Leadership

Wising Up
Your Decisions May Be Smart. Are They Sustainable?

By
Dr. Peter VERHEZEN
With the AMROP
EDITORIAL BOARD

Amrop
Leaders For What's Next

Wising Up

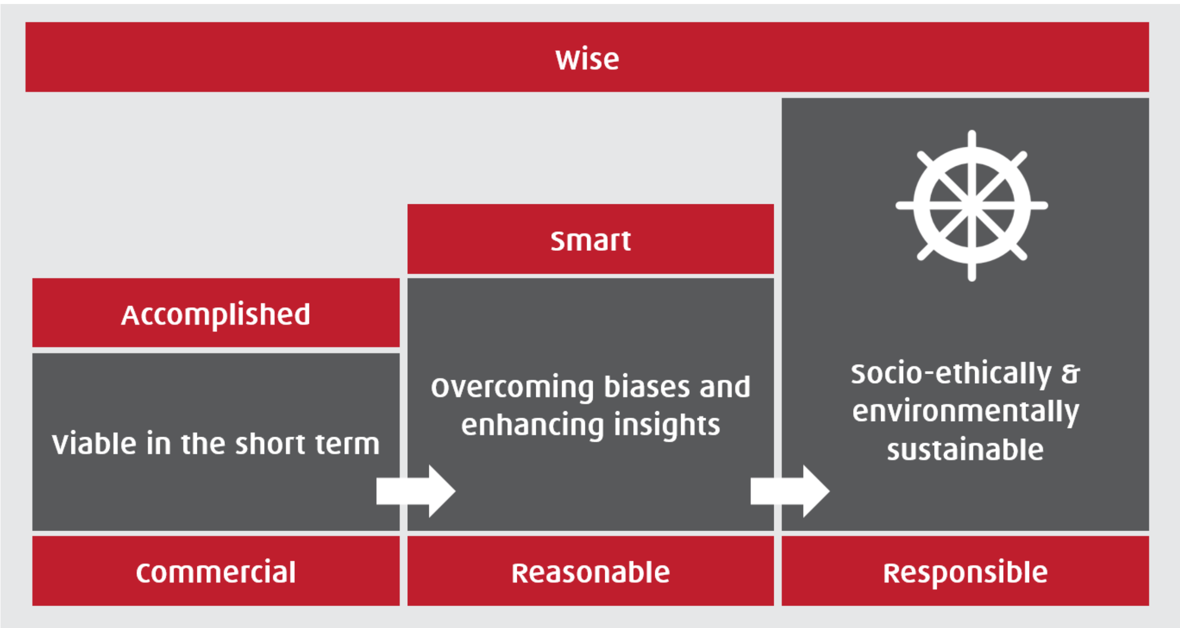
Your Decisions May Be Smart. Are They Sustainable?

“Investors are increasingly…recognizing that **climate risk is investment risk**. Indeed, climate change is almost invariably the top issue that clients around the world raise with BlackRock. From Europe to Australia, South America to China, Florida to Oregon, investors are asking **how they should modify their portfolios**. They are seeking to understand both the physical risks associated with climate change as well as the ways that climate policy will impact prices, costs, and demand across the entire economy.

These questions are driving a **profound reassessment of risk and asset values**. And because capital markets pull future risk forward, we will see changes in capital allocation more quickly than we see changes to the climate itself. In the near future – and sooner than most anticipate – **there will be a significant reallocation of capital.**

Larry Fink, Chairman and Chief Executive Office, BlackRock
Annual letter to CEOs

Contents



Wise
Smart
Accomplished
Viable in the short term
Overcoming biases and enhancing insights
Socio-ethically & environmentally sustainable
Commercial
Reasonable
Responsible

Wise Leadership: a New Platform for What's Next

For nearly 60 years, executive search has worked with boards to position some of the world's most influential business leaders. If business dynamically shapes society, then executive search, by association, has a societal role. Executive search firms are certainly evolving – developing ever more refined assessment mechanisms and metrics, installing digital platforms, reaching into new zones of strategic talent management. Modern executive search firms, and Amrop is no exception, position themselves as *trusted advisors*.

Yet trust in leaders remains fragile. Back in 2014, as failures accumulated in the wake of the 2008 crisis, an Amrop task force began to suspect that something was missing from the leadership equation. Not only in the way leaders were hired and positioned, but in the way leaders functioned. We asked ourselves: beyond the buzzwords of innovation, digitization, globalization, leading change, engaging employees and satisfying shareholders, what was this missing link? What was the x-factor that distinguishes today's most exemplary - and admired - business leaders?

We concluded that the answer could lie in the difference between *smartness* and *wisdom*.

As you will read, smart leaders become wise when they address the dilemmas of modern business in a holistic way. Not only do wise leaders create and capture vital economic value, they also build more sustainable and legitimate organizations – as reflected in ESG reporting. We will argue that the thinking and practice that have taken business to where it is today are unlikely to equip Leaders For What's Next.

Going forward, wise leadership will be a driving platform for Amrop. It is reflected in Amrop's Mission: 'shaping sustainable success through inspiring leaders.'

We don't claim to have all the answers. We do aspire to bringing this subject into the core of our debate about what 'Leaders For What's Next' truly means. Our purpose is to ask questions, raise awareness, and wherever we can, contribute to raising the bar. To do so pragmatically, focussing on the factors over which leaders can exercise some control in the shifting and unpredictable sands of modern business.

In this article, working with the Amrop Editorial Board, Dr. Peter Verhezen, a specialist in corporate governance and ethics, unpacks leadership wisdom and makes a compelling business case for it. We also refer you to 'Wise Decision-Making, Stepping Up to Sustainable Performance.' This landmark Amrop global study gives some vital insights into the current health of leadership wisdom.

We wish you inspiring reading.

Amrop

Executive Summary

Today's ethical, ecological and societal challenges call for executives who are not just *accomplished* and *smart*, but *wise*. Smart leaders become wise when they holistically address and resolve the profound dilemmas of modern business. Hiring organizations should select leaders who not only create and capture economic value, but create a more sustainable and legitimate organization.

There is a strong business case for smart. Business is ultimately about creating innovative solutions whilst minimizing risky errors in an informed way. Optimizing insights to create value. This is the balancing act of *smart-reasonable decision-making*.

