

# Leader to Leader



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# LEADERSHIP JUDGMENT: WITHOUT IT NOTHING ELSE MATTERS

*Chris DeRose and Noel M. Tichy*

**G**ood judgment is one of those ineffable qualities that everyone seeks yet is remarkably difficult to define. It goes without saying that you wouldn't hire someone you thought had bad judgment, yet ask company CEOs or nonprofit leaders to define good judgment and the question usually gives them pause.

Ultimately, we believe judgment is the essence of leadership. A leader is judged by others on the performance of his or her organization and that performance depends on the judgments that the leader makes. Some of these are large—who to put in key jobs—while others are smaller—such as how to manage a product introduction or policy change. Whatever the scope, they demand that a leader use however much data is available to determine when to act and what to do.

In the *Handbook for Leadership Judgment*, we make a distinction between judgment and decision making. (The *Handbook for Leadership Judgment* is included in *Judgment: How Winning Leaders Make Great Calls* by Noel Tichy and Warren Bennis.) Much of the academic literature and popular notions of decision making culminate in a single moment, a blink, when the leader makes a decision. Instead, we focus on judgment as a process that unfolds over time encompassing three do-

mains: people, strategy, and crisis. Analysis of this process has either been absent, leaving leaders to unconsciously pick a course of action, or has been unrealistically linear. In our experience, the judgment process is actually more like a drama with plot lines, characters, and sometimes unforeseen twists and turns. Success hinges on how well the leader manages the entire process, not just the single moment when a decision is made. (See the sidebar: Decision Making and the Judgment Process.)

Looking at judgment as a process instead of an epic moment enables us to break it down into three phases:

- *Preparation:* What happens before the leader makes the judgment call. This includes sensing the need for change, gathering data, and framing the issue in a way that is clear and compelling for stakeholders.
- *The Call:* What the leader does in the course of making the judgment and how the leader works with others to help ensure it turns out to be the right call.
- *Execution:* What the leader must do to make sure the call produces the desired results, including on-

going assessment, learning, and resetting the course.

By looking at judgment as a process, leaders can also acknowledge when they have made a mistake and try to fix errors in the process. These “redo” loops enable leaders to go back to earlier phases of the process and re-frame issues or sign up stakeholders who were missed. A leader’s report card is ultimately a reflection of the impact of major judgments on the well-being of the institution. The leader can make mistakes and still have a good judgment outcome by using redo loops to continuously self-correct.

The test of leadership is how well the leader adapts during the process to drive a successful outcome. There is no such thing as a strategy that’s good in theory but lousy in execution. A leader sets the organization on a course based on the premise that it will lead to success. Recognizing execution limitations during the judgment process is as vital as having intellectual clarity about a

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## *Judgment is the essence of leadership.*

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potential breakthrough strategy. Similarly, people judgments rest on whether people put in leadership positions are able to do the job with integrity and courage as they deliver results.

Figure 1 shows how these dimensions play out in the judgment process.

### Good Leadership Judgment at P&G

During the course of researching judgment calls, we

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## DECISION MAKING AND THE JUDGMENT PROCESS

CHARACTERISTIC	TRADITIONAL VIEW	JUDGMENT PROCESS VIEW
Time	Single moment, static	Dynamic process that unfolds
Thought Process	Rational, analytic	Recognition that rational analysis happens alongside emotional, human drama
Variables	Knowable, quantifiable	Interactions among variables can lead to entirely new outcomes
Focus	Individual — heroic leader persona who makes the tough call	Organizational — a process that the leader guides but that is influenced by many actors and subsequent judgment calls
Success Criteria	Making the best decision based on known data	Ability to act and react through judgment process that guides others to a successful outcome
Actors	Top-down, leader makes the key decisions	Top-down-up, execution influences how judgments are re-shaped
Transparency	Closed system in which decision makers hold information and rationale for judgments not explained	Open process in which mistakes are shared and learning used to adjust
Capability Building	Unconsciously happens through experience or luck; reserved for top leadership	Deliberate development at all levels

