

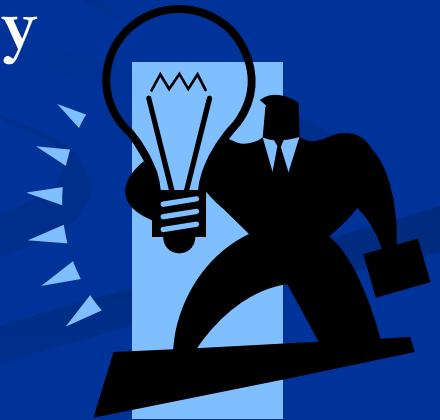
I'd Rather Be Lucky Than Good

Homogenized Milk

The Heroic Decision Maker

“The folklore of every company contains accounts of heroic decision makers, stalwarts who made crucial decisions under conditions of great uncertainty and were right. And they did this time and time again.... Admiring such heroic decision makers makes about as much sense as admiring the heroic pennies that come up heads in each of the twenty tries of the usual introductory probability theory example.”

- R. Richard Ritti, *The Ropes to Skip and the Ropes to Know*



The “Company”



- Ten percent Elites (make good decisions 90% of the time)

- Eighty percent Average Joes (67% good decisions)

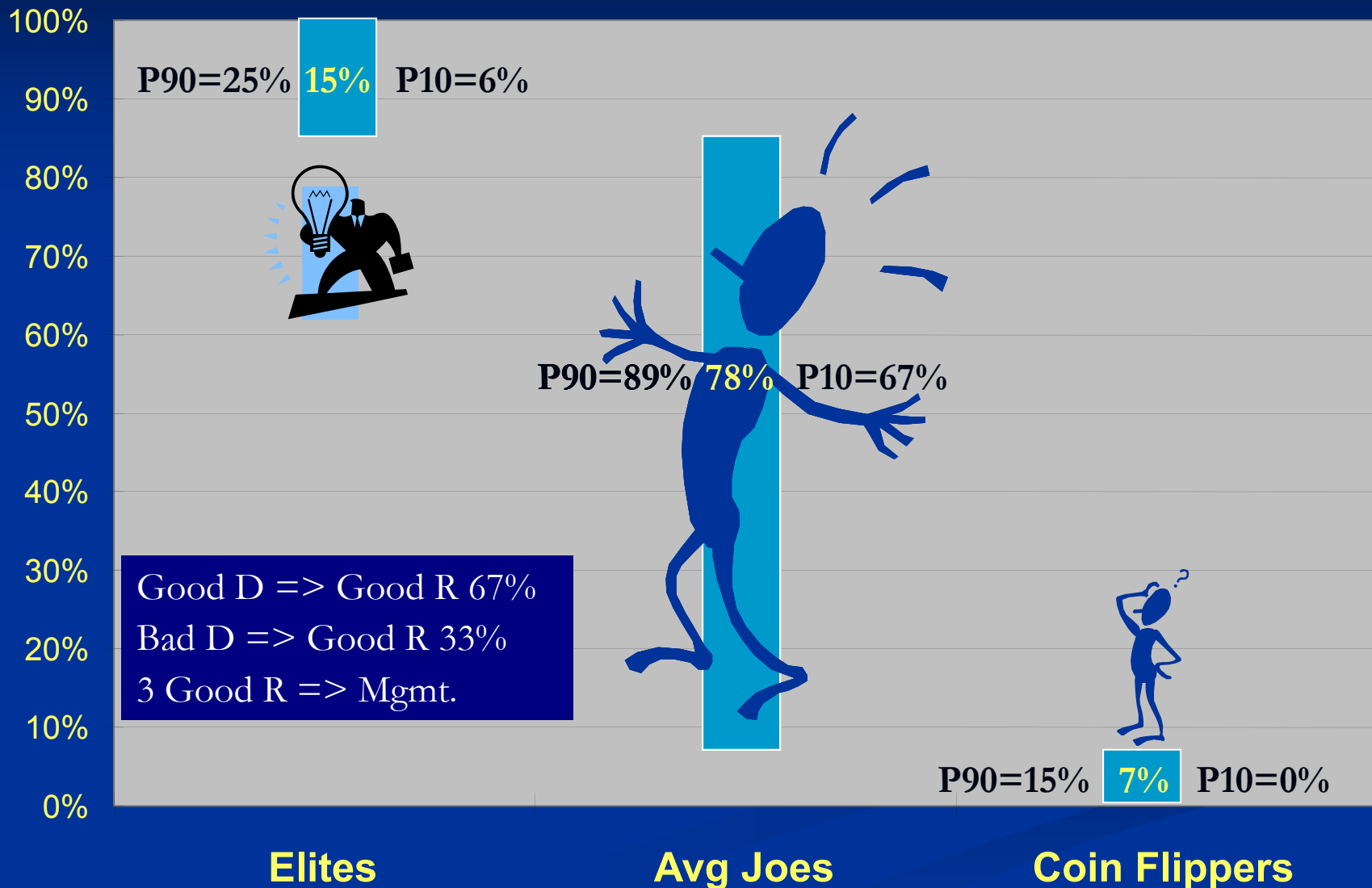


- Ten percent Coin Flippers (50% good decisions)

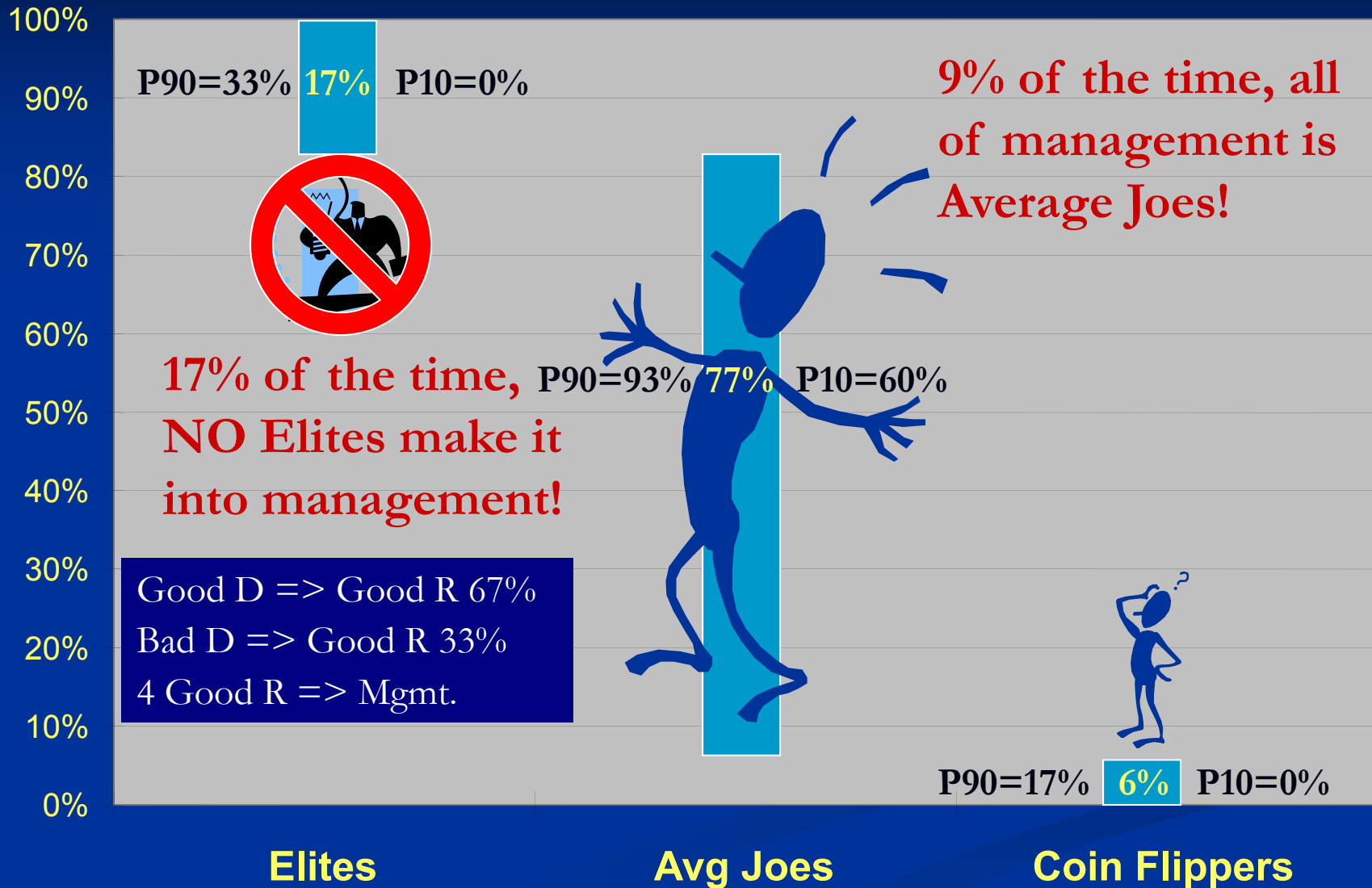
The Rules

- A good decision yields a good result 67% of the time
- A bad decision yields a good result 33% of the time
- Three consecutive good results get an employee promoted into management