There is a stronger business case for wise. Highly "principled" CEOs outperform "self-focused" CEOs by a factor of five, according to one study (see full article). Yet smart prescriptions provide little guidance in non-financial goals, values, or socio-ethic al dilemmas. Smart leaders may be able to reduce errors and biases and avoid costly mistakes, but still destroy long term value via unsustainable - or even outright unethical - decisions.

SMART LEADERS

Apply Processes to Avoid Errors

Examples of errors:

1 Working on the wrong problem
2 Failing to identify key objectives
3 Failing to develop a range of good, creative alternatives
4 Overlooking the crucial consequences of those alternatives
5 Failing to consider trade-offs
6 Disregarding uncertainty and ambiguity
7 Failing to account for their risk tolerance
8 Failing to plan when decisions are linked over time

Are confident, not hubristic

If confidence is vital, too many executives *over-estimate* their understanding of uncertain situations. Smart leaders combine System 1 (fast, intuitive) and System 2 thinking (slow, rational, analytical) to strike the balance.

Apply 3 conditions

1 Conscious thinking processes, switching from 'auto' to 'manual spotlight'
2 A continuous learning attitude
3 Grit and gravitas.

WISE LEADERS

Aim Higher

Wise leaders are not only smart, they also:

1 Are more aware of the impact of their attitudes, emotions and behavior
2 Are more mindful of 'blind spots'
3 Leverage long *individual* experience and *organizational* processes

Dive Deeper

In making a difficult decision, they ask:

1 What are the net consequences?
2 My core obligations?
3 What can I live with as a [virtuous] human being?

Have a Moral Compass + MQ

Guided by a strong moral compass, wise leaders possess integrity, responsibility, compassion, patience and forgiveness. These add up to moral intelligence (MQ) or 'character' - beyond the minimum leadership criteria of:

— Competence (IQ)
— Risk sensitivity (RQ)
— Emotional intelligence (EQ).

About the Author

Dr. Peter Verhezen is Visiting Professor for Business in Emerging Markets and Strategy and Sustainability at the University of Antwerp and Antwerp Management School (Belgium). As Principal of Verhezen & Associates Ltd. and Senior Consultant in Governance at the International Finance Corporation (World Bank) in Asia Pacific, Peter advises boards and senior executives on governance, risk management and ethical leadership. He is the author of a number of articles and books on corporate reputation and corporate governance. Peter is working closely with the Amrop Editorial Board in its exploration of wise decision making

Setting the Scene

How can business regain the trust it has lost?

Why do smart business leaders so often get it wrong? How could they make more ethical, responsible and sustainable decisions? Decisions that are not only more reasonable, but also more wise?

Trust in corporate executives, even if it is slowly improving, still remains shaky. 60% of the population surveyed by the Edelman Trust Barometer in 2018 believed CEOs were driven “more by greed than a desire to make a positive difference in the world.” When it comes to employee trust in an organization (and the CEO is its most visible figurehead), 72% said they trust their employer. So over a quarter of the population, by inference, are somewhat less confident.

Observers have typically blamed shortfalls in trust on a series of evils: unethical, short-termist or self-serving behavior, lop-sided incentive systems, weak corporate governance, biased decision-making.

Yes, misguided financial incentives can lead to inappropriate or downright unethical behavior. Whilst this may reap short term financial benefits, it will ultimately damage a firm’s performance. Furthermore, the performance of stock markets provides no firm empirical support for the ‘shareholder primacy’ thesis[1].

And *yes*, in cases such as the criminal failures of Enron’s leadership, or the unscrupulous actions of Bernie Madoff, unethical intentions really were at the root of corporate debacles, and inflicted enormous collateral damage on the people who were in some way connected.

Business Reality is Not Black Or White

But *no*, not all bankers or business people wake up one morning and decide to do the wrong thing. Ethical transgressions in business are often hard to spot. They slowly build up into damaging behavior[2]. Although banking in particular acquired a nasty odor in the wake of the financial crisis, we can assume most bankers are honest. Again, they do not set out to maximize their bonusses in the full knowledge that their decisions will harm their organizations or society.

Business reality is not black or white. We all behave in a less-than-consistent way. We are all more fragmented, less true to ourselves, more malleable[3], than we might wish to be. We are a tangled nexus of emotions, dispositions, desires and traits which pull and push us in different and occasionally contradictory ways.

Still, the trust and legitimacy of business leaders remain under scrutiny. How can leaders rectify this? It's unlikely the thorny problems and dilemmas of business can be formalized in a codex or algorithms. The answers lie elsewhere.

The Vital step From Smart, to Wise

Have you ever taken a lucky risk based on instinct and used hindsight to justify the innate wisdom of your gut? How often have you witnessed a leader being hired on the basis of his or her powerful self-confidence and commercial acccomplishments? Or noticed *overconfidence* luring executives into disastrous decisions?

Smart leaders are aware of their biases. And this awareness can help drastically improve their decision-making. *Smart*, or *reasonable* decision-making is important. It is even a pre-condition for *wise* decision-making. Unfortunately, it is not enough. *Wise* decision-making brings an additional set of critical variables into the equation of *reasonable* decision-making. It has an ethical and socio-ecological component. It takes account of values and responsibilities. It counts not only in satisfying stockholders, but in satisfying stakeholders.

The global challenges we now face beg for policy makers and executives who are not just *smart*, (allocating scarce resources in the most effective and innovative way), but *wise*.

Wise decision-makers have some vital signs

Wise leaders look beyond *internal* interests (organizational finances and their own interests) to the *external* concerns that affect humanity, to areas in which a firm and its responsible leaders can make a difference. They are aware of the biases and errors that haunt presumed rational thinking, especially when it comes to the way supposedly smart people deal with ethical dilemmas – or fail to.

Making judgments in these cloudy areas will require business executives to think as reasonable and responsible optimizers. Even more, it will require them to think as human beings, whose decisions may not only affect themselves, their organization and their subordinates, but humankind in general.

Beyond Profitability, to Purpose

Smartness alone, then, is unlikely to equip leaders to address the complex business circumstances affecting society. Ethical, ecological and other constraints must be taken into account. And leaders need to help their teams, managers, peers and board members to broaden their perspective, giving them the tools to become more mindful and the courage to address the difficult gray questions that require a *tough, fair* and thus *reasonable* and *responsible* decision. One which steers the organization from profitability to purpose.