	Preparation Phase			Call Phase	Execution Phase	
Good Leader	<ul style="list-style-type: none"> <li>Picks up on signals in the environment</li> <li>Is energized about the future</li> </ul>	<ul style="list-style-type: none"> <li>Cuts through complexity to get to the essence of an issue</li> <li>Sets clear parameters</li> <li>Provides a context and establishes a shared language</li> </ul>	<ul style="list-style-type: none"> <li>Identifies important stakeholders</li> <li>Engages and energizes stakeholders</li> <li>Taps best ideas from anywhere</li> </ul>	<ul style="list-style-type: none"> <li>Makes a clear yes/no call</li> <li>Thoroughly explains the call</li> </ul>	<ul style="list-style-type: none"> <li>Stays involved during execution</li> <li>Supports others who are involved</li> <li>Sets clear milestones</li> </ul>	<ul style="list-style-type: none"> <li>Asks for continuous feedback</li> <li>Listens to feedback</li> <li>Makes adjustments</li> </ul>
<p style="text-align: center;">Sense and Identify → Fame and Name → Mobilize and Align → Call → Make It Happen → Learn and Adjust</p> <p style="text-align: center;"> <span style="margin-right: 100px;">↙ Redo</span> <span style="margin-right: 100px;">↙ Redo</span> <span>↙ Redo</span> </p>						
Poor Leader	<ul style="list-style-type: none"> <li>Cannot read the environment</li> <li>Fails to acknowledge reality</li> <li>Does not follow gut instincts</li> </ul>	<ul style="list-style-type: none"> <li>Incorrectly frames the issue</li> <li>Does not define the ultimate goal</li> <li>Remains stuck in an old paradigm</li> </ul>	<ul style="list-style-type: none"> <li>Does not set clear expectations</li> <li>Brings the wrong people on board</li> <li>Does not correct previous mistakes</li> </ul>	<ul style="list-style-type: none"> <li>Dillydallies when it's time to make a call</li> <li>Fails to understand how issues intersect and how the call will play out</li> </ul>	<ul style="list-style-type: none"> <li>Walks away once the call is made</li> <li>Does not gather important information</li> <li>Does not understand what good execution requires</li> </ul>	<ul style="list-style-type: none"> <li>Does not measure outcomes</li> <li>Does not respond to resistance in the organization</li> <li>Lacks operating mechanisms to make necessary changes</li> </ul>
	Preparation Phase			Call Phase	Execution Phase	

**FIGURE 1. THE JUDGMENT PROCESS**

supplemented our clinical experience with interviews that included leaders such as Jack Welch and Jeff Immelt of GE, David Novak of YUM! Brands, and Jim McNerney of Boeing. Our research led us across industries to look at the U.S. Special Operations Forces, the New York City Public School System, and the Long Island Jewish health care system. One leader, Procter & Gamble's A.G. Lafley, offers a vivid illustration of how good judgment is developed and applied.

Lafley became CEO of P&G in June 2000 with the company in crisis. Lafley's predecessor, Durk Jager, had been ousted for missing a series of earnings predictions and failing to revive the company's competitiveness in

key markets. On the day Lafley was announced as CEO, the stock fell another \$4; by the end of 2000 the company's market capitalization had lost \$85 billion from the prior year.

Lafley had been prepared to make judgment calls during crisis through prior experience. Before taking over as CEO, Lafley had lived through natural disasters, including the massive Kobe earthquake of 1995. That 7.2 magnitude earthquake destroyed more than 45,000 homes and killed more than 6,000 people, instantly plunging Japan into crisis. Lafley, who was running Asia for P&G at the time, immediately ensured that P&G's employees were safe and then began to take stock. The

experience reinforced for him the importance of facing reality and planning as ways to make sure a leader uses all available resources in times of crisis.

The typical response in a crisis is to react immediately, and Lafley had pressure coming from his bosses to *do something*. Instead, Lafley rented an old phone building so he could assemble his Japan team and spent the next week planning. They understood the impact on their employees, customers, distribution channels, and manufacturing capabilities before acting. They matched the needs of each with the resources they had available and determined who would lead which response efforts.

Lafley had identified a key lesson in making crisis judgments: leaders can use time to their advantage. Not every judgment call needs to be made on the spot; in fact, hasty judgments often lead to poor results. Instead of uninformed action, Lafley chose deliberate deferral.

Lafley's experience led him to face reality, plan carefully, engage his constituencies, and use time to his advantage after becoming CEO. When Lafley took over, he made personal calls to every major investor. With his team, he systematically reviewed the new technology investments that P&G had made in the past few years. His planning led to the assessment that some promising new technologies required resources that P&G didn't have to reach their full commercial potential.

