prove to be a success.

It is not uncommon for the leadership to hire external consultants when they are about to implement a decision. There are several reasons for this. First, consultants generally have a more free approach to the organization than those who work in it, and therefore can see what employees may miss. Often, consultants from leading firms are also specialists in organization and leadership which gives them the competence to diagnose situations and to find the right solutions to problems. Major consulting firms work routinely



to develop action steps, timelines and cost estimates associated with the implementation of a decision.

It is not always the case that leaders are really interested in implementing the decisions they have. These decisions are often referred to as symbolic. Often, the purpose of symbolic decisions is to enable the leadership to document its ability to act or express its opinion in general. Symbolic decisions signal the direction that the leadership wants the organization to be developed. In this way, leaders can easily and in a readily understandable manner express the core values of the organization.

**Checklist**

1. Why is it important to create an implementation plan?  
How should you as a leader work with such a plan?
2. How do you as a leader manage and control an implementation process?
3. Why can it sometimes be a good thing to let a team be responsible for the implementation of a decision?
4. How can one determine whether the implementation of a decision has been successful or not? What problems can be found in this connection?
5. What can lead to the failure of the implementation of a decision?
6. Why is it sometimes useful to hire external consultants when it comes to implementing a decision? For what kind of decision is this recommended?
7. What are the pros and cons of symbolic decision making?



## **Kapittel 7**

# **Developing as a leader and decision maker**

There are several reasons why leadership development has become a priority in larger organizations. First, organizations have been pressured to provide resources for leadership development in order to build a culture that supports continuous learning. Second, leaders themselves have begun to take personal responsibility for their own development in a time marked by crises, downsizing and restructuring. Third, technological development has resulted in competence-enhancing resources being available on the Internet for anyone who is interested in them (London and Maurer, 2004). According to McCauley (2001), there are three main factors that contribute to leadership development in organizations:

1. The opportunities leaders have to develop through a variety of challenging experiences.
2. The ability of leaders to learn and develop.
3. The assistance an organization gives to leadership development in terms of coaching and feedback.

According to Campbell (1989) leaders' motivation to learn also constitutes a key factor.

It has been highlighted by Kotter (1988) and Day (2000) that leadership development is an important part of an organization's competitive advantage (see also Schön, 1983). For instance, strategy-driven leadership implies that leadership competence is defined as a strategic element that is adapted to the organization's core strategy. Organizations with an innovation strategy should therefore first and foremost teach their leaders how to deal with ambiguity and uncertainty as effectively as possible (Schuler and Jackson, 1987). This can be accomplished by using such training methods as case discussions, business games and simulations.

## Leadership styles

A fundamental question is how a leader can get a group to perform by experimenting with different leadership styles. The concept of *leadership style* usually refers to differences between various leaders' preferences regarding how the leadership function is best exercised. Hence, it is not the case that a leader must lead in a certain way based on his or her personal qualities. A leader can, on the contrary, lead in other ways than are natural for his or her basic personality. The idea is that a leader is capable of consciously adopting a particular leadership style. Sometimes a leader knows that he or she could choose a different style but for one reason or another refrains from doing so. The reasons may be that the style in question is not suitable or is unethical in some way. To develop as a leader therefore implies the ability to smoothly switch between different leadership styles along your own preferences.

An important factor that determines the style applied by a leader is the extent to which he or she is focused on demonstrating concern for employee welfare. It is therefore necessary for the leader to create social relations with the employees and take advantage of them, and this is achieved by providing feedback, being helpful, listening to complaints, being friendly and treating employees as equals. For many leaders, it is very valuable to gain acceptance from employees before significant decisions are made and implemented.

Another important factor in determining leadership style is how well a leader can provide structure and initiate action in the group that he or she is the leader of. Therefore, many leaders organize the work of their employees and explain how it is done, and concepts such as *effective problem-solving* and *efficiency* are often at the forefront. It is important to set deadlines and keep them, and a clear structure should be created for how work is to be organized and what roles the employees are supposed to play. Often, the employees are not consulted when a major decision is to be made. Many leaders put great emphasis on defining their role in relation to the achievement of the objectives that the work requires. From these two fundamental factors six different leadership styles can be defined

(Grønhaug, Hellesøy and Kaufmann, 2006; Ahlstrom and Bruton, 2008).

The first leadership style is called *coercive*. A coercive leader is often working with criticism and negative tactics and usually gives orders directly to employees. This style can be successful in some situations where employees are not willing to take responsibility, however it is usually detrimental in environments where creativity and innovation are key elements. Many therefore feel that this style is the least efficient when all kinds of possible situations are analyzed. The organizations functioning successfully with this leadership style are often characterized by rapid decision-making and a need to change course quickly. This leadership style does not work at all well in industries that focus on innovation and groundbreaking development. Although the style has attracted much criticism, it can be viable in organizations that have developed bad habits or are in an acute crisis of some kind. However, it is necessary for the leader to change leadership style when the acute situation improves, otherwise the organizational climate and morale are likely to deteriorate rather quickly (Yukl, 2006; Ahlstrom and Bruton, 2008).

The second leadership style is labeled *authoritative*. This style is also often used in adverse situations where the goal is to change people's thinking. The difference is that this style is based on enthusiasm and vision, rather than on criticism and negative tactics. The style is referred to as authoritative because the leaders who are using it like to impose their vision of the company or team on others in a confident and dogmatic manner. This style is often also known as *charismatic*. Research shows that the authoritative style may be extremely effective when used properly. Authoritative and charismatic leaders are both visionary and motivated which give employees a strong sense of identity. They know what they are doing and why they are doing it, and in contrast to the strict leader, the authoritarian leader's success criteria are clear. In addition, employees are given the opportunity to make suggestions for improvements, and they are not punished if they fail in an honest manner. Because of its positive effect the authoritative leadership style works well in organizations that have fallen on hard times.

In such a context, the authoritative leader can plot a new course and pitch a fresh new long-term vision. However, the authoritative style may be problematic when a leader is responsible for a team of experts who have more experience than the leader himself/herself in key areas. There is then a risk that the team leader is perceived as excessive and unrealistic. The same problem may arise in knowledge industries, where everyone knows their job and may not need an enthusiastic choir leader in order to achieve results. Nevertheless, the authoritative leadership style can be very effective in situations requiring quick and dramatic action to get a failing operation to achieve success again (Yukl, 2006; Ahlstrom and Bruton, 2008).

The third leadership style is termed *affiliative*. For an affiliative leader people will always come first in the sense that individuals and their emotions are appreciated more than tasks and goals. An affable leader strives to keep the employees happy and is likely to create harmony around them. In addition the leader tries to create strong emotional bonds between the employees, implying that both communication and flexibility are highly valued. An affable leader is often quick to provide positive feedback which motivates employees. These leaders are also good at creating an atmosphere of belonging and often natural relationship-builders. In organizations that choose to invest in this style of leadership, one frequently observes own health facilities, kindergartens and medical clinics, as well as bonus and profit-sharing schemes. All this aims to create satisfied and committed employees who thrive in the organization (Yukl, 2006; Ahlstrom and Bruton, 2008).