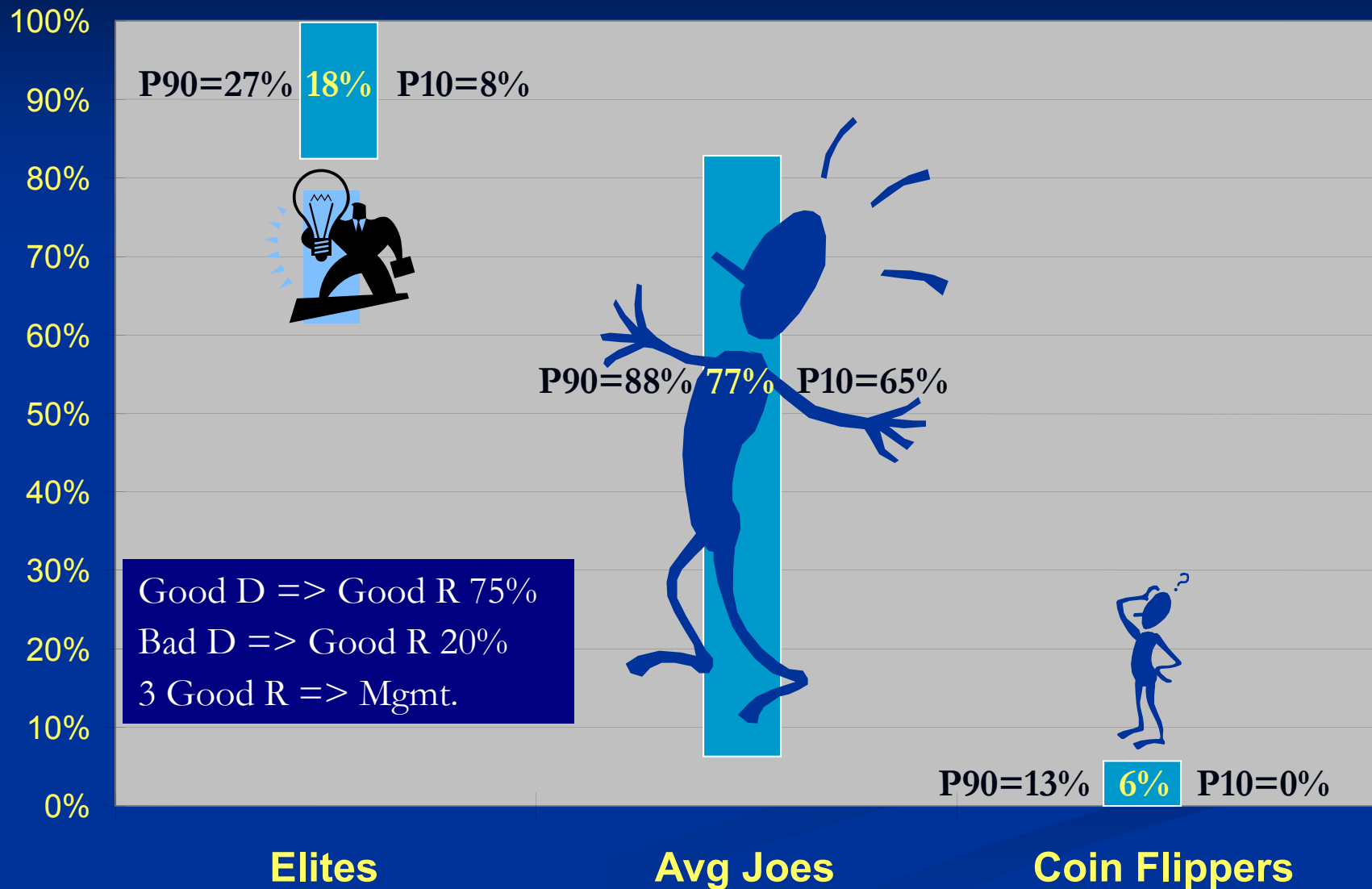
The Composition of the Management Team



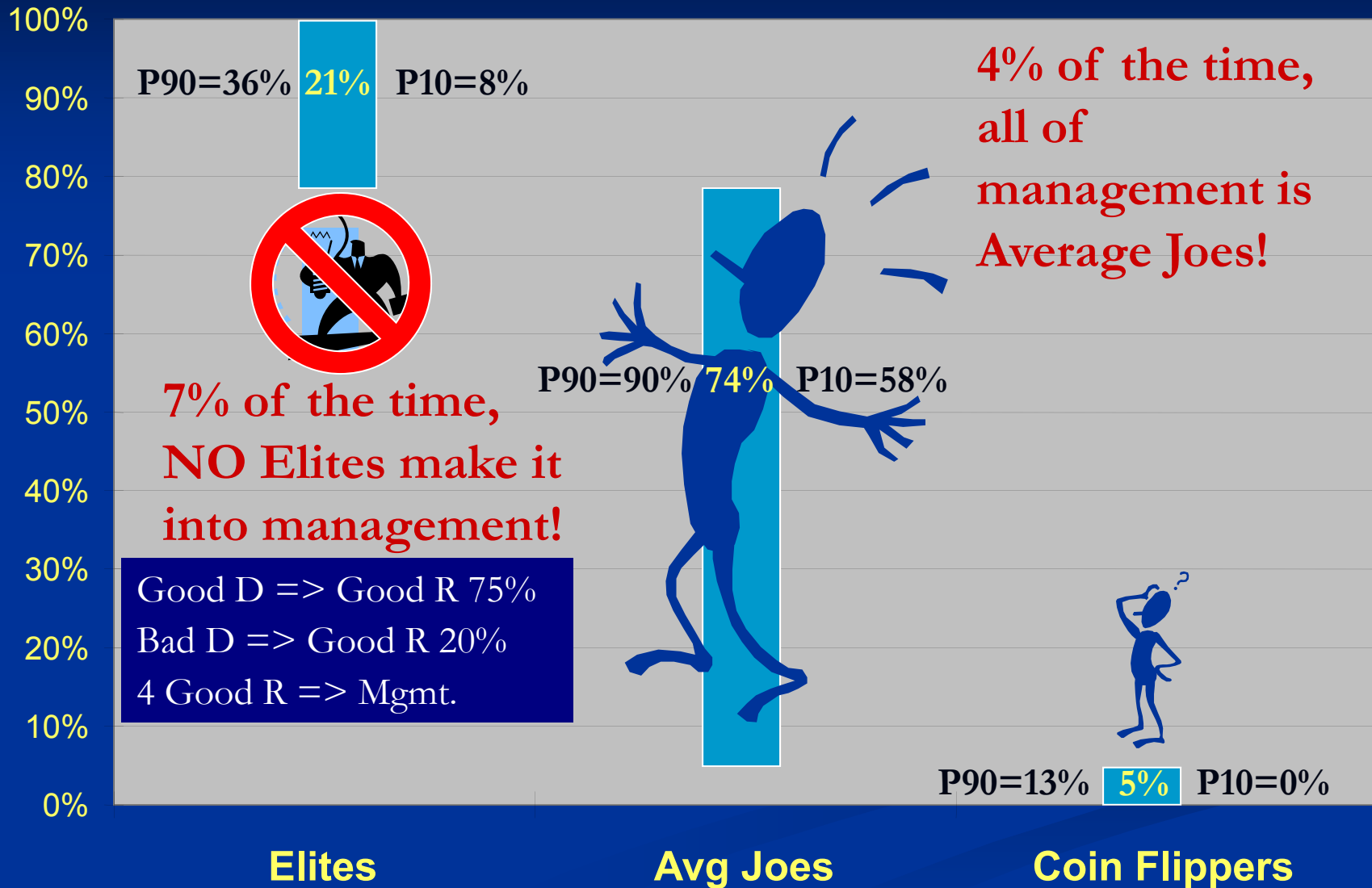
The Composition of the Management Team



The Composition of the Management Team