In a nutshell, smart leaders turn into wise leaders when they can help themselves and others to holistically address and resolve the difficult socio-ethical dilemmas we all face in business.

It's time to resolve the paradox of smart leaders who make unsustainable decisions.

1 From Accomplished, to Smart

Learning to Think Straight(er)

We often associate leadership with decisiveness. On a deeper level, we may even want to be led by people who assume they know what they are doing *without having to think about it too much*. This perception pushes executives to make decisions fairly quickly, lest they be seen as dithering and indecisive[4]. We often see swift, incisive, and commercially-viable decisions that yield short term results as the marks of an *accomplished* leader.

Yet *accomplishment* is only the beginning of the story. Managing a business has always been a struggle to make the right decisions[5] - partially based on science and partially on a more intuitive and artful craftsmanship. When the context is relatively stable and involves repetitive tasks, we can rely on checklists and *if/then* statements that can be coded in *algorithms*. But in more complex and ambiguous situations, our judgment will need to avoid biases of overconfidence and other errors based on 'gut feeling' and presumed expertise.

Smart Decision-Making Means More Accurate Thinking[6]

There is a strong business case for smart (or reasonable) decision-making. Even if only a few people can be real champions, we can all learn to create processes that enhance our abilities to become more insightful[7]. Just as we need both "fast" (intuitive system 1) and "slow" (rational system 2) thinking[8], smart leaders know how to create such insights and reduce errors[9].

1 - Avoiding the Main Decision Making Errors

Learning to make better decisions remains a high priority. So far, cognitive psychology researchers have mainly focused on smart(er) decision making – raising the probability of successful decision-making by reducing biases and errors such as:

- Working on the wrong problem
- Failing to identify your key objectives
- Failing to develop a range of good, creative alternatives
- Overlooking crucial consequences of your alternatives
- Giving inadequate thoughts to trade-offs
- Disregarding uncertainty
- Failing to account for your risk tolerance
- Failing to plan ahead when decisions are linked over time[10].

2 - Steering Clear of Deceptive Short Cuts

We develop unconscious routines or *heuristics* to cope with the complexity inherent in most decisions, especially when data are scarce or limited. Unfortunately, whilst these 'rules of thumb,' may be useful, they are not foolproof and this means that decisions are prone to biases, sensory misperceptions and irrational anomalies, of the kind we display on the next page. You may be familiar with one or more. We all occasionally fall into such traps, making us less-then-smart-decision-makers. And even if the reality is even more nuanced than simply avoiding traps, it's important to take a tour.

Bias – a Rogue's Gallery

Anchoring Bias …or focalism, describes the common human tendency to rely too heavily on the first piece of information (the 'anchor') when making subsequent judgements.	**Groupthink** Occurs in a group of people whose desire for harmony or conformity within the group causes irrational, dysfunctional decision-making outcomes. Members try to minimize conflict and reach consensus without critically evaluating alternative views.	**Sunk-Cost Fallacy** We justify increased time or monetary investment based on our cumulative prior investment (sunk costs). This, despite new evidence suggesting that the cost of continuing with our decision outweighs the expected benefit.	**Confirmation Bias** Our tendency to seek, interpret, favor and recall information in a way that confirms our pre-existing beliefs or hypotheses, giving disproportionately less consideration to alternatives. It is a type of selective thinking.
Framing Bias We react to a choice in different ways, depending on how it is presented or 'framed' (e.g. as a loss, or as a gain). We tend to *avoid* risk when a *positive* frame is presented, but *seek* risk when a *negative* frame is presented.	**Overconfidence Effect** This describes the phenomenon whereby our confidence in our own judgements is greater than their accuracy, especially when our confidence is relatively high.	**Base-Rate Bias** When presented with generic, general information, and specific information that only pertains to a certain case, we ignore the former, and focus on the latter.	**Halo Effect** Our impression – especially our first impression - of one aspect of a person, (company, brand, or product, etc.), influences our assessment of general character or properties. Success in one field does not automatically imply equal success in another.

3 - Managing Overconfidence

One trap in the Rogue's Gallery deserves particular attention: the *overconfidence effect*. Far too many executives have failed because they overestimated their understanding of an uncertain situation ('hubris').

Confidence - our fundamental belief that we can and will succeed – is admittedly important. Even if decision research has warned against illusions of control, in order to be effective leaders, we also need to believe that we can influence events. Of course, in the real world we often can, and positive thinking can improve performance[11]. So it is better to err on the side of assuming we can get things done than not. One way to check whether *confidence* is becoming *over confidence* is to combine System 1 and System 2 thinking, as follows:

4 - Combining Intuition and Deliberation

Sarah is the CEO of a mid-sized French fashion company. The company is facing tough market conditions and the contract on one of its weaving factories in Southern France is up for renewal. Now Sarah must decide whether or not to renew the contract or transfer it to a reputable low cost supplier in Bangladesh. The latter option will lead to layoffs in her current factory.

Sarah's mind races through the dilemma. She asks herself: *What is my intuition telling me? What does my gut say?*

Thanks to this fast 'system 1 thinking' a response is dawning on Sarah, but she holds back. She knows some rational, analytical deliberation is called for. So she carefully reviews the information put to her by her financial, operations, and marketing teams. This is Sarah's slow 'system 2 thinking' phase.

Sarah decides not to renew the contract with the domestic supplier, despite pressure from her peers and a groupthink bias towards that supplier. She has the facts and figures to justify to the board her decision to change suppliers - and the confidence to persevere with its execution.

Sarah has become adept at this kind of 'smart decision making' via the school of hard knocks. In the past, especially when under pressure, she relied upon her intuitive perceptions and the group's opinion and tended to overlook detailed analysis. Colleagues even told her that they found her unpredictable.

Executives need to strike a balance between the extremes of excessive risk-taking and risk-aversion (and thus missed opportunities), and this is what Sarah has learnt to do.

5 - Balancing Innovation and Risk

At the end of the day, business is about creating innovative solutions while minimizing risks in an informed way, calibrating error reduction while optimizing the possibilities of insights. This is the balancing act of *smart-reasonable decision-making*. Indeed, decisions made in uncertain conditions should be judged as much by the quality of the decision-making process as by the quality of the consequences.