The fourth leadership style is called *democratic*. This style is very consultative and is often associated with Japanese leadership and decision making. The style is characterized by the leadership team and employees being allowed to discuss plans and objectives with a view to reaching a collective decision. The democratic style is slow but usually works well without any major obstacles. Since those affected by the decisions have an opportunity to influence the decision process, flexibility, responsibility, and a strong work ethic are created. When employees are allowed to participate in the decision-making process, they often acquire a realistic view of what is and is

not feasible. Still, the democratic leadership style has its drawbacks. Often it results in endless meetings aimed at building consensus at all costs, and the final decision can sometimes consist only of an agreement to meet again in a week or so. Democratic leaders often seem to avoid making important decisions, in the hope that important insights will appear naturally in the meetings. They simply hope that the meeting will help them to avoid their responsibility. Therefore, in extreme cases, an organization that has chosen this leadership style appears to be leaderless (Yukl, 2006; Ahlstrom and Bruton, 2008).

The fifth leadership style is termed *pace-setting*. Pace-setting leaders are focused on making everything better and faster and require the same from their employees. Those who do not deliver are out. Organizations that are characterized by this style of leadership often perform well during certain periods, but staff turnover can also be quite high. Pace-setting leaders often have a clear idea of what they want to achieve, but it is not always certain that they have the ability to communicate this clearly to employees. They often make a selection of the employees who they want to invest in and therefore give little priority to skills development, etc. The default attitude is that the right people must be engaged from the beginning. The archetypal pace-setting leader is both hardworking and creative but at the same time dominant and terrorizing if employees do not live up to the set requirements. A pace-setting leadership style works best when employees are self-motivated and highly competent and do not need much control or coordination (Yukl, 2006; Ahlstrom and Bruton, 2008).

The sixth leadership style is called *coaching*. This style's leader is more reminiscent of a counselor than a traditional leader. A coaching leader helps employees to identify their strengths and weaknesses and tries to relate them to their career goals and personal goals. They usually encourage employees to set long-term development objectives and help them to conceptualize a plan to reach these objectives. In the next step, these leaders agree with the employees on how roles and responsibilities should be allocated in order to carry out the plans. There is often a generosity in giving instructions and feed-



back to employees. The style is also very delegating. Often, leaders give employees very responsible tasks in order to make them grow. Research shows that the coaching leadership style is the one least used – but that it should be used more often than it is. The style fits in most cultures and often generates a good organizational climate. One problem with this style is that it primarily focuses on personal development and not so much on improving productivity, yet despite this fact, the style can often lead to improved performance. For example, leaders who themselves receive coaching can improve their decision making. This can be achieved through focused conversations in which the current leader feels both supported and challenged. The coaching style works well in many organizations, but is perhaps most effective when employees know about their weaknesses and want to improve their performance. It also works well when employees realize the importance of developing new skills in order to advance. In short, the coaching style works best for people who are interested in letting themselves be coached, and who can see opportunities to create win-win-situations (Yukl, 2006; Ahlstrom and Bruton, 2008; Shaw, 2008).

### **The leader in various roles as decision maker**

Most organizations are characterized by the fact that it is the leader who plays the main role in the decision-making systems. Because of their formal authority only leaders are capable of determining which action steps are to be taken. Furthermore, it is often the leader who has access to relevant information needed to make a strategic decision. Henry Mintzberg has described four central roles that depict the leader as decision maker (Mintzberg, 1975). All of these roles can be subject to behavioral role-model training, where leaders take part in role play to practice the different roles. These role plays can be conducted in small groups, affording several leaders the opportunity to practice at the same time. Feedback can be received by the trainer or from other leaders who serve as observers. In most cases, the leaders are asked to develop specific action plans for imple-

menting the behavior guidelines. After writing these action plans, leaders can discuss them in dyads, in small groups, or privately with the trainer to perform some reality testing and obtain guidance and encouragement (Yukl, 2006).

The first role is that of *entrepreneur*. As such, it is the leader's task to ensure that the organization improves by adapting to changing conditions in the external surroundings. The leader must therefore always be on the lookout for new ideas. When an idea emerges the leader initiates and heads a development project that is built around the idea. These projects are often the result of a series of small decisions that have occurred over time, and thus it is difficult to trace them to formalized autocratic decisions or group decisions. It is not unusual for the leader to try to extend each project, partly because they must fit in a piecemeal agenda and partly because they should be able to deal with difficult problems successfully. Some of these projects will result in new products or processes, and others will lead to campaigns, improvements in financial systems, reorganizations, internationalization improvements, data integration solutions, etc. A top leader often juggles a number of such projects. Now and then old projects are closed and new ones are initiated.

The second role is that of *problem solver*. One can easily get the impression the leader assumes this role as a result of external pressure, from problems relating to such issues as potential strikes, customers who are faced with financial problems or suppliers that do not follow established contracts. In all cases, action is required from the leader's side and the problem cannot be ignored. Often the leader is not in full control of the situation. Problems of this type not only occur due to insufficient leaders' ignorance, but because good leaders are not able to predict the consequences of their actions.

The third role is that of *resource allocator*. It is usually the leader who determines who should get what. Perhaps the most important resource that a leader must allocate is his or her own time. To be able to get access to the leader is for most employees synonymous with an opportunity to express oneself to the decision maker of the unit. The leader is also responsible for the structure of the unit, that is, the pattern of formal relationships that determines how the

work is allocated and coordinated. As a resource allocator, a leader also has responsibility for approving major decisions before they are implemented. Through this power the leader can ensure that decisions have an internal meaning. If this power is fragmented it can result in an inability to make decisions and a disjointed strategy. An observation that can be made is that many leaders green-light kicking off a project even in the absence of a formal budget. Many projects simply cannot wait or do not reveal the quantifiable costs and earnings calculations that traditional budgeting require. When leaders makes strategic decisions they must consider the impact that these have on other decisions and the organization's strategy, and they must therefore ensure that the decisions are acceptable to key individuals in the organization and that minimal resources are used. It is therefore crucial for a leader to have insight into the proposals' costs and potential to make a profit. Leaders must also have insight into the feasibility of proposals and whether they are timely. Occasionally a leader will choose a person instead of a proposal in connection with various projects being approved. This means that the leader approves projects via the people he or she has confidence in. However, a leader cannot always make such a simple choice.

The fourth role is that of *negotiator*. Generally speaking, leaders use considerable time negotiating. For example, the leader is often the one who designs contracts for newly appointed managers. Leaders must also negotiate with unions in relation to local wage negotiations. When a major customer is dissatisfied with a product or service that has been sold, it is also the leader who negotiates. The fact that the leader plays a central role in all types of negotiations is rooted in is the fact that he or she is in a position to grant resources. The leader is also the one with access to vital information needed in important negotiations.

In his book, *Making Difficult Decisions*, Peter Shaw identifies four distinct roles that are crucial for the leader to develop over time. These roles are based on the fact that it is important for decision makers to make decisions that are rooted in their own values. To achieve this, decision makers must coordinate their rational abilities and emotional awareness with their personal values and priorities.

This view is based on the notion that leaders mature in their roles through the parallel development of skills and thereby achieve higher quality decisions over time (Shaw, 2008).

The first role is based on *clarity*. This role includes the ability to respond objectively to a topic, to identify problems and decision options, to carry out good analyses, and to be goal-focused. It also involves dealing with complexity, living with compromises and clarifying the consequences when different decisions are made. To be clear as a decision maker implies finding simple solutions when faced with complex situations and knowing when one has enough relevant information. Leaders driven by a need for decision clarity are often driven to find simple solutions with the help of honest and rigorous objectivity. They are less easily swayed by different emotions (Shaw, 2008).