The Composition of the Management Team



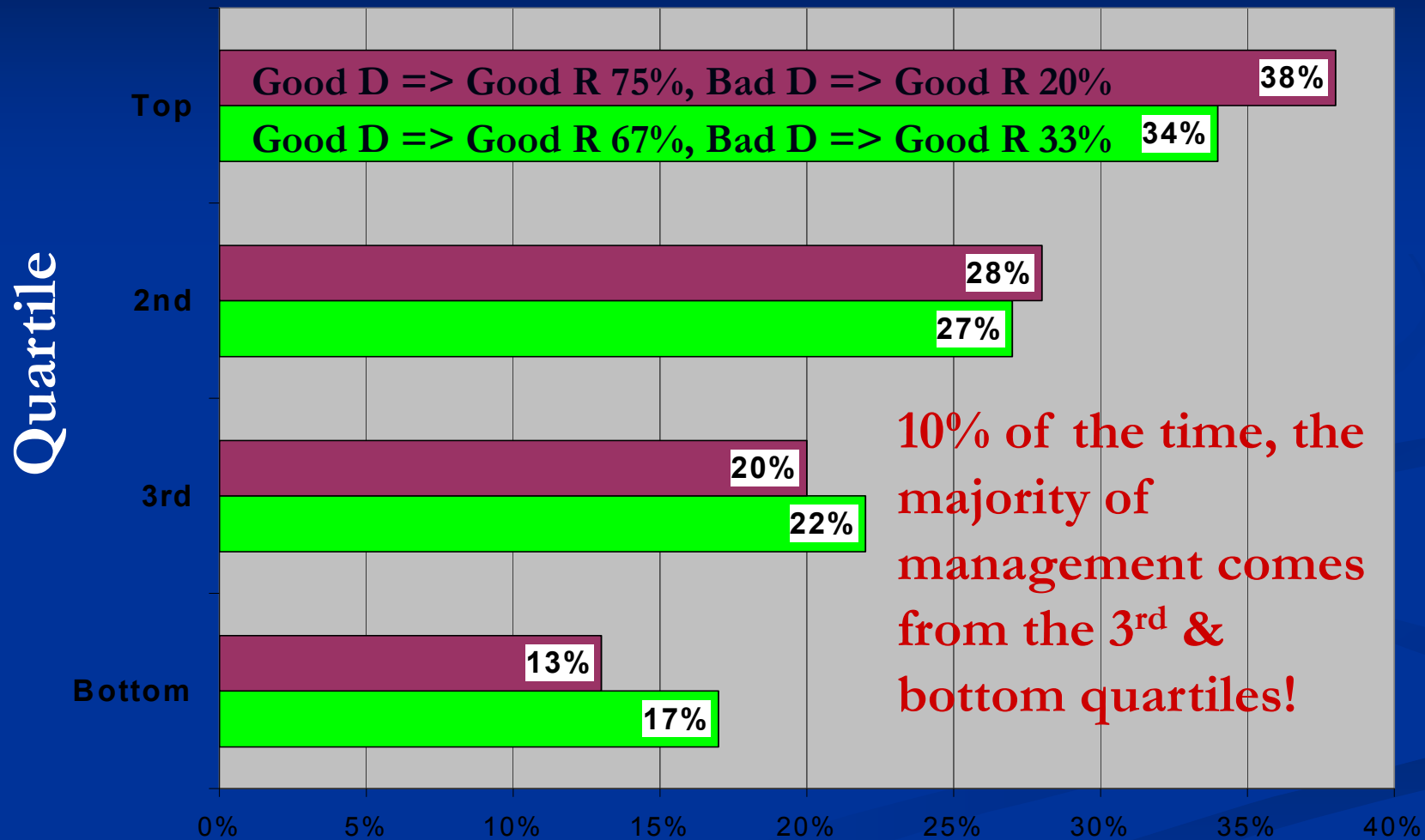
But...

- Having 10% Elites, 80% Average Joes, etc. isn't very realistic
- In reality, there should be a continuous distribution of ability across the “company”
- So....

The Quartile Model

- Re-model, using a uniform distribution of ability, ranging from 50% good decisions to 99.5% good decisions
- Keep track of what percent of the management team comes from each quartile