We often hear that success is partially down to [managerial] *skills and competencies* and partially *chance*. Well-prepared executives are often luckier executives. Continuous learning to become more skillful allows those such as Sarah to "dance with chance"[12].

Leaders who are aware of their fallibility become more effective. They have the grit and gravitas to acknowledge their pitfalls, yet enough confidence in their ability to remain grounded, composed and focused.

3 Conditions for Smart Decision Making

1	2	3
The disciplined and artful use of conscious *decision-making processes* that switch from 'auto spotlight' – colored by *biases* – to 'manual spotlight'[13] reducing potential *errors*	A continuous learning attitude, resulting in a form of skillful craftsmanship or *mastery*[14] that allows leaders to be inspired by insights more easily and more often.	The *grit*[15] and gravitas[16] to persevere or remain resilient.

2 From Smart, to Wise

The Stakes are Rising

So, smart leaders are more likely to make more *reasonable* decisions. But is that enough to address the gray areas[17] challenging top executives? Probably not.

Today's leaders face a bewildering array of ecological and socio-ethical challenges. Global pollution, climate change, growing societal inequality, disruptive innovation making people and organizations redundant, the ageing population, to name but a few.

Far from contributing to aberrations, business can contribute to providing solutions and sharing value[18]. This is the vital step from smartness, to wisdom.

Back in 2016, the Harvard Business Review added company ESG ratings as a variable in compiling its annual list of the world's 100 Best-Performing CEO's.

Smart business people are usually quite innovative, able to create and capture value for share- and stakeholders.

Wise business people consider two major perspectives. *Internally*, they are sensitive to ecological and socio-ethical concerns. *Externally*, they enhance the firm's reputation and legitimacy vis-à-vis crucial stakeholders and society at large. Leaders who are both wise *and* smart create and capture value for share- and stakeholders, 'neutralizing' the firm's ecological footprint and addressing the socio-ethical concerns that accompany their value chain.

Environmental, Social and Governance Criteria (ESG) Put Wisdom in the Spotlight

Given the high stakes, it's perhaps no surprise that ESG reporting is becoming so important. Environmental, Social and Governance criteria are now mainstream for most big organizations (one reason is to pre-empt potential corporate reputation debâcles).

The leaders of medium-sized and smaller organizations have also embraced ESG to constitute a new narrative or incorporate socio-ecological aspects into a strategy that identifies and differentiates their company.

In 2016, the Harvard Business Review added company ESG ratings as a variable in compiling its annual list of the world's 100 Best-Performing CEO's, drawing on ratings from Sustainanalytics and CSRHub[19].

Leaders For What's Next - What Wise Executives Do Differently

The keen scrutiny regarding the legitimacy of their organizations is pushing leaders ever harder to engage with key stakeholders and society at large and to commit to broader organizational goals and objectives - beyond short-term profitability. This framework will require a new kind of leader.

Morningstar is a leading provider of independent investment research. Its 'Sustainability Atlas' is based on an analysis of its suite of global equity indexes, representing 97 percent of global market capitalization. It uses this to assess the respective ESG criteria of each market. Its 2019 edition revealed that Northern Europe leads the way on ESG among the world's indices, with Taiwan the top Asian market in sustainabilty terms.

Here are the snapshots of three organizations - all key drivers in the high rankings achieved by their domestic markets.

Under the leadership of President and CEO Lars Fruergaard Jørgensen, Denmark's **Novo Nordisk**, famous for its leadership in diabetes healthcare, now bases its business "on the conviction that the formula for lasting success is to stay focused, think long-term and do business in a financially, socially and environmentally responsible way." Close to its core, the company has the ambition to ensure that "everyone who needs insulin has access to it at prices they can afford."

Beyond this, it has set a goal to transition to renewable electricity throughout its global production by 2020. Switching to solar power at its US production sites will finally take it there. Next it forsees a transition to renewable energy in its office buildings and laboratories, eliminating CO2 emissions from its company cars, business travel and product distribution. It seeks zero CO2 emissions from its global operations and transport by 2030.

ESG leader **Nokia**, meanwhile, contributed to Finland's high ranking in the Atlas. Emissions and waste reduction cut through multiple areas of its business. Digitization, a fundamental facet, is seen as one key to gains. Nokia President & CEO Rajeev Suri emphasizes that the company was among the first 100 in the world to commit to reducing its emissions in line with the Paris climate agreement. Given that scientific consensus has now dropped the limit for global temperature rise from 2% to 1.5%, Nokia is re-calculating its emissions targets: "prioritizing practices, products and services that minimize negative environmental impact and maximize the efficient use of resources."

Areas include product and solution efficiency, decreasing product size, reducing raw material use, and raising the ease of recycling, upgrade and repair. "5G – with its greatly increased capacity, reliability and responsiveness – provides an opportunity to position connectivity on the very front line of sustainability." It sees surprising avenues for innovation. "Embedding sensors in agricultural land would allow farmers to improve their soil quality, leading to improved crop yields and reduced waste." In short, "Every CEO, every procurer, every legislator and every consumer should consider how digitalization could contribute to keeping global temperature rises under that 1.5% figure."

Asian markets lag in the Morningstar rankings. Taiwan is Asia's top player in sustainability terms, as the home of **TSMC**, the world's largest dedicated semiconductor foundry and a global ESG leader. Its Chairman Mark Liu has taken personal responsibility to chair TSMC's Corporate Social Responsibility Executive Committee in a drive for "sustainability and the common good." He emphasizes a five-pronged approach: green manufacturing, an inclusive workplace, care for the underprivileged, talent development and a responsible supply chain "extending TSMC's high operation standards to its supplier ecosystem."

It's interesting to view this last aim in the light of Apple's push for improved sustainability. In 2019, the Verge reported that the tech giant had "persuaded 15 more of its suppliers, including Foxconn and TSMC, to manufacture Apple products using 100 percent clean energy."

Ironically, the US ranks in the fourth quintile of global sustainability leaders in the Morningstar Atlas. This is attributed to issues involving Amazon, Apple and Microsoft, and poor governance scores from Facebook and Alphabet, Google's parent company.