The second is based on *belief*. Making difficult decisions is not just a matter of weighing various factors against each other. No matter how good the information and analysis one has access to, there is something else going on in the minds of many decision makers when a decision is about to be made. It is not uncommon for many decision makers to bring a certain perspective or intuition with them into a decision situation. Sometimes this can lead to valuable insights that enable the decision makers to interpret the facts in a constructive way. However, sometimes decision makers bring with them experiences and emotional perspectives which lead them to consider the environment as though they had blinkers on. How decision makers can use this role in a constructive way thus becomes a key question. The solution lies in being as honest as possible with oneself and analyzing one's own thinking critically. Dogmatic beliefs are downright malicious, and therefore decision makers must continuously test and evaluate their beliefs. There are many factors that influence decision makers in this role, including intuitive assessments, evaluations, past experience, expert assessments and emotional awareness (Shaw, 2008).

The third role is based on *courage*. Decision makers who use this role feel the need to balance a certain amount of courage with caution. When leaders possess too little courage, they often become

paralyzed by their own fear. On the other hand, over-courageousness often leads to ignorance of dangers and difficulties. It is useful if a leader has the ability to summon up courage when thought is put into action, and courage is not something that suddenly appears, but is built up over time. It is very much about the leader building self-confidence and making use of experience and authority to create a framework for what he or she can say, and when. As a leader one has to live with the realization that one cannot avoid the risk of failing and making wrong decisions. Leaders must have faith in their own and others' assessments when, for example, decisions are to be delegated. Many times a leader can use a belief as a platform to create courage. Having courage when deciding requires building up self-confidence and an inner strength while not allowing oneself to be overly influenced by other people's emotional reactions. It is also about preparing and acting consistently in order to create meaningfulness in the decisions and not undermining them. This role works best, therefore, in implementation situations with a clear value-driven objective where the leader is aware of the consequences and is willing to learn from his or her mistakes. Both reflection and action are significant elements of the role (Shaw, 2008).

The fourth role is based on *communication*. Decision makers who use this role are well aware that good communication not only provides an effective transfer of decision outcomes. Being able to work with communication in a creditable manner permeates the whole decision-making process. This role involves being able to listen, build partnerships, engage effectively, build consensus, and be persuasive. By working with communication in this versatile way, the decision maker can create win-win situations even before the decision is made. In each decision process, it is essential that the leader understands the context and has the ability to understand other people's perspectives. It is important for a leader to continually reflect on how the final decision will eventually be communicated. This is a valuable test of the potential realism of the decision. At any meeting where a complex decision is discussed the leader should reflect on what the main communication issues are. Thus this role works best in situations that require a broad approach to the concept

of *communication* where it is important to build understanding and agreement, to communicate the results effectively and to follow up on the cultural interpretations (Shaw, 2008).

## Learning from practical experience

Whether problems, burdens and setbacks connected to the leadership job are likely to result in meaningful leadership competence is a significant issue. According to Disraeli claimed that a leader develops wisdom by constantly seeing, studying – and suffering. This is not to imply that the ability to cope with adversity is something that ought to be entered on the schedule of leadership development programs of various kinds. On the other hand, one should perhaps ask oneself how adverse experiences can be used in a positive way for learning and personal development. In a study by McCall, Lombardo and Morrison (1988) leaders identified five problems which they believed had important consequences for their development:

1. Errors and defeat in relation to key people.
2. Degradation.
3. Career shift.
4. Poor performance from subordinates.
5. Personal trauma.

These situations facilitated enhanced self-understanding and an acceptance by the leaders of their own limitations. The leaders simply felt that they had developed through these situations when it came to dealing with subsequent ones over which they did not have control.

Research indicates that leaders who are confronted with severe declines in their careers often have the opportunity for reflection, self-awareness and knowledge of their own values (Kovach, 1986, 1989). Yet in order to learn from their setbacks they require an ability and willingness to challenge their own thinking and ways of being, and a willingness to change on the basis of new insights. Both Argyris (1991) and Kaplan et al. (1987) argue that it can often be

difficult for leaders to mobilize this willingness because they are so accustomed to achieving success. Many are defensive and unable to admit that they themselves have been involved in and contributed to their own faults. What distinguishes successful leaders from the less successful ones is often the willingness to take responsibility for their own mistakes (Argyris, 1991). Failing leaders frequently blame the media or their employees and refuse to recognize their own shortcomings.

However, there are methods that leaders can use to break the vicious cycle of adrenaline-fueled defensive reasoning. Leaders must recognize that there is a discrepancy between the theory of action which they verbally express and the theory that they actually are acting on. Feedback from others in this context is useful and can help leaders gain perspective on their own limitations. Unfortunately, it may be that the higher up in the hierarchy a leader has advanced, the less accessible feedback of this kind is (Bartholome, 1989), for several reasons.

First, top managers often develop a high degree of self-confidence as a result of the status that the high position entails. It becomes easy for top leaders to feel superior and ignore criticism from others who have not been as successful or been in the right place at the right time. Second, due to the top leader's position of power many people avoid the risk of offending him or her publicly by expressing criticism. It is therefore important that the organization contributes positively by creating an accepting environment that involves a tolerance for criticism. Leaders must also be allowed to sometimes make wrong decisions. This can be accommodated by developing a culture that values learning and not just results.

Many organizations invest in formal mentoring programs as one of many methods to achieve leadership development (Noe, 1991). A mentoring relationship is characterized by an experienced senior leader helping a less experienced junior leader. Colleagues may also provide an important impetus to leadership development (London and More, 1987). Typically the mentor is not the boss of the protégé (McCauley and Douglas, 1998). There are two distinct functions of mentoring (Kram, 1985; Noe, 1988). The first is psychosocial

and centers on acceptance, encouragement, guidance and consultancy, and the second is career-promoting, more about sponsorship, patronage, task delegation and visibility. Mentors can often help a new leader's acclimatization, learning, and stress reduction by taking various measures. This is particularly valuable when, for instance, a new leader is to change unit or work abroad (Kram and Hall, 1989; Zey, 1988).

Several studies show that there is a connection between mentoring and advancement in the organization (Chao, Walz and Gardner, 1992; Dreher and Ash, 1990; Fagenson, 1989; Whitely and Coetsier, 1993). As a rule, mentors also gain from the experience since it enables them to develop their leadership qualities, and thus their job satisfaction is commonly enhanced as a result of the experience. However, there is relatively little research indicating that the mentor can really boost his or her protégé's leadership development, and so it is not entirely clear what knowledge, values, and behaviors are transmitted in the mentoring relationship. More research is required in this area in order to illustrate what the learning process looks like and which factors contribute to development (Yukl, 2006). It is particularly important that future research be able to identify to what extent a mentor can transfer knowledge about how a leader can deal with different decision-making roles (Shaw, 2008).

In recent years, individual coaching has been established as an alternative method for organizations to achieve leadership development (Hall, Otazo and Hollenbeck, 1999; Kilburg, 1996; Peterson, 1996; Shaw, 2008). The individual who receives coaching is usually a top leader of an organization, and the individual who provides coaching is often an external consultant. The coach is usually a successful former leader or a behavioral scientist with rich experience in being a leadership consultant. The primary purpose of leadership coaching is to facilitate learning and skills development. A coach can also provide practical advice on how leaders should deal with certain challenges, such as how to best implement a major development, how to tackle problems with their line managers as well as how to best collaborate with people from other cultures. The advantage of coaching is that the leader has someone to test his or



her ideas on. This person usually understands these ideas and can provide objective feedback and suggestions in a completely confidential spirit. An executive coach is not a permanent mentor but is retained for a limited period, usually for a couple of years. Often consultations take place once a week or every fortnight. In extreme cases, the coach may have to be prepared to step in immediately, like an emergency physician, when the situation calls for it. Sometimes the leader himself/herself initiates coaching, although it also happens that senior leaders are behind the undertaking in an effort to help the current leader advance within the organization.