Management Composition by Quartile



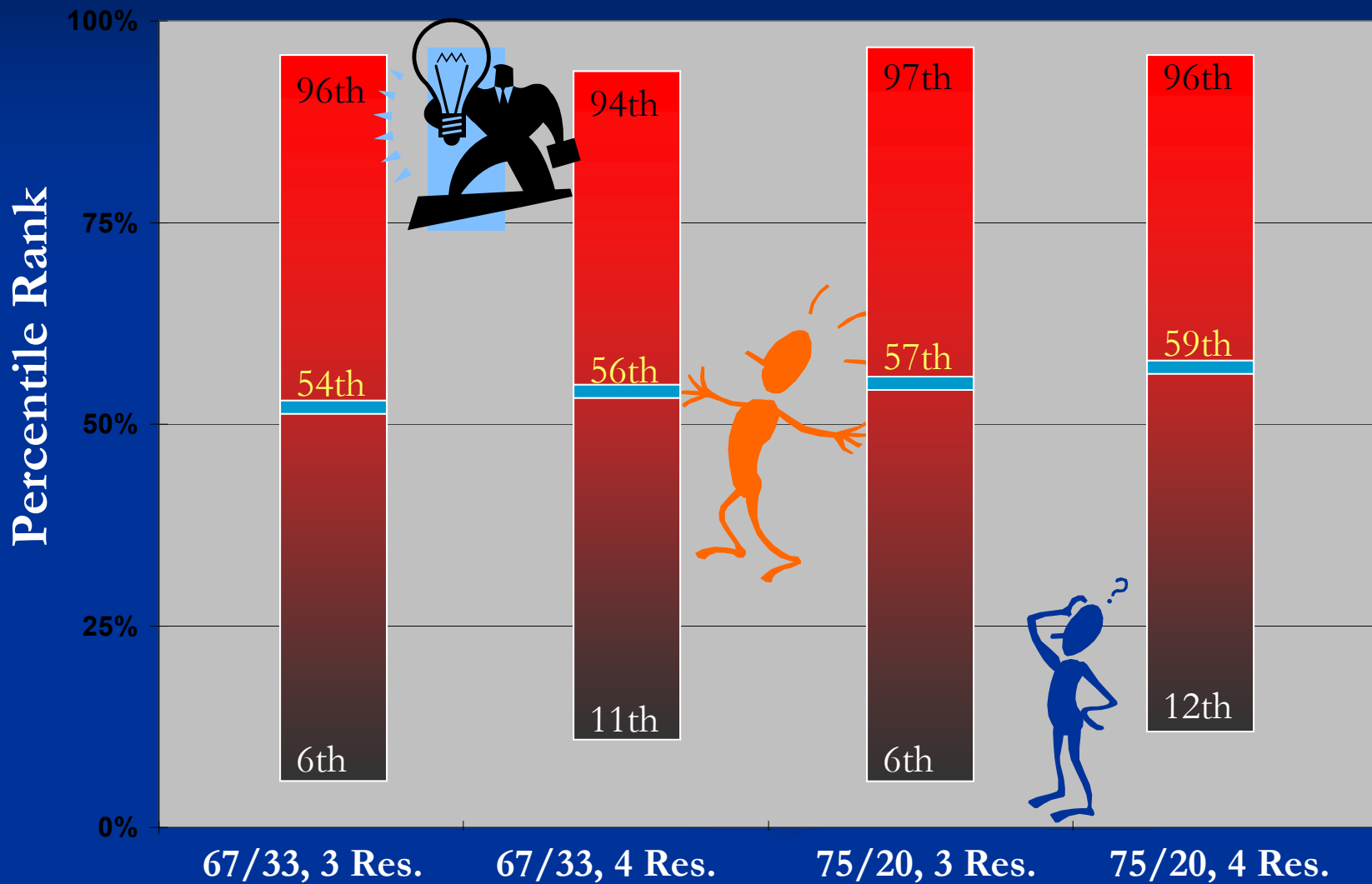
But...

- A uniform distribution of ability isn't very realistic, either
- It's probably near-normal, but slightly skewed to the right
- So....

Yet Another Tweak

- Re-model, using a lognormal distribution of ability, ranging from 50% good decisions to 99.5% good decisions, with a peak at about 70%
- Give each “employee” a percentile rank
- Make note of the average rank of employee to make it into management, as well as the highest and lowest ranked

Range of Percentile Ranks in Management



Notes and Caveats

- The model, however artificial, is remarkably robust
- The slightly-above-average shall inherit the company
- Management cross section \sim Company cross-section

Are Management Teams Representative of Those They Lead?

“It is essential [for management] to employ, trust, and reward those whose perspective, ability, and judgment are radically different from [theirs]. It is also rare, for it requires uncommon humility, tolerance, and wisdom.”

- Dee Hock

What Does It All Mean?

- Probably not much
- However, there are some points to take away:
 - In an uncertain world, it's awfully hard to tell the lucky from the good
 - Intuitive decision making – even with a good track record – is perilous
 - Don't believe your own hype

Two Final Thoughts

- “Unquestionably, such a thing a leadership does exist. We shouldn’t be dismayed if a good measure of it consists in getting out in front of the crowd and heading wherever they happen to be going.
- Leaders do make a difference in the success of organizations. On the other hand, good fortune bears an uncanny resemblance to good judgment.”

- R. Richard Ritti, *The Ropes to Skip and the Ropes to Know*