Wise Leaders make better, more sustainable decisions

- In a **risky**, **uncertain** environment
- Taking **pragmatic** actions
- Transcending **biases**
- In a **context-sensitive** way
- Embracing **ambiguity** & **complexity**
- Adopting a **broader** socio-ethical & environmental **perspective**

Aim: Create & preserve organizational shared value, conform to a well-defined and communicated organizational purpose

A Case of Reputation

How do *you* read between the lines to judge a Chairman's performance?

Jack, a Chairman, has to decide whether to adopt a new program. It should increase profits and help the environment too. "I don't care at all about helping the environment", says Jack, "I just want to make as much profit as I can. Let's start." Profit goals are realized, and the program happens to have a positive effect on the environment.

Question: did Jack intend to help the environment?

Simon, a second Chairman, doesn't care about the environment either. He authorizes the program to improve profits. Profit goals are realized but the environment is harmed.

Question: should Simon take responsibility for the negative impact on the environment?

In the first case, most people believe Jack should be *applauded for helping* the environment, despite the fact that he had no intention to do so. In the second case, most people believe Simon should *take responsibility for harming* the environment.

A key difference between the two examples is the way the cases and questions are framed. Although the environmental outcome may have been different, both Chairmen were equally indifferent to it. Yet the way the two are (mis)judged is a typical example of a framing bias – and could even be the expression of a confirmation bias.

Jack's case is echoed in a recent example. BBC Environmental Analyst Roger Harrabin reported on a key development in Tamil Nadu (India's Double First in Climate Battle, January 7, 2017): "A £3m industrial plant is capturing the CO2 emissions from a coal boiler and using the CO2 to make valuable chemicals. It is a world first." According to the BBC, the plant: "is projected to save 60.000 tonnes of CO2 emissions a year by incorporating them into the recipes for soda ash and other chemicals."

So, was there an intention to help the environment?

"The owner of the chemicals plant, Ramachadran Gopalan, told a BBC Radio 4 documentary: "I am a businessman. I never thought about saving the planet. I needed a reliable stream of CO2, and this was the best way of getting it."

(Interestingly, this is the only quote in the BBC report that is directly attributed to Mr Gopalan).

It is not because an enterprise unintentionally ends up with good consequences that one should applaud its activities. It could be mere coincidence or good luck. Not exactly the best way to reduce errors, improve insight, and enhance smart decision-making.

3 Profiling the Wise Decision-Maker

A Framework For What's Next

We have seen that smart decision-making may be necessary to improve the chances for business success, but provides no guidance on desired non-financial goals, values or beliefs. Nor does smart thinking provide insights into socio-ethical dilemmas[20].

The emphasis on smart decision-making may partially explain the paradox of how good people make bad decisions. Well regarded, smart decision makers reduce errors and biases and so avoid costly mistakes, but *still* make unethical - or illegal - decisions.

1 - Managerial Wisdom Has a Venerable History

Wisdom means different things to different people. As the 16th century French philosopher and politician Montaigne observed, each individual reaches it by a different route.

Wisdom[21] – (*sapience*, *sophia)* was one of the four cardinal virtues of Aristotle. It concerns the ability to think and act in the most appropriate manner, (taking different perspectives into account, and acting accordingly). *Phronesis* refers specifically to practical wisdom.

Managerial wisdom[22] is a form of practical wisdom[23]. It is an ongoing and therefore fallible process. It means reaching out to what can be aspired to, in order to instill meaning in practical business life.

Wise Decision-Making is an expression of managerial wisdom that aims to minimize the limitations of supposedly rational thinking. The wise decision maker is sensitive to discerning what is morally acceptable and what is not, and acting accordingly.

"We can be knowledgeable with other men's knowledge, but we can't be wise with other men's wisdom."
Montaigne

2 - Wisdom is a Beautiful Construction Site

An executive can harness managerial wisdom, but never fully own it. Immense patience, the fearless aggregation of knowledge, a principled compassion for living beings, a moral judgment and a sense of fairness, an other-centeredness, these are all features that enable leaders to assess a unique context, and make fair and responsible decisions that are also smart and reasonable. (i.e. less biased and more insightful).

Wise leaders are able to:	
1	Expand their learning abilities, keep an open mind. Their 'mindsight'[24] continuously evolves.
2	Become more aware of how their attitudes, emotions and behavior impact others.
3	Be more mindful of 'blind spots'[25] in [often unconscious] perspectives.
4	Use long individual experience and organizational processes to constitute an organizational culture.
5	Use ethical values to resolve ethical dilemmas.

Far from living in an ivory tower, wise leaders are ethically sensitive and patient pragmatists. They understand how to make responsible and reasonable decisions in complex situations.

3 - Wise Leaders Take Care to Ask Deeper Questions

Your company is facing a profit warning and your share price is plummeting. Layoffs are looming. Peter, a loyal Vice President, has contributed a great deal to the organization over the years. Now his performance is slipping. You must decide whether to set the process in motion to fire Peter or whether to find another solution. As a wise leader, here are the kinds of questions you may like to take into account in making your decision:

- What are the net consequences of my decision?
- What are my core obligations and towards whom?
- What can I live with as a [virtuous] human being?