Leaders who have received coaching are generally positive about the experience. What these leaders have appreciated the most is feedback about their strengths and weaknesses as well as clear and transparent advice on how to operate more efficiently. A coach can also enable a leader to develop in terms of listening to others, communicating, influencing others, building relationships, managing conflicts, building teams, initiating change, holding meetings and encouraging subordinates. A coach can also quite commonly provide tips and advice to leaders about where to obtain relevant knowledge and skills (Dotlich and Cairo, 1999). One problem with the coaching method is that it is very costly, even in limited forms. For this reason, coaching is usually only made available by an organization to the senior management layer (Hall et al., 1999; Yukl, 2006). In his book, *Making Difficult Decisions*, Peter Shaw elaborates on how coaching can be used in order to improve a leader's ability to make tough decisions (Shaw, 2008).

According to Rosow and Zager (1988) leadership development is more and more associated with philosophies of continuous and progressive learning. The purpose of developing leaders can be seen as part of creating «learning organizations». A learning organization continually expands its capacity to create its own future by looking at the world in new ways. This may include customers' and clients' needs or the means to operate. A leading spokesman for this new thinking is Peter Senge (1990), and he has identified five core competencies or disciplines that are essential for a learning organization:

1. Systems thinking.
2. Personal problem-solving skills.
3. Mental models.
4. Development of common visions.
5. Team learning.

The leader's main job is to constantly renew the employee vision, challenge prevailing mental models, grow holistic thinking and support staff learning as well as problem-solving.

### **Self-leadership and decision making**

The new interest in continual and experience-based learning has also resulted in an increased responsibility among leaders for their own development (Manz and Manz, 1991; Manz, 1992; Sims and Lorenzi, 1992; Sims and Manz, 1996). Gary Yukl (2006) has set up a general list of recommendations that are useful for leaders who want to develop their own skills. These include:

1. To develop a personal vision for what you want to accomplish in your career.
2. To search for a viable supervisor.
3. To seek challenging tasks and work assignments.
4. To improve self-monitoring.
5. To seek relevant feedback.
6. To learn from your mistakes.
7. To see events from different perspectives.
8. To avoid facile answers.

A crucial choice that leaders face when they want to develop themselves concerns values and priorities. Leaders must make clear to themselves what they want, how they feel and what they appreciate, as well as the consequences of same. In this sense leaders' own needs have a strong connection to their own values. It is also important to think through what one must do to satisfy the requirements and

needs of one's nearests and society. Ethics and morality are meaningful in this context. Thus, self-leadership is not about following your own path but about knowing your own and others' needs and creating a balance between them. By analyzing one's own values one simultaneously also engages in a self-examination of essential aspects of life in general. The key questions are what one wants to do, should do, and can do in relation to the present. A leader's personal value system affects his or her perception of situations and problems. One example consists of what leaders consider to be a success, another is constituted by the ways leaders look at human relationships. A value system also puts limits on a leader's ethical behavior. It is through a value system that a leader either accepts or opposes organizational goals and the social pressure that these create. It can therefore be equated with a set of rules that helps the leader to choose between alternatives, resolve conflicts and make decisions (Harrison, 1999).

When a leader has analyzed his or her fundamental values, it is time to set goals and prioritize between them. Setting goals is ultimately about giving daily efforts focus and meaning. Leaders therefore need to specify both long-term and short-term goals, regardless of whether they concern work or personal life. Contemporary motivation research suggests that goals are an important means of controlling our behavior and actions. However the formulation of objectives needs to be precise. For example, when one is planning one's week, one has to clarify for oneself what must be done as well as what one does not want to do. In addition one has to clarify what support is needed and how much time should be spent on each activity. It is also useful if all major objectives are broken down into underlying objectives. In this way, what needs to be done to achieve the major objectives will become clearer.

To gauge one's degree of commitment to the pursuit of the set objectives, one can apply various forms of self-observation. This involves reflecting critically on whether the behavior one is engaged in really can be linked to the objectives. As a leader one can for example ask the following questions:

1. Do I talk too much with colleagues at the expense of contact with customers?
2. Am I too busy with operational issues at the cost of leadership issues?
3. Do I use too much time to read e-mails before talking to people?
4. Do I use too little time for strategic work?
5. Am I too focused in relation to the complexity of the tasks?

When answering these questions a leader can make use of his or her network and compare with others how they reason on these and similar issues.

It is worthwhile for leaders to ask themselves how they use their time, how much time they spend on different tasks, and why they use their time the way they do. In this context, many leaders have thoughts about their own inadequacy or despair which sometimes can result in avoidance behavior. This type of thinking is often accompanied by uncomfortable feelings such as anxiety, boredom and powerlessness. As part of their self-observation leaders should therefore ask themselves to what extent they consider themselves realists. They might also ask themselves in what contexts they consistently produce negative or positive attitudes to different events. Other important questions concern how leaders look at taking on new tasks and in what contexts they may feel a fear of being inadequate.

After having observed oneself, it is easy to become distracted in relation to the set goals. As mentioned earlier, many leaders feel that they daily face a flood of phone calls, e-mails and requests that make it difficult to achieve their goals. Moreover, leaders' own needs for variety, relaxation, and excitement can make things even more difficult. Sometimes leaders do something completely differently than what they wanted, out of an undefined need. What leaders can do is work with to-do lists while applying different self-control techniques aimed at making themselves unavailable. One can also try to engage a loyal and discreet assistant to take care of some practical tasks – it is not necessary to do everything oneself. When one has a need for variety and relaxation, one can try to include these in a

list of secondary objectives and by doing so increase one's sense of efficiency and control.

One method one can use to further stimulate the achievement of objectives is to permit oneself rewards for a job well done. This is particularly beneficial when the leader works with tedious tasks. Conversely, one can also punish oneself or apply negative sanctions when one cannot meet the set objectives. A guilty conscience can often work effectively, but so does cancelling activities that one appreciates very much as a form of punishment. Another approach is to try to perform less enjoyable tasks in pleasant surroundings whenever possible. For example, boring reports can be written at home or on the beach, and boring meetings can be held in a nice meeting place. One can also try to actively seek out the tasks one enjoys and engage oneself in these as a means of achieving the objectives. These methods can be compared and discussed with members of one's network.

A leader who is good at leading himself/herself is sometimes called a super-leader (Sims and Manz, 1996). Such leaders usually have no problems with giving away their power. They also have a mental ownership of the work and create a positive approach to the tasks. Super leaders support others in their independence and plan the introduction of self-leading teams in the organization, which differentiates the super-leader from the traditional leader who is acting through management, supervision and control. In order to get others to become self-leaders, super-leaders usually act as coaches. Self-oriented leadership coaching implies that the leader presents himself/herself as a good role model of self-leadership. The leader must therefore instruct employees on how to improve their own self-leadership and also reward their improvement when it occurs. A super-leader encourages employee development by challenging the employees. This may be accomplished by asking employees what the objective is, how precisely it is formulated, how demanding it is, what rewards they are planning to give themselves and what might prevent them from carrying out the plans.

Self-leadership means that employees themselves must have a governing function, in other words, that the leader gives away

power and responsibility. This can, however, sometimes cause problems. Strongly reduced control is not always compatible with major organizational changes, which generally require coordination and someone pointing out a common course. A monitored surveillance, strategic governance, and adaptation to changing conditions generally have a significant impact on an organization's effectiveness. It is therefore important that the leader possesses the ability to inspire the employees to contribute positively to the effectiveness of the organization (Bass, 1997). Bass refers to this form of leadership as transformation leadership. Both transformation leadership and self-leadership attach great importance to inspirational motivation, intellectual stimulation and contact creation. The main challenge for a leader among self-leading team members may therefore be to inspire without controlling. In addition the model is based largely on a «logic of confidence» that could serve as a substitute for a more administrative and control-based management style (Jacobsen and Thorsvik, 2007).