Lafley challenged the businesses and R&D community to source up to half of all P&G innovation from outside the company—an approach called “Connect + Develop.” This is how Lafley began to build a more open innovation culture within P&G. Clorox was an early success, but that was just one illustration of a much broader change regarding how P&G innovates and

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*No strategy can be good in theory but lousy in execution.*

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commercializes innovations. Lafley states, “We define innovation broadly, in terms of what it is, where it comes from, who's responsible for it, and how it's commercialized.”

Lafley has more than survived the initial crisis of confidence surrounding his installation as P&G's CEO. He has reversed the company's course and declining competitiveness. Since Lafley became CEO, the company's market capitalization has more than doubled to about \$230 billion, making P&G the fifth most valuable company in the United States.

## Strategy Judgments at P&G

The second judgment domain, strategy, is determining the course on which to set the organization. For Lafley, a discussion of strategy judgments starts with P&G's core purpose and is built upon the company's values. In a recent address to a group of MBAs, Lafley shared what we refer to as his “Teachable Point of View”:

- *Ideas:* P&G's core purpose, as Lafley states it, is “to improve the everyday lives of the women and their families who are served by P&G's brands and products. That's why we get up in the morning. That's what we do all day. That's why we lose sleep occasionally at night—trying to make better products, better performance quality and value products that make everyday life a little bit better.”
- *Values:* Integrity, trust, leadership, and ownership are touchstones for P&G employees. As Lafley said, “Everybody has leadership responsibilities and a passion for service and for winning with consumers and retail customers and against our best competitors.”
- *Emotional energy:* Lafley encourages new hires to think carefully about “what you expect from a relationship.” He openly says that P&G is not a good place for “a singles tennis player. . . . We're a great place to come if you're a team player, whether you're a team musician, whether you're a team athlete.”

This Teachable Point of View is a foundation for Lafley's judgments, including his strategy choices. Lafley speaks

of the “power of strategy” and the “power of execution.” He notes that “one of the most important things we did six years ago was to make a few simple choices about what we would do and would not do and that required changes in leadership and organization behavior to deliver.”

One of these choices was to be the innovation leader in categories where P&G competes. Cost pressure is the bane of most of those industries, so a relentless focus on innovation is required to differentiate P&G brands and to avoid the commoditization of categories. According to Lafley, the vast majority of new products in the consumer products industry fail each year. Consequently, an early focus for Lafley was to define innovation broadly and to make innovation part of everyone’s job at P&G. He broadened the definition of innovation at P&G, focused on design, hired talent from outside industries, and implemented a process to take ideas from concept to commercialization—even those ideas that didn’t originate in the labs.

One of Lafley’s critical judgments was actually sticking with a structure that enabled cross-organizational work and forced collaboration that would fuel such innovation. In 1999, shortly before Lafley took over as CEO, P&G radically overhauled its structure. It moved from a geographic focus to global business lines. The new structure reduced some of the friction and overlap points between organizations, enabling people to focus more clearly on the customer and the marketplace. This was important because, as Lafley says, P&G is a “debating, discussing culture” in which everyone was used to getting a say. The new structure accelerated the speed of decision making.

When Lafley took over, however, he could have won easy points with many constituents by abolishing the new structure. P&G had placed many people in new roles with unclear decision rights and responsibilities, and the resulting distraction-making contributed, in part, to the business and financial issues that came to a head in 2000. Lafley encountered pressure from both inside and outside the company to turn back the clock to the old structure, but he resisted that pressure because he believed the new structure played to P&G’s strengths and would become a source of competitive advantage.

Lafley stuck with it. The result has been a structure that enables P&G to take advantage of the global scale of its brands and operations while maintaining local responsiveness to the needs of consumers and retail customers. Lafley knew it was right for the strategy based on his own impressions but also by talking to key constituencies.

He had spent long phone calls with many of P&G’s major investors, including some who had bailed on the company before 2000. He shared his own views but asked these investors openly what they thought was wrong with P&G. He also talked to every one of the company’s top ten retailers.

Lafley’s personal connection with investors, retailers, and employees helped him to frame the structure issue. Despite the internal resistance and noise created by coincidental poor earnings, Lafley made the call that the structure was an enabler to eventually getting out of P&G’s mess.

## Picking the Right People

The third domain in which all leaders make judgment calls is, in our view, the most important: people. Picking who is on your team ultimately dictates your organization’s ability to execute strategy and respond to crisis.