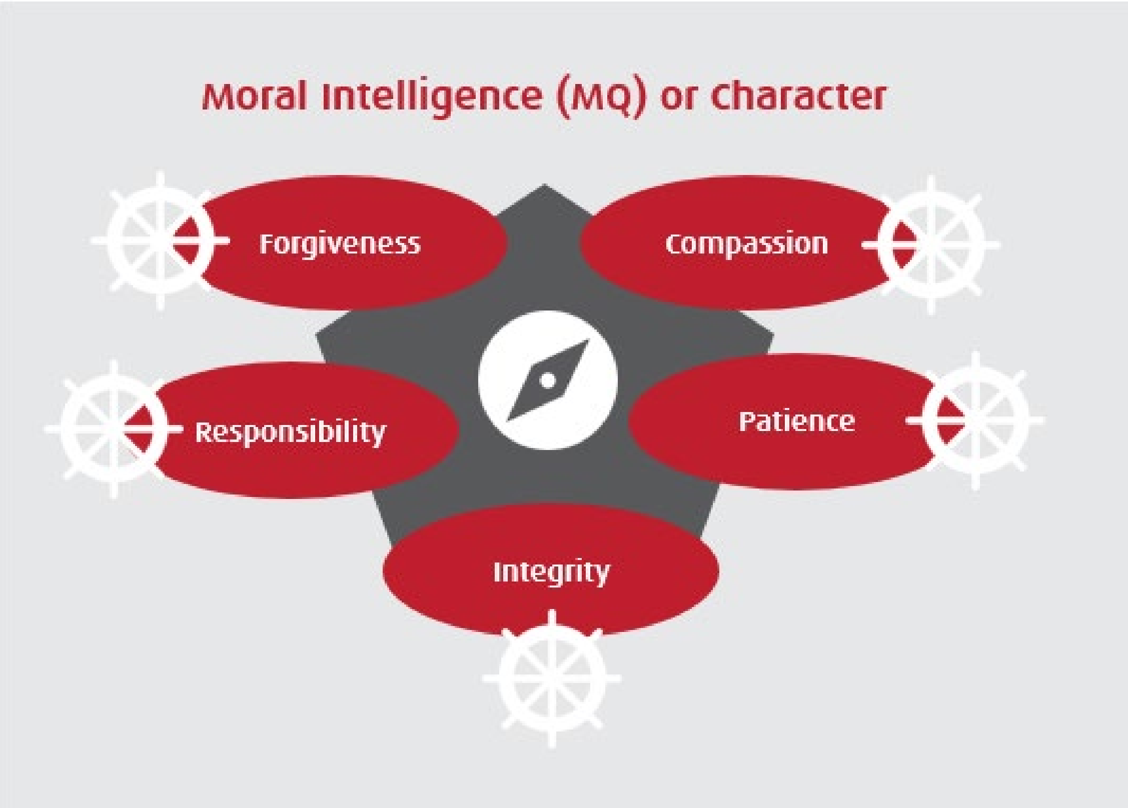
This kind of 'deep thinking'[26] will likely lead you to a more morally sound, balanced, and thus wiser decision. However, it demands patience, care and diligence. It is also important because socio-ethical challenges can be complicated by the fact that ethical conduct can be 'cognitive' (and therefore conscious), or 'non-cognitive' (and therefore unconscious). This also explains why good managers sometimes make bad decisions, or behave unethically. If we assume that our behavior (a combination of our thoughts, emotions and actions) has a profound impact on the performance of our organization, it is crucial for each of us to understand how it may be altered.

It is almost impossible to exhaustively describe the exact features of a wise leader; but the virtues of integrity, responsibility, compassion, patience and forgiveness would almost certainly be on that list, constituting what can be labeled moral intelligence (MQ) or 'character'.

4 - Wise Leaders Have a High MQ

The most sustainably successful leaders in any company are likely to be trustworthy and thus 'virtuous' individuals. They have proven themselves to be guided by strong set of moral beliefs – a moral compass that functions as a "true north" star[27] - and are able to put their beliefs and values into action.

It is almost impossible to exhaustively describe the exact features of a wise leader; but the virtues of integrity, responsibility, compassion, patience and forgiveness would almost certainly be on that list, constituting what can be labeled moral intelligence (MQ) or 'character'.



4 The Bottom Line

Return on Character

Smart leaders have traditionally been heralded for creating monetary value. Maximizing profit is even prescribed – wrongly[28] - as the *sole* fiduciary duty of loyalty and care to shareholders. Compounding the problem is the fact that chief executives are paid according to annual returns – in many cases, too much. One recent study revealed that 74% of Americans think CEOs are overpaid relative to the average worker[29].

Furthermore, a better way to measure monetary value creation is to look at a company's Return on Invested Capital over a period of at least five years. Again, mere financial reasoning like this may not be enough to secure sustainable organizational success.

It Pays to be Principled

There is an observable correlation between wise leaders (character-driven or virtuous individuals) and improved business results. Wise leaders are better able to steer organizations to more collaborative behavior that enhances productivity without ignoring socio-ethical sensitivities.

Consider Unilever. The Times Newspaper reported that "more than a third of shoppers are buying more sustainable and environmentally friendly products instead of just talking about doing so, according to Unilever." *(Ethical shoppers prove they're more than just talk, January 2, 2017)*. The report cites a study of 20 000 consumers from 5 countries, conducted by Unilever with Europanel and Flamingo: "33 per cent would "actively choose" to buy brands they believed were doing social and environmental good." This and other findings in the report, show "an unprecedented opportunity for companies that get it right" according to Unilever, and represent "a potential untapped opportunity of €966 billion out of a €2.5 trillion total market for sustainable goods."

Elsewhere we find that highly "principled" CEOs outperform "self-focused" CEOs by a factor of five. This, according to a recent study by KRW International, a Minneapolis-based leadership consultancy. CEOs whose employees gave them high marks for character had an

Highly "principled" CEOs outperform "self-focused" CEOs by a factor of five.