To make self-leadership work in practice, certain conditions must be met. First, employees must have a high degree of competence in relation to their duties. They may even have greater competence in their work than the formal leader. Another essential condition is that employees must have a committed relationship to the workplace, the employer and the job. Otherwise, there is a danger that freedom, authority and responsibility will not be managed in a defensible way. Third, the employees must be willing to develop a personal independence or autonomy. An in-depth discussion of self-leadership and decision making can be found in Martinsen (2004).

## **Team leadership and decision making**

In recent years it has become increasingly popular to work with teams in organizations. Much inspiration in this regard has been found in the sports world and naturally in team sports. In this realm, team is a positively charged word. However, research indicates that there are also inherent problems with teamwork. The introduction

of teams cannot therefore remedy all possible problems that may exist in an organization (Hare, 1994; Donnellon, 1996).

The general principles of how a team functions apply at all levels of an organization, whether we are talking about a leadership team or a production team. According to Richard Hackman (1987), organizational teams can be divided along team and management responsibility. Usually the team's common responsibility is to carry out the work that the team has been assigned. This common responsibility is something that is special for a team. In this connection, we are talking about a *team with a team leader*. If the team also leads itself, we have what is commonly called a *self-directed team*. If the team in addition creates itself by selecting the members to be included in it, we call it a *self-designed team*. Such teams are often made up of members with diverse skills and experiences. Often the members are recruited from different parts of the organization since no single department can cover all competence areas. Examples of such teams are product teams, market teams, quality teams and customer teams. Moreover, there are teams focusing on general management issues. These are usually referred to as *self-regulating teams*. The members of these teams are often recruited from the top management or from the board of an organization. According to Hambrick and Mason (1984), it is often the self-regulatory team's cognition and values that determine the strategic choices of an organization (see also Finkelstein and Hambrick, 1996).

A self-regulatory team normally does not report to anyone. Generally, it can be said that the higher up in the organization a team is functioning, the more responsible it is for its own creation and design but also for its working processes and everyday tasks. It should be noted that not all teams can be categorized in one of the four types outlined above. There exist mixed forms of leadership and team responsibilities at all levels of an organization.

There are a number of key factors to consider when a team is being designed. First, a team leader must focus on what the mandate is, that is, what the team's tasks are to be. Once this is achieved, it is time to formulate the main goals of the team's work. In this context, it is often natural to specify the resources needed to achieve these goals.

Another important task for the team leader is to compose the best possible team. Here, the leader must focus on both task-related and team-related skills (Cannon-Bowers, Tannenbaum, Salas and Volpe, 1995). It is not always the case that these two skills are represented in one and the same person.

It is often an advantage if the team leader has the opportunity to meet potential candidates face to face. Then the leader can create a picture of the potential team members' qualities thus not needing to rely on what others say. Sometimes it is easier to focus on qualities one does not want rather than on those one wants. A leader should take into account the potential abilities of prospective team members. For example, analytical ability can sometimes be a more valuable feature than experience from a particular industry. However, analytical ability has both positive and negative features that must be taken into consideration.

It is also beneficial to think about creating diversity in a team. In addition to the mix of skills in the team, diversity also brings fresh new problem-solving approaches to the team, approaches needed in order to challenge assumptions that are easily taken for granted. Diversity can thus make the whole problem-solving process appear more interesting for the team. True diversity can therefore strengthen the problem solving-process and promote the development of individual team members.

When the team's composition is in place, it is time for the leader to think of how the practical work should be initiated (Zaccaro, Ritt Mana and Marks, 2001). In this context, four key issues appear to be central:

1. How shall the team organize itself in the best possible way?
2. What cooperation forms shall be used?
3. What mental processes exist in the team and how should one relate to them?
4. What will the leadership capabilities of the team look like?



An important job of the team leader is to allocate roles and tasks within the team. In this context the leader, along with the team, should define the critical areas of responsibility as well as individual responsibilities. Often, this results in negotiations with team members on responsibilities and accountabilities. When the structure is in place, it is important for the leader to focus on how the work will be initiated. The leader has two critical functions in this context (Zaccaro, Ritt Manna, and Marks, 2001):

1. To obtain information and make it available in connection with problem solving.
2. To manage human and material resources.

Many organizations today seek to work with self-directed teams. Here the team itself becomes a kind of new management entity, in that it leads itself (Barker, 1993). In these teams a kind of collective culture is often created to protect against conflicts with management and other employees in the organization. Such a culture can sometimes create strong pressure on team members, using standards that are not always in line with what the leadership of the organization desires. Research shows that this collective awareness is central to the self-directed team in relation to its responsibility (the Leeds, Nijhof and Fischer, 1999). There is also research revealing the relationship between self-directed teams and their efficacy (Ilgen, Hollenbeck, Segó and Major, 1993). Apparently, there are some problems in this area.

In their book *The Wisdom of Teams* (1993), Katzenbach and Smith give the following general advice to the good team leader:

1. Stick to the objectives, build trust and strengthen the complexity and skill levels in the team.
2. Choose relevant and meaningful practices and govern the relations with external partners.
3. Create opportunities for others and execute a thorough job yourself.

This advice is to some extent also appropriate for so-called transformational leaders, although some differences can be spotted (Anderson and Balzer, 1991; Jung and Avolio, 1999).

In their book *Management of Organizational Behavior*, Paul Hersey, Kenneth Blanchard and Dewey Johnson identify four key decision-making styles that relate to their leadership model (Hersey, Blanchard and Johnson, 2008). The basic perspective is that the leader chooses his/her decision-making style depending on how far the employees have developed in terms of competence and motivation. The link to leadership development is therefore weaker in this model. The first decision-making style is referred to as *authoritative decision-making*. This style works well in situations where the leader has the necessary experience and information needed to draw the right conclusions. The employees involved are generally not active when the course of action is determined, and for this reason, they do not know much about the decision until it is announced by the leader. It may for example be the case that an experienced leader is about to create a budget and that most of the employees in the department are new and have poor knowledge of budgeting work. Possibly, they are learning the basics but have not yet reached the point where they are able to assist the leader.

The second style is referred to as *consultative decision-making*. This style is often used when the decision maker feels that the employees possess sufficient knowledge in order to be useful in the decision process. Often employees will have a willingness to help even if their knowledge is still limited. Then it is wise for the leader to consult employees before adopting the decision. In this way, the leader is afforded the chance to obtain valuable information, while also creating motivation and commitment among employees. It is important that the leader makes it clear to employees that he or she listens to their concerns but that this does not automatically mean they will be taken into consideration when the decision is made.

The third style is referred to as *facilitating decision-making*. Decision makers who use this style work together with colleagues in order to reach a joint decision. This style works well in situations where employees have almost as much knowledge as the leader in key

areas. The leader need only get the employees to appreciate this to arouse their self-confidence. This style is commonly adopted in situations where highly skilled managers and employees who do not know each other very well are working together.

The fourth style is known as *delegating decision-making*. This style is often used when the leader feels that the employees are so knowledgeable and reasonable that they might as well take care of the decision itself. The leader can then delegate the decision and ask the employees to inform him or her on what the outcome of the process will be. When a leader uses this style, it is an advantage if he or she is already acquainted with the employees involved.

