

JUDGMENT: HOW WINNING LEADERS MAKE GREAT CALLS

By Noel Tichy
and Warren Bennis

Excellent decisions don't often happen by accident. In the book excerpted here, the authors analyze successful executives' processes.

When Jim McNerney became CEO of Boeing in 2005, the company was in crisis. He was Boeing's third chief executive in three years. Two years earlier, Phil Condit had been forced to resign the job as a result of various ethical violations alleged to have taken place under his watch. Next, a widely respected former Boeing president, Harry Stonecipher, had been called back to the CEO post by the corporation's board, only to be edged out himself after revelations of a liaison with a female Boeing executive. The improper behavior that surrounded Condit's ouster, purportedly including the acquisition of thousands of pages of proprietary documents from rival Lockheed Martin that were used to help Boeing win contract work from the government, had prompted a Justice Dept. investigation. Boeing's senior ranks were demoralized, and



employees throughout the organization were frustrated and embarrassed.

McNerney had watched events unfold from his seat on the company's board of directors. He was acutely aware that the crisis would represent a watershed in his leadership and afford him a chance to reenergize the corporation. In response, he agreed to a \$615 million settlement with Justice. It was the largest financial penalty ever imposed on a defense contractor for wrongdoing. But the settlement allowed the company to avoid criminal charges or any admission of wrongdoing.

McNerney could have fought the allegations and dragged out the discussions; he could have underplayed the importance of the matter and blamed former leaders. Instead, he made a judgment that turned the crisis into an opportunity to transform Boeing's culture, "building one of the most robust ethics and compliance programs in Corporate America," as he testified before Congress.

Throughout our lives, each of us makes thousands of judgment calls. And, as we rise to positions of leadership, the importance of our judgment calls is magnified by their increasing impact on the lives of others.

Despite the implications of the word "call," the judgment calls that leaders make cannot be viewed as single, point-in-time events. Like umpires and referees, leaders do, at some moment, make a call. But unlike umpires and referees, they cannot—without risking total fail-

ure—quickly forget them and move ahead to the next play. Rather, for a leader, the moment of making the call comes in the middle of a process.

That process begins with the leader recognizing the need for a judgment and continues through successful execution. We have identified three phases to the process: What happens before the leader makes the decision, what the leader does during decision-making that determines whether it will be the right choice, and implementation. We also came to understand that there are three judgment domains: people, strategy, and crisis. These are the three areas that make the most difference to the survival and well-being of any institution.

People—the domain with the most potential for good or ill. If leaders don't make smart judgment calls about the human beings on their teams, or if they manage them poorly, then there is no way they can set a sound direction and strategy for the enterprise, nor can they effectively deal with crises.

For example, consider the selection of Mark Hurd as

THE MAKING OF A DECIDER

The authors talk about their conclusions

By John Byrne

The most critical attribute of any decision-maker is the ability to make sound judgments. But just what does that involve? A desire to make the process less obscure prompted Noel M. Tichy and Warren G. Bennis to write *Judgment: How Winning Leaders Make Great Calls*. "We wanted to put some clarity in what is probably one of the most commonly used and barely understood words in the field of leadership," says Bennis. Executive Editor John Byrne recently interviewed the two

authors on their findings.

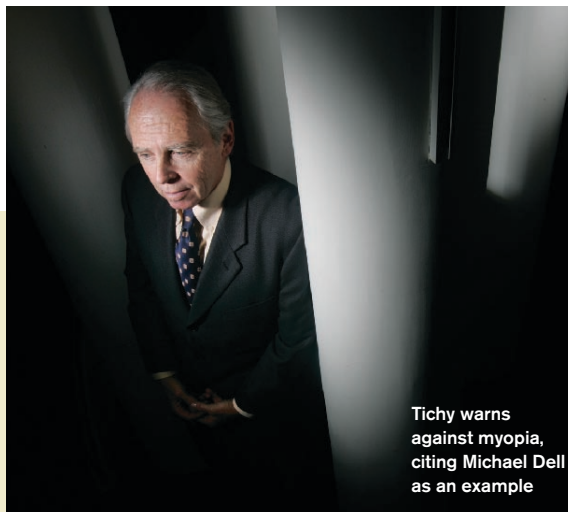
John Byrne: What have you learned that can help others make successful judgments?

Noel Tichy: The more time we spent in the field, the more we saw the necessity of a preparation phase, in which you have to sense and identify the need for a decision. For instance, Michael Dell failed to take note of a coming change in the marketplace. And so he wasn't able to go to the second stage, where he could properly frame and

name the issue. The third part is mobilizing and aligning the right stakeholders around a decision. Then, you don't walk away from a call: There is an execution phase where you make it happen and continue to make adjustments as you go along.

J.B.: Describe some other insights?

Warren Bennis: The source of many fatal judgments is the information pipeline. How do leaders get information that is relevant, has meaning, and is timely?



Tichy warns against myopia, citing Michael Dell as an example

successor to Carly Fiorina at the top of Hewlett-Packard. Almost without changing Fiorina's strategic portfolio at all or altering her team, he turned her dismal failure into a roaring success.

When Fiorina was fired in early 2005, her \$19 billion acquisition of Compaq was considered a bad strategic judgment. The company was in disarray. HP's stock price had declined 15% during a period when rival Dell's shares had surged a remarkable 90%. Morale was terrible.