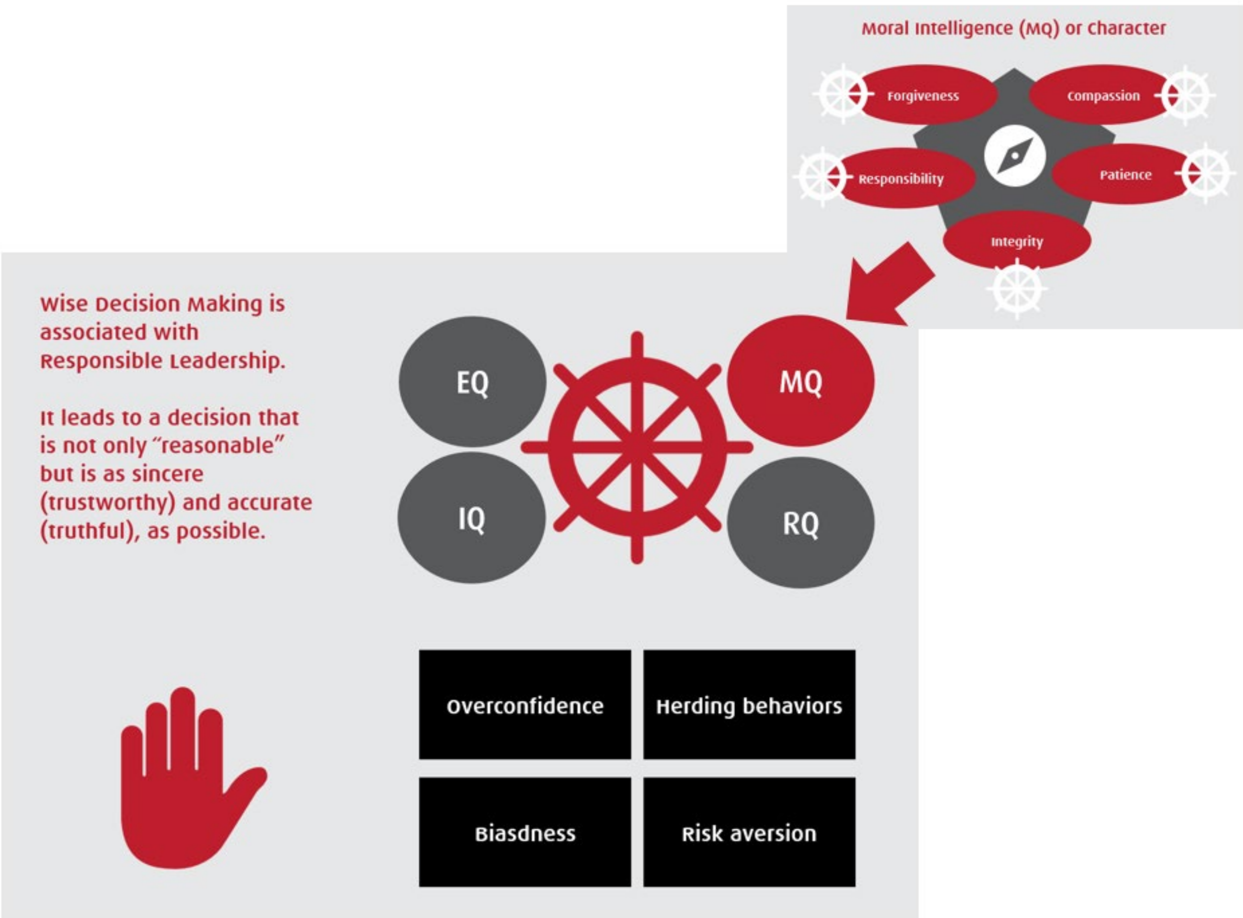
average return on assets of 9.35% over a two-year period, nearly five times as much as those with low character ratings whose ROA averaged only 1.93%[30].

In addition to outperforming the self-focused CEOs on financial metrics, the more 'virtuous' executives received higher employee ratings for vision and strategy, focus, accountability, and executive team character. "Character isn't just something you're born with. You can cultivate it and continue to hone it as you lead, act, and decide. The people who work for you will benefit from the tone you set. And now there's evidence that your company will too". [31]

Character is closely related to notions of integrity[32] and honesty. It is an individual's unique combination of internalized beliefs and moral habits that motivate and shape how s/herelates to others[33], especially in difficult times. Becoming a wise leader entails self-awareness and bridging deep thinking and actions on the ground.

MQ is a Cornerstone of the Leaderhip Equation

A wise and knowledgeable business executive is expected to meet - or exceed - the minimum criteria of competence (IQ), risk sensitivity (RQ) and emotional intelligence (EQ)[34], and to be able to assess and resolve ethical dilemmas in organizations, labeled moral intelligence[35] (MQ).



Conclusion

Why do smart leaders so often make unsustainable decisions? We see that the paradox can only be resolved when leaders also have genuine concern for socio-ethical and ecological challenges.

Leaders can certainly learn to make smarter, and thus more reasonable, decisions. They can become more aware of their biases, and deploy the processes that will enable them to gain better insights.

However, more than ever before, organizations and society at large need wise leaders who are not just commercially accomplished or cognitively smart, but who are also able to make responsible decisions, resolving fiendish ethical dilemmas, and addressing socio-ecological challenges in their business.

It is time for boards and talent strategists to take measures to identify and cultivate wise leaders. People who not only create and capture economic value, but who are equipped with what it takes to a create a sustainable enterprise. One that has truly earned its legitimacy in society.

In order to resolve the paradox that good managers can make bad or unethical decisions, and to create a sustainably successful organization, a transformation from smart to wise leaders is needed. Consistent with an organizational shared value and purpose, 3 P's need to be addressed – Process, Performance and People.

How big is the gap between aspiration and performance? The health of leadership decision making is addressed in Amrop's study: Wise Decision-making, Stepping Up to Sustainable Performance. You can find the Full Report on www.amrop.com.

Preety Kumar
Chair of the Amrop Editorial Board

On behalf of the Amrop Editorial Board

Steffi Gande
Fredy Hausammann

About Amrop

With over 70 offices in nearly 50 countries, Amrop is a trusted advisor in Executive Search, Board and Leadership Services. Amrop advises the world's most dynamic organizations on finding and positioning Leaders For What's Next: top talent, adept at working across borders in markets around the world.

www.amrop.com/offices

References

[1] Stout, Lynn, (2012), *The Shareholder Myth. How Putting Shareholders First Harms Investors, Corporations, and the Public*, San Francisco, Berrett-Koehler.

[2] Zhang, T.; Gino, F. & M.H. Bazerman, (2014*), "Morality Rebooted: Exploring Simple Fixes to Our Moral Bugs",* Research in Organizational Behavior, Vol. 34: 63-79; Tenbrunsel, A. E., Diekmann, K. A., Wade-Benzoni, K. A. & M.H. Bazerman, (2010), *"The Ethical Mirage: a Temporal Explanation as to Why We Are Not As Ethical as We Think We Are",* Research in Organizational Behavior, Vol. 30:153-173; and Bazerman, M. H. & F. Gino, (2012), *"Behavioral Ethics: Toward a Deeper Understanding of Moral Judgment and Dishonesty",* Annual Review of Law and Social Science, Vol. 8(8):85-104.

[3] Puett, M. & C. Gross-Loh, (2016), *The Path. A New Way to Think about Everything*, London, Penguin Random House.