Finally, one can ask oneself what determines whether a team is to be considered effective or not. First, we should perhaps define what is meant by effectiveness in this context. The central issue is the team's performance in relation to given resources and set goals (Mahoney, 1988; Pritchard and Watson, 1992). Unfortunately, there is no consensus among researchers on a comprehensive measure of team effectiveness (Guzzo and Dickson, 1996). According to Hackman (1983), there are three ways to measure team effectiveness:

1. The team leader's assessment of what the team delivers.
2. The extent to which team members are satisfied with the performance.
3. The degree to which team members have learned to work effectively in a team.
4. A thorough discussion of team leadership can be found in Hjertø (2004).

## **Action learning, sense-making and decision making**

It can often be fruitful to combine formal leadership training with practical learning experience. Sometimes the concept of action learning is referred to in this context (Margerison, 1988). However,

this concept also refers to theories about adult learning (Jones, 1990). The basic idea is that leaders learn best through personal experience and by doing something actively. This can be achieved when leaders share their experiences with colleagues and receive criticism and advice from them. The suggestions can then be followed up in action and later evaluated together with colleagues. The main objective is for leaders to learn by taking responsibility for their actions through participating in a small group of colleagues. The members work together to find solutions by learning from each other. This takes place in a climate of respect, support, encouragement and helpfulness. In a study conducted by Prideaux and Ford (1988) leaders who had worked in practice with action learning reported that the exercises had improved a number of different competences. These consisted of self-knowledge, self-control, proactivity, visioning, learning about their own learning, development of emotional strength, interactive skills, skills for working in teams and analytical skills.

One of the key concepts in leadership today is sense-making (Weick, 2001). The concept can be defined as the ability to create meaning in an uncertain situation. To be more precise, sense-making implies a basic understanding of the complex and uncertain situations that make it possible to decide. It is worth remembering that leaders learn to compete, survive and change only by understanding the context in which the organization and its employees operate. Leaders share a common challenge – the need to quickly assess a constantly changing environment and to reconsider on the basis of new information and impressions. One might ask oneself how leaders can create an understanding of a world characterized by a lack of feedback and inconsistency. It is also enigmatic how they can understand and change their environment simultaneously. These key leadership challenges constitute the essence of sense-making, that is, discovering new terrain while creating it.

According to Weick (2001) the reality of an organization is relative, and it is therefore difficult to determine if an organizational decision is correct or incorrect. From this point of view, probability only represents one of many factors that can be used to determine a

decision's quality. Whether a decision is perceived as correct or not depends largely on the perspective used when it is evaluated. People who work in organizations have their own perspectives on what is considered to be rational or not. The reality of the organization is socially constructed, and together different perspectives on rationality create an overarching system of meaning that can either be individual or shared by the group. The point is that it is these systems of meaning that dominate when decisions are made. For example, decision makers need both meaning and interpretation in order to set goals. To determine the importance of decision outcomes is therefore an interpretative process to a large extent. The bottom line is that in order to understand the decisions made in organizations one needs to understand what the existing rationalities are. (Cottages and Shapira, 2001; Hodgkinson and Sparrow, 2002; Vidaillet, 2008).

Sense-making consists of five main tasks:

1. To observe.
2. To question.
3. To act.
4. To reconsider.
5. To communicate.

Thus, sense-making implies acting in order to be able to think. By understanding their environment, leaders can learn to compete, survive and change.

A closely related concept has been introduced by March (1994) and is known as the logic of appropriateness. From this perspective, all leadership acts are driven by rules for what is considered exemplary behavior. These rules are followed because they are perceived as natural, real, foreseeable and legitimate. A leader therefore seeks to live up to organizational expectations on his or her role and identity. A leader's actions are thus guided by what he or she thinks is true in various specific situations according to social and collective standards. For this reason, the consequences of a decision maker's choice are not as important as a motivator for the individual leader as has previously been assumed (March, 1994).

The reason is that many organizations are subject to uncertainty which makes it difficult to determine both what the central problem is and also what actions or solutions might be appropriate (Cohen, March and Olsen, 1972). Organizations are therefore characterized by a large number of decision makers that make decisions that are often completely independent of each other in situations that change over time. Cohen, March and Olsen have chosen to use the metaphor of the garbage can to portray these situations of organized anarchy. Streams of decision opportunities, actors, problems and solutions are floating independently through the organization, and as a consequence, it is difficult for the leader to obtain an overview, control or influence over the decision-making process and its outcomes. From this point of view action guided by sense-making becomes imperative.

## **Leadership, decision making and wisdom**

A weakness in modern leadership and decision-making research is that there are very few studies that relate to the concept of wisdom. This is problematic at a time when every leader needs to enhance his or her ability to improve decision making through insight and firmness of character. For example, it has been suggested by Vaill (1998) and Weick (2004) that the underlying principles of a leader's wisdom are based on flexible and intuitive methods. These principles are therefore particularly suitable for the times that we are living in. In other studies it is pointed out that the wisdom of a leader is essential for more complex decision-making (Boal and Hooijberg, 2001; Whittington, Pitts, Kagel, and Goodwin, 2005).

An important requirement that can be imposed on wise leaders is that they must be able to articulate and understand logical arguments based on sound propositions. Despite this, they are often skeptics by nature, and therefore like to question the knowledge on which such propositions are built (Sternberg, 1990). In addition, wise leaders are often skeptical of facts in general. They also have a unique ability to select the facts that are critical to a given situation (Eflin, 2003).

They filter and interpret the most relevant information from their own organization and quickly decide on which points they should act (Malan and Kriger, 1998). The key characteristic of wise leaders is that they are better than others at thinking carefully and logically. Hence they often make better judgments and decisions.

Wise leaders are also good at dealing effectively with uncertain situations. Here, they differ from ordinary leaders who strongly dislike these situations and prefer safety (Aronson, Cohen and Nail, 1999; Steele, Spencer and Lynch, 1993). They also know that reality is constructed from different perspectives and that it is also historically positioned (Baltes and Staudinger, 2000). This understanding makes them better able to recognize and deal with uncertainty since they perceive the shortcomings of reason-based thinking (Bigelow, 1992). Most of them realize the limitations of human ability to process information and are skeptical about future predictions based on technological applications (Baltes and Staudinger, 2000; Sternberg, 1990). This creates an ability to detect patterns in organizations that change over time (Malan and Kriger, 1998). Thus, wise leaders have an ability to understand and come to terms with paradoxes, contradictions, and changes that occur in an organization (Bigelow, 1992). This in turn requires experience (Boal and Hooijberg, 2001). The key characteristic of wise leaders is the ability to understand contradictory signals and stimuli, and make sensible and holistic interpretations of these (Malan and Kriger, 1998). They simply take into account non-rational and subjective elements when they make their decisions.

Another important dimension of wise leaders is that they often try to anchor their decisions in the context of an ethical value system. Performed acts must therefore be noble and make something good for people (Hughes, 2001). This approach is well in line with modern psychological theory in which ethical values are highlighted as important for achieving balance in all wise thinking (Sternberg, 2001; Sternberg and Ben-Zeev, 2001). They are considerate of others, seek just solutions, recognize their mistakes, and try to learn from these. They are also looking for humane and virtuous decision outcomes. The wisdom that these leaders represent is in

addition essentially practical in nature and takes place in everyday life. Thus it is beneficial to public welfare. This implies that these leaders must adapt their principles to the current reality and know when and how these principles should be used.