Hurd immediately turned his attention to "rebuilding the foundation," as he put it. Undoing the Compaq merger was not an option. There was a rising clamor on Wall Street for a strategic shift. Spinning off the company's marginally profitable PC business from its very profitable printer business was one often-discussed scenario. But Hurd judged that after years of turmoil, the people at HP didn't need yet another new vision. What they needed was to buckle down and solve the thorny problems in the existing businesses.

Hurd, who had previously been CEO of NCR, was a hands-on operations guy. He laid off an additional 15,000 workers, on top of the 26,000 that were let go after the Compaq merger. He reached outside the organization to bring in a few key executives, and he made cost-cutting a top priority. Under

another leader, these could have been unpopular moves. But Hurd dug in and went to work alongside his new colleagues. He focused on the fundamentals and delivered on Fiorina's promises where she could not. To be fair to Fiorina, Hurd got the benefit of her strategic judgments, including the company acquisition that finally started paying off.

Strategy. The role of the leader is to lead the organization to success, so when the current strategic road isn't leading toward success, it is his or her job to find a new path.

When Jeff Immelt succeeded Jack Welch at the top of General Electric, he decided it was time to transform the company into a technology growth company. He selected 10 key technologies, such as nanotechnology and molecular imaging, and has made several acquisitions to execute this strategy, including the \$10 billion acquisition of diagnostics-and-bioscience giant Amersham.

Immelt says he believes making strategic judgment calls is how he adds value to the company. In the fall of 2004, he told a group of Michigan MBAs: "There's more importance today on strategy, on picking businesses, than ever before.... In the environment we're in, good execution and good operations aren't enough to fix a business with a flawed strat-

Four forms of intelligence are key: self-intelligence, or awareness of

your personal values and aspirations; social-network intelligence, such as getting valid data from your direct reports; organizational knowledge, or knowing how the people in your company will respond, adapt, and execute; and finally what we refer to in the book as contextual intelligence, or knowing the territory.

J.B.: Give me a good example.

W.B.: Carly Fiorina is a brilliant example of lacking contextual knowledge—of not really getting the HP culture. That was what really led to her difficult problems with her board. She leaned too heavily on change and failed to celebrate the tradition and the stability of HP.

Bennis says Carly Fiorina failed to understand and respect Hewlett-Packard's culture



J.B.: So tell us about a judgment call that went well, that shows how to make a better choice.

N.T.: When A.G. Lafley took over Procter & Gamble, he discovered a leadership problem in the company's baby-care business, about an \$8 billion part of the company. But then he made a mistake: He and one other executive decided that 38-year-old Deb Henretta should come in and run that operation. It was a business dominated by engineers, and she was a marketing consumer-oriented person.

He almost had a revolution on

his hands. His vice-chairmen were in his office, couldn't believe he'd made that judgment without their involvement. He met with all of them the next day, and after that meeting, he ended up saying: "Very thoughtful input, thank you, but here is why we're going to go ahead with Deb." This is what we call a redo loop—you can make mistakes and loop back. Then, on the execution side, he supported her every step along the way and changed most of the team.

J.B.: Are there simple things that one can do to increase the odds of making the right calls?

N.T. When you make the call, make it very clear—and explain the rationale.

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this interview, go to: www.businessweek.com/magazine

egy. So you need to spend time understanding what businesses you think are going to work, what business models seem to make sense. Strategy is more important than ever before.”

Crisis situations. Errors made in periods of crisis aren't any more likely to be fatal than errors in judgment regarding people and strategy. But any disastrous consequences brought on by bad calls at these moments often come very quickly.

David Novak, CEO of Yum! Brands has successfully navigated his organization through several crisis situations. He personally teaches his executives how to deal with judgments in such periods, providing a very clear “teachable point of view” on crisis leadership: First, he says, “What you don't do is try to solve a crisis by jumping to the wrong solution too early. Seeing the total landscape and trying to instill the need to do that is important.” Second, it is key that the right people manage the effort.

In this business, most crises are likely to involve food safety. And no matter what they do, Novak and his team will undoubtedly face further crises in the food supply chain. The way Novak and his team handled a 2005 avian flu scare in China, and its impact on the company's KFC chain there, serves as a model for handling such emergencies.

Many Chinese became afraid to buy and eat chicken, and partly as a result fourth-quarter profit at KFC dropped 20%. In the judgment-call phase, Novak and Sam Su, the president of Yum! Brands International Greater China, decided to keep selling chicken despite the flu scare.

The way to do this, they decided, was to educate the public. Su explained that chicken meat

served at KFC outlets was safe because bird flu could not be spread via thoroughly cooked chicken or egg products. He also explained that authoritative organizations, including the World Health Organization, had shown that high temperature is one of the most effective ways to kill the avian flu

virus, and that all KFC chicken is processed above the required temperature.

As for the execution phase, The Yum! corporate team provided materials to all the store managers and staff worldwide so that they could answer questions and concerns of customers.

Store workers began applying small stickers to the lid of every KFC bucket, assuring customers that the chicken was rigorously inspected and thoroughly cooked, quality assured.

Novak and his team learned and adjusted as they went along. They ultimately proved that they had exercised good crisis judgment, as the brand is now doing fine and KFC is selling record amounts of chicken in China.

These cases vary widely. There's no denying that judgment is too complex a phenomenon, too dependent on luck and the vicissitudes of history, too influenced by personal style to pin down once and for all. What can be said for sure is that judgment is the core, the nucleus of leadership. And that in decision making, the only thing that counts is winning or losing. The results matter—nothing else.

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