[4] Kahneman, D. & G. Klein, (2010), *"Strategic Decisions: When Can You Trust Your Gut?",* McKinsey Quarterly, March; and Kahneman, D.; Lovallo, D. & O. Sibony, (2011), *"Before You Make That Big Decision",* Harvard Business Review, June: 50-60; Kahneman, D.; Rosenfield, A.M.; Gandhi, L. & T. Blaser, (2016), *"Noise. Inconsistent Decision-making",* Harvard Business Review, October: 38-46; Kahneman, D., (2011), *"Beware the inside view",* McKinsey Quarterly, November.

[5] Badaracco, J.L., (2013), *The Good Struggle. Responsible Leadership in an Unforgiving World*, Cambridge MA, Harvard Business School Press.

[6] Klein, G., (2013), *Seeing What Others Don't. The Remarkable Ways We Gain Insights*, London, Nicholas Brealey Publishing; Gladwell, M., (2005), *Blink. The power of Thinking without Thinking*, London, Penguin.

[7] Gladwell, M., (2008), *Outliers: The Story Of Success*, New York, Little, Brown & Company.

[8] Kahneman,. D., (2011), *Thinking, Fast and Slow*, London, Penguin-Pearson: page 20-21.

[9] The notion of heuristics-and-biases was founded by the research by Kahneman (who was awarded the Nobel Prize in Economics for this pioneering work on (economic) behavior) and Tversky (who unfortunately died prior to the Nobel Prize award), which catalogs and explains the different kinds of biases afflicting us.

[10] Hammond, J.S.; Keeney, R.L. & H. Raiffa, (1999), *Smart Choices. A Practical Guide to Making Better Decisions*, Boston MA, Harvard Business School Press.

[11] Rosenzweig, P., (2015), *Left Brain, Right Stuff*, London, Public Affairs, pp. 32-44.

[12] Makridadis, S.; Hogarth, R. & A. Gaba, (2010) *Dance with Chance. Making Luck Work For You*, London, Penguin.

[13] Heath, C. & D. Heath, (2013), *Decisive. How to Make Better Decisions*, London, Random House.

[14] Pink, D.H., (2009), *Drive. The Surprising Truth about What Motivates Us*, New York, Penguin.

[15] Angela Lee Duckworth, *the Power of Passion and Perseverance,* TED, 2013.

[16] De Vries, M.K., (2016), "Finding Gravitas", *INSEAD Knowledge.*

[17] Badaracco, J.L., (2016), *Managing in the Gray. Timeless questions for resolving your toughest problems at work*, Cambridge MA, Harvard Business School Press; and Badaracco, J.L., (2016*), "Managing yourself. How to tackle your toughest decisions",* Harvard Business Review, September: 104-107.

[18] Porter, M. & M. Kramer, (2011), *"Creating Corporate Shared Value",* Harvard Business Review, Jan-Febr, pp.62-77; Porter, M.E. & M. Kramer, (2006), *"Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility",* Harvard Business Review, December, pp.78-93.

[19] McGinn, D. & A. Ignatius, (2016), "Best Performing CEOs in the World. Resisting the lure of short-termism", *Harvard Business Review*, November: 41-57.

[20] Zhang, T.; Gino, Fr. & J. Margolis, (2014), *"Does 'Could' Lead to Good? Toward a Theory of Moral Insight",* Harvard Business School Working Paper, No. 14-118, June.

[21] *Wisdom,* Stanford Encyclopedia of Philosophy, (2007, revised, 2013).

[22] Verhezen, P., (2013), *"Managerial Wisdom in Corporate Governance",* in Thompson, M. & D. Bevan (eds), *Wisdom and Complexity in Organizations*, London, CEIBS & Palgrave.

[23] Hall, S., (2010), *Wisdom. From Philosophy to Neuroscience*, New York, Random House; and Schwarz, B. & K. Sharpe, (2010), *Practical Wisdom. The Right Way to Do the Right Thing*, London, Penguin Books.

[24] Siegel, D., (2010), *Mindsight. Transform Your Brain With the New Science of Kindness,* London, Random House.

[25] Bazerman, M. H. & Tenbrunsel, A. E. (2011) 'Ethical breakdowns', *Harvard Business Review,* April: 58-65; and Bazerman, M. H. & F. Gino, (2012), "Behavioral ethics: toward a deeper understanding of moral judgment and dishonesty", *Annual Review of Law and Social Science*, Vol. 8(8): 85-104.

[26] Badarocco, J.L., (2016), *o.c.*

[27] George, B. & P. Sims, (2007), *True North. Discover your Authentic Leadership*, San Francisco, John Wiley & Sons.

[28] Verhezen, P., (2013), "Managerial Wisdom in Corporate Governance", *o.c.*

[29] Larcker, D.F.; Thompson, J.T.; Donatiello, N & B. Tayan, (2016), "Americans and CEO Pay. 2016 Public Perception on CEO Compensation", *CGRI Survey Series. Corporate Governance Research Initiative*, Stanford. https://www.gsb.stanford.edu/sites/gsb/files/publication-pdf/cgri-survey-2016-americans-ceo-pay.pdf

[30] Kiel, F., (2015a), *Return on Character. The Real Reason Leaders and Their Companies Win*, Boston, Harvard Business Review Press, p.4.

[31] Kiel, F., (2015b), *"Measuring the Return On Character",* Harvard Business Review, April: 20-21.

[32] Verhezen, P., (2008), *"The (Ir)relevance of Integrity in Organizations",* Public Integrity, Vol. 10(2): 133-149

[33] Kiel, (2015a), *o.c.,* p.17

[34] Goleman, D., (1995), *Emotional Intelligence*, New York, Bantam Books. Goleman, D., (2006), *Social Intelligence. The New science of Human Relationships*, London, Hutchinson, and Goleman, D., (2009), *EcoLogical Intelligence. How Knowing the Hidden impacts of What We Buy Can Change Everything*, New York,

Broadway Books; Goleman, D., (2013), *Aandacht, Het Fundament van Emotionele Intelligentie*, Amsterdam, Uitgevrij Business Contact.

[35] Given the complexity of contemporary society, evolution seems to suggest that genes that know how to collaborate beyond their immediate kin have been favored to survive and to thrive. It is because of this common requirement to install cooperative behavior – one can label it team building ability - beyond mere short-term selfish interest, that favors wise rather than smart leaders. And still, we cannot ignore the dark side that motivates executives and people in general. Nudging to more sensitive decision-making may be recommendable.