The ability to communicate their judgments in decision situations to others is another characteristic of wise leaders. This ability can sometimes take on almost aesthetic qualities. In other words the articulation is so elegant that it satisfies the recipients most deeply rooted cognitive and affective needs. According to Baltes and Smith (1990) wise leaders are able to make good judgments and provide good advice on things that are perceived as both important and uncertain. They also have a unique ability when it comes to perceiving clues and make sense of continuous interaction with others (Malan and Kriger, 1998). This implies that being resource allocators is much easier for them than it is for others (McKenna, Rooney and Boal, 2009).

According to Sternberg (2001) wise leaders in most cases are able to apply a balanced mindset in the following activities:

1. The application of successful intelligence, creativity, and knowledge.
2. The attainment of a common good.
3. The consideration of both short-term and long-term perspectives.
4. The consideration of intrapersonal, interpersonal and extrapersonal interests.
5. The mediation of values.
6. The adaptation to, shaping, and selection of environments.

## Conclusions

An important element of both leadership and decision making is the development aspect. Leaders develop in their decision-making capacity by being confronted with difficult decision situations, but also through various forms of systemized training and education. However, different leaders tend to develop in different directions,



and one can identify a number of key leadership styles based on different ways of leading. These styles differ in the extent to which they suit different organizations. Some organizations require a strict and authoritative style, while others are in greater need of a more democratic, communicative and coaching style. A leader who has come a long way in his or her development has the capacity to switch between different leadership styles depending on how the situation develops, and need not necessarily be faithful to their original style.

In addition, there are a number of key roles that leaders in the capacity of decision makers are expected to cope with. These include the role of entrepreneur, problem solver, resource allocator and negotiator. In all these roles the decision maker must base his or her decision on clarity, conviction, courage, and communication.

Research shows that leaders who face severe adversity in their careers are often forced to make many difficult decisions. As a result, they develop. Being forced to make difficult decisions leads to reflection, self-awareness, and knowledge of own values. Leaders also develop by communicating their problems in a structured way with more experienced colleagues, persons from within one's own organization or consultants offering their services both as mentors and coaches. The aim of such communication is to get both young leaders and senior leaders to develop. Often, the organizations play an active role in these situations, but it is increasingly common for leaders to take their own initiatives to develop. For this reason, self-leadership has become an important and popular method. This form of leadership may be related to a group or a team, and there is a close link between self-leadership and team leadership. A team can be like an individual, that is, more or less autonomous. A self-directed team requires a self-leader to lead it, partly because an independent team needs an independent leader as a role model.

The fact that leaders develop by making difficult decisions results in action of various forms having a central role. It is by putting decisions into action that a leader develops, as well as by reflecting on what decisions could have been made. An action perspective on leadership decisions is closely linked to the concept of sense-making. Key leadership tasks based on sense-making consist of observing,

questioning, acting, reconsidering, and communicating. There is research indicating that reflection, critical thinking, intuition, ethics and communication are important dimensions of leaders and decision makers who are perceived as wise.

**Checklist**

1. Most leaders have a basic style that they use when they are leading an activity. How easy or difficult do you think it is to switch to a style that might not be your natural style in order to meet the situational demands?
2. A decision maker must be able to handle the roles of entrepreneur, problem solver, resource allocator, and negotiator. How can you train yourself as a leader in order to improve in each area?
3. How can you as a leader develop by submitting to mentoring and coaching? What impact does each method have on the success of your development?
4. What are the key elements of self-leadership?
5. What are the key elements of team leadership?
6. How do self-leadership and team leadership fit together in decision-making situations?
7. Is sense-making a complementary or an alternative approach to decision making?
8. How can wise leaders and decision makers solve dilemmas in various situations? Please compare with existing leaders. Are there differences in the essence of wisdom in leadership and decision making?

## **Kapittel 8**

# Overview and integration

Many practitioners are confused by leadership and decision making being treated as two completely separate fields of research. One explanation for this is that scientists tend to specialize, and most research has a very narrow focus. The intention in writing this book has been to remedy this fact somewhat and pinpoint overlaps, connections and interdependencies between the two fields. The preceding chapters of the book demonstrate that it is extremely difficult to address leadership issues without taking decision making into account and vice versa, when applying a practical perspective on how organizations function. The major findings from the different chapters are summarized briefly.

## **Leadership and decision-making situations**

Research shows that leaders in general have to deal with a variety of problems and that this also applies to top leaders (McCall and Kaplan, 1990). Leaders are confronted daily with a stream of routine and new problems, which often have their origin in the environment (Browne, 1993). In short, leaders face many different often interrelated problems, and the actions they take in relation to a problem must, therefore, often be related to other problems. Consequently it is important to look for relationships between problems, rather than assuming that the problems are independent of each other (Isenberg, 1984). By relating problems to each other and to informal strategic objectives leaders improve their ability to solve several problems at the same time. A prerequisite for this is that leaders should be flexible and open in their attitudes to how a problem is defined, i.e., they should have the ability to actively evaluate various definitions of the same problem.

New problems emerge every day, and many of these are made worse when leaders ignore them, so it is crucial for leaders to identify problems early and nip them in the bud. Such an approach is not only important for a leader's daily decision making, but also when it comes to dealing with crises. Conversely, it may sometimes prove beneficial to wait before solving an identified problem, for

example when several groups are involved in a process spanning several years, and no crisis arises (Brown, 1993). In such a process a problem is commonly addressed and reassessed several times, at regular intervals.

A leader's decisions can be characterized by routine, but they can also be acute or strategic. This implies that to some extent the same conditions recur, and when they do it is wise to choose a tried and tested option. However, some situations present no history of successful decisions, and in such situations, leaders are forced to decide on the spot based on the events taking place. This type of emergency decision-making can often take up most of a leader's time. The most challenging and most critical form of decision-making entails strategic choices. Here, the leader must decide on goals and convert them into specific plans and decisions. A good default might be to try to make long-term decisions taking into account the short-term perspective. Decisions that are no longer relevant should be changed.

## **Leadership and decision-making behaviour**

A key factor is knowing one's own business. This implies knowing as much as possible about one's job and the area one works within, and furthermore broad knowledge of the people one works with (employees, suppliers, customers, etc.). This type of knowledge is often gained after having worked many years within the same industry, but it is also a product of the leader's intense efforts to learn everything worthwhile. It is therefore very important for a newly appointed leader to get to know the industry and the people as quickly as possible (Gabarró, 1985). Effective leaders do not spend too much time drilling for all the things that can go wrong or honing in on human weaknesses. They go further, more intuitively, searching for new problems to solve. These leaders make many mistakes, but can often quickly parry them and learn from them. What is referred to as «intuition» by this type of leader often has a behavioral basis, and the ways in which they gather, process, and

compile information governs the way they define their problems (McCall and Kaplan, 1990). According to Yukl (2006) there are ten leadership functions that are imperative in order to attain effective leadership decisions:

1. Help interpret the meaning of events.
2. Create alignment on objectives and strategies.
3. Build task commitment and optimism.
4. Build mutual trust and cooperation.
5. Strengthen collective identity.
6. Organize and coordinate activities.
7. Encourage and facilitate collective learning.
8. Obtain necessary resources and support.
9. Develop and empower people.
10. Promote social justice and morality.

A leader making decisions must learn to prioritize the most important factors. Some factors are always more important than others in the process, and to give each factor equal weight is only relevant when they are equally important, which is rarely the case. As a leader, one has to divide factors into categories. Next it is important to prioritize these categories accurately and to allocate time so that the vital aspects of a decision are not rushed through and the less important aspects do not take too much time.