For Lafley, the people decisions started immediately after coming into office. He was faced with hard choices about who would be on his team. Not all of his judgments were correct. He was persuaded by someone he trusted to install a leader in a key role despite his own experiences and impressions in working with the individual. Lafley had concerns that the leader would be called upon to develop strategy and work without oversight in ways that were too much to expect, too fast. To challenge his assumptions, Lafley set up periodic business reviews with the leader. The meetings didn’t allay all of his concerns but did make him more comfortable working with the individual.

Eventually, the poor judgment call caught up with Lafley and he had to remove the leader. As Lafley had suspected, the individual didn’t have the bandwidth to operate at that level.

By contrast, a successful people judgment that Lafley made was to install Deb Henretta as head of the baby care division. Baby care was the company's second-largest business (after laundry) but had been flagging in recent years. P&G had two powerful brands in Pampers and Luvs but was still suffering from a strategic blunder in the mid-'80s that had allowed Kimberly Clark's Huggies brand to beat it to market with a new product shape and capture more than 30 percent market share.

Lafley knew the background of the business intimately. He could have framed the baby care division's struggles as a marketing or technology issue but knew better. "I felt that we were technically competent in baby care," Lafley says, "but that the machine guys and the plant guys and the engineers were running the show. And our problem was on the consumer and market side."

Lafley framed the core issue as a people judgment call. To change the business model, the baby care business needed someone who could build a good team, align people throughout the organization, develop a smart new strategy and pull the unit out of its current crisis. Lafley conferred with his head of human resources, Dick Antoine, and together they reviewed a slate of candidates. They settled on Deb Henretta. Lafley concluded: "She was a laundry person, but I knew what she really was, which was a tough and decisive leader. She was great at understanding consumers and great at branding and great at building innovative programs. And that's what we needed."

By leaving his team out of the selection process, however, Lafley failed to mobilize and align the people who would be required to support Deb in her new role:

"I announced Deb's appointment at the morning management meeting. It was before the announcement went out to the company. It was to go out in a day or two. By three o'clock the revolt was well under way. Every one of the vice chairs and group presidents were ticked off because they had their own candidates ready for promotion."

As a result, Lafley had to redo the mobilize and align phase of the judgment call. Although he had come to a judgment in his own mind, the negative energy from

his team required him to step back, listen, and be open to changing his selection. With everyone sitting around he invited each one to make their case against Henretta or for someone else. Lafley recalls saying, "I want you to take your list. I want you to make the best case you can for why your candidate or candidates are a better choice than Deb. So, we went around the table and I listened . . . sequentially, publicly in front of everybody else. Then I said, 'Okay, you know there were a couple of good cases. But let me tell you why I chose Deb.'"

Lafley knew that even if the powerful vice chairmen and business heads were not transformed into supporters of Henretta, they were no longer justified in any visible resistance to the call. The important thing here is that he did not try to slam-dunk his decision. While Lafley had made a mistake by moving independently where team involvement was called for, he made time before moving on to set the stage for success. Lafley also stayed close during the execution phase, knowing that Henretta might face initial resistance to her change efforts, and he "supported her every step of the way."

These experiences have informed another judgment call that Lafley made. Namely, anyone going into a key position, including one of P&G's numerous president positions, must be personally approved. As Lafley said in an interview, "For the top 35 jobs in the company it's exclusively my call. The heads of the functions, the presidents, the vice chairs, my call. For the hundred general managers who run businesses or countries, the system we've evolved to, which I like, is it's the vice chair and presidents' call."

Equally important, P&G has set up succession criteria that include reviews of both experiences and results. In Lafley's opinion, anyone who will become a president at P&G in the future must first do a tour of duty in a leadership position in a developing country. Lafley's rationale is simple: until leaders have dealt with the opportunities and challenges posed by a developing country, they haven't been challenged to make the judgment calls required to lead a true multinational. As Lafley summed up, P&G is trying "to drive disproportionate growth from developing markets. We've been growing 20 percent in the top line in developing mar-

kets, and expect these markets to continue driving strong growth for years to come.”

## The Ultimate Yardstick

Since 2000, P&G has fundamentally changed course as a result of numerous successful judgment calls. But the story doesn't end here. Lafley and his team continue to follow up on one of their biggest judgment calls—



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P&G's acquisition of Gillette in 2005—and are committed to making it a success. In the future, they will no doubt be challenged by new strategy and people calls, and will likely be forced to confront a crisis or two.

Like all leaders, Lafley and his team will be judged on their cumulative track record of making the big calls successfully. Judgment is the ultimate yardstick of leadership. Recognizing that good leadership judgment is a process is a starting point for making successful calls.



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