## **Power and influence**

All legitimate power in formal organizations derives from top management. Only top management has the power to intervene anywhere in the decision process and set the tone for important decisions. The relation between organizational politics and power ought to be straightforward. A power base facilitates the use of political means to achieve more power, and power is thus both a target and a means. Effective decision-makers are generally aware of their power and use it in their efforts to influence and determine the outcomes of

various decisions (Ferris and Kacmar, 1992; Bacharach, et al. 1995; Madison, et al. 1980; Feldman, 1988).

Leaders can also build a power base by organizing themselves into networks, and they do so in order to reduce uncertainty. Organizations are created to exercise control and provide an overview. However, they are constantly threatened by circumstances eluding complete knowledge or control. By participating in a network leaders can increase their ability to preserve relevant control, while remaining exploratory and open to the outside world. Still, they must give up some of their autonomy in exchange for benefits. Leaders must in addition demonstrate trust which does not necessarily result in mutual trust.

It has been stated that leaders exercise certain principles to elicit acceptance for their ideas – reciprocity, consistency, approval, authority, and scarcity (Cialdini, 1993). To be able to influence others socially, that is, to sell one's alternative to one's own organization and to the outside world, is a key feature for successful decision-making in professional life (Hedelin and Allwood, 2001; see also Fiske 1992). Stakeholders include both internal parties (owners, board members, senior executives, co-workers, union leaders, lower level staff) and external parties (customers and vendors). A key feature of the selling process is thus both to make sure that the decision is formally made and guarantee that it will be successfully implemented (Hedelin and Allwood, 2001). The process of selling a decision alternative implies that new features of it will be discovered in light of other peoples' perspectives (Hedelin and Allwood, 2001). New and previously unknown characteristics of the alternative may emerge as a result of the encounter with such 'new' perspectives. The selling process extends beyond the role of just selling a pre-established decision made by the leader to others in many ways. Selling is not limited to the marketing of an already established leadership decision; the pre-decisional processes at the leadership level form a vital part of the concept of selling as well. *Social interaction* therefore becomes a key feature in these pre-decisional processes that shapes the leadership perspective. Thus, being able to socially influence the members of an organization,

or other stakeholders involved, as well as letting them participate in the process, should in most cases improve the quality of decisions.

## **Sense-making**

A vital feature of decision processes is to make sense and establish order. Weick (1993) has suggested that organizational researchers should include the aspect of sense-making when they analyse decisions. The sense-making perspective sensitizes us to perceptions, conceptions and practices as social constructs. In an organisational setting the inescapable self-reflectiveness of social life produces self-fulfilling prophecies. These make the way we think about, talk about and behave towards an object a part of the object itself. In other words, we change the social reality by changing our shared ways of seeing it (Weick, 1995). Sense-making is pivotal especially in the preparatory stages of decision making when problems or issues are created. In line with Weick (1993), March (1999) is of the opinion that decision making and sense-making may be looked upon as complementary processes. Sense-making is both an input into and a product of the decision process since decisions shape meanings and are also shaped by them. It is important because in real organisations problems do not present themselves ready-made but are socially constructed.

## **Identity**

Several decision researchers believe that leaders are hardwired to read minds (Camerer, Loewenstein and Prelec, 2004; Camerer, Loewenstein and Prelec, 2005; Singer and Fehr, 2005). It is believed that all leaders have a natural capacity to identify with others, although it does not automatically follow that they equally and universally do so. Generally, what people think of their leaders matters a lot because it affects their sense of who they are. Identity



matters, and it has an impact on leaders and on the whole process of decision making.

According to March (1994), identity and following rules are key aspects of the organizational decision process. An organization is an arena where identities and rules are exercised – identities are evoked, rules are followed, and results are monitored.

When membership in a particular group becomes salient, the self becomes partly defined by the group. Identities may therefore also be regarded as arising from the process of socialization into socially defined relationships and roles. This implies that identities primarily are adopted or imposed, and the standpoint thus suggests that actions are regarded as arising from learned obligations, responsibilities, or commitment to others. However, it is not primarily the intentions or identities of individual actors that shape the decision processes, but rather their interaction in terms of the relationship between personal commitment and social justification.

An important message to leaders is therefore that leadership decisions do not only concern future consequences and preferences (logics of consequences), but also involve situations, identities, and rules (logics of appropriateness). By making decisions, leaders constantly confirm or redefine their own identity as well as the identities of others. Thus, the identity of the leaders involved in organizational decision making affects the quality of decisions and should be taken into account in the decision process.

## Shared visions

It has for long been argued that involving employees in the decision-making process contributes to better decisions with greater satisfaction and confidence among them (Beach, 1996). A way for leaders to achieve this is to engage all members of the organization in creating shared visions. A shared vision is not just any idea, but a force in people's hearts, that is, a force of impressive power (Senge, 1990b). It is an answer to the question «What do we want to create?» and gives coherence to diverse activities in the organization. When

people truly share a vision, they are connected, bound together by a common aspiration. Shared visions develop from personal visions, and may have their origins at the top leadership level. A world-class leader understands that the key to energising an organization is to create a vision of the future that embodies the collective values and aspirations of its individual members as a shared mental picture of the future (Johannessen, Olaisen and Olsen, 1999). However, shared visions may also develop from the personal visions of any employee in the organization who is devoted to an innovative idea.

How leadership tackles the important issue of improving the communicative climate for sharing visions has recently been described (von Krogh, Ichijo and Nonaka (2000) as follows. First, a «knowledge vision» has to be instilled, a strategic map of the competencies comprised by the organization. Such a vision requires a strong commitment that can only be achieved by social interaction in order to be effectively communicated. The vision should spur new thinking, ideas, phrasing, and actions as a basis for novel forms of imagination in the organization. It should furthermore communicate to all stakeholders what kind of knowledge and values the organization will be seeking. Second, *conversations* that take place in the business community may also enable new knowledge creation. In this case, the role of social interaction is crucial as well. Genuine trust, open conversation and the justification of new concepts are three important features that have an impact on the decision process. Third, the decision process may also be influenced by *social interaction skills* that people in an organization have. Such skills are crucial for the catalysis, coordination, and marketing of knowledge.

A central message to leaders is that shared visions provide a forceful means for creating involvement among participants in the decision-making process. This may only be achieved by understanding that not only the nature of the vision is important; the means for communicating it effectively both within the organization and to the outside world is also imperative. Thus, the leader should engage the members of an organization to create a shared vision.

## Leadership and decision-making skills

An important element of both leadership and decision making is the development aspect. Leaders develop in their decision making and by being confronted with difficult decision situations. However, they also develop through various forms of systemized training and education. Different leaders tend to develop in different directions. For this reason, one can identify a number of key leadership styles based on different ways of leading. These different styles are more or less appropriate for different types of organizations. Some organizations require a strict and authoritative style, while others are in greater need of a more democratic style. Senior leaders often have the capacity to switch between different leadership styles depending on how the situation develops.

Research shows that leaders who face severe adversity in their careers often are forced to make many difficult decisions, and as a result they develop. Being forced to make difficult decisions actually leads to reflection, self-awareness and self-knowledge of one's own values. Leaders also develop by communicating their problems in a structured way with more experienced colleagues. The fact that leaders develop by making difficult decisions suggests that action of various forms has a central role – it is by putting decisions into action that leaders develop, and by reflecting on alternative decisions that could have been made as well. Leaders must learn how to observe, act, revise and communicate in the aftermath of a decision. Research indicates that the capacity for reflection, critical thinking, good intuition, a solid grasp of ethics and excellent communication skills are important dimensions of leaders and decision makers who are generally perceived as wise.



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