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Individual Logic

Wisdom in Organizations: A Balance Theory Analysis

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It could be argued that the most important factor in an organization's success is wisdom, particularly the wisdom of those within the organization's leadership ranks. An organization, whether it is a corporation, a government agency, or an academic institution, can go from being at the top of its game in an industry to struggling to scrape by—based solely on who is at the helm and this leader's ability to impart wise leadership on the organization. Similarly, but perhaps less drastic, an organization can make one wise decision followed by a less wise one based on how well its leaders are able to integrate the organization's values and prudently use the resources it has been allotted when making decisions. Johnson & Johnson (J&J) presents an example of this contrast.

Logic can be used as a basis for wisdom. Wisdom, as defined in this chapter (Sternberg, 1998, 2000, 2005b), involves an individual's ability to balance the interests of multiple constituencies in a manner that serves each constituency's needs and well-being over the long and short terms. To

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balance these interests, the information that the decision maker uses must be based in truth and logic. Without logic, it is impossible to be wise. In addition to examining what wisdom *is*, this chapter examines factors that can lead wisdom (and thus truth) to be lost or obscured in organizational and managerial contexts. We label these factors *fallacies of thinking* (Sternberg, 2002, 2003, 2005a), but they could just as well be considered *fallacies of informal logic* because of their direct and negative effects on the process of obtaining a logical outcome.

In this chapter, we use two anecdotes—both about crucial decision-making situations at the J&J corporation. These anecdotes are used to illustrate contrasting examples of wise and not-so-wise decision making within an organizational context. We then move from the examples into theory and describe the balance theory of wisdom (Sternberg, 1998, 2005a) and a related theory of foolishness (Sternberg, 2002, 2003).

Johnson & Johnson's Decision-Making Dilemmas

Founded in 1886 as a medical products company, J&J quickly defined itself as one of the most brilliantly managed and innovative pharmaceutical and medical supply companies in the world. In 1976, James Burke, the former vice president of product management, ascended the ranks and became J&J's chief executive officer (CEO). By 1981, the corporation was ranked 74th among the largest U.S. industrials. One of J&J's best-selling products during the early 1970s and 1980s was Tylenol. In 1974, this product accounted for 90% of the nearly \$88 million market in acetaminophen-based, over-the-counter painkillers. By 1981, J&J's sales revenue from all Tylenol products was estimated at more than \$400 million. This success was quickly put in jeopardy when, in the fall of 1982, four individuals died from ingesting cyanide-tainted Extra-Strength Tylenol capsules produced at J&J's Pennsylvania plant. Three other individuals later died from tainted capsules produced at other plants.

Burke's swift and responsible actions were credited for J&J's victorious emergence from this crisis. Specifically, Burke took two actions that came to be considered crucial in the resolution of this tragic situation. The first is that he and his colleagues were completely candid and forthright with the media. They did not try to sidestep the crucial and sometimes unflattering questions that were posed to them, and they did what they could to inform the public of any danger. The organizational leaders took these actions despite the fact that there was no evidence that any of the contamination took place either at a J&J plant or during the shipping process.

The second crucial action was that J&J made sweeping actions for the purpose of protecting the public. In light of pressures from regulatory agencies to do otherwise, Burke decided to pull all Tylenol capsules from the market and offered to exchange all capsule products for tablets, a decision

that was estimated to have cost J&J millions of dollars. But Burke believed that this was the only responsible reaction.

Fast-forward 12 months after the poisonings. At the height of the hype, analysts predicted that J&J never would recover from this catastrophe. First, they claimed that J&J's funds were too depleted; it was estimated that the corporation lost \$100 million over the course of this crisis. Second, it was believed that the public never again would place its trust in a company whose product was responsible for the deaths of seven innocent victims—even though the company itself was not found to be negligent in any way.

To the surprise of everyone, only 1 year after the incident, Tylenol had regained 85% of its precrisis market share. By the fall of 1983, the product held 30% of the \$1.3 billion over-the-counter painkiller market and was continuing on this upward trend (Smith & Tedlow, 1989).

When Burke retired as CEO in 1989, the position was assumed by Ralph Larsen. Larsen and Burke shared many attributes (Deutsch, 1988; Hurstak & Pearson, 1992). Larsen liked the reigning J&J corporate culture as it was when he took the position, stating that "Jim [Burke] has created a culture based on intelligent risk taking, on not being afraid to fail, on getting everything on the table and arguing if you have to. I love it, and it works" (quoted in Deutsch, 1988, sec. 1, p. 6). A fellow J&J director was quoted as saying, "Ralph and Jim have identical values" (p. 6). Given these similarities, it is surprising that Larsen ignored customer interests, which Burke had placed in such high regard, when it came time to make an important decision as CEO.

In 1996, with Larsen as CEO, J&J's sales of the very popular Palmaz-Schatz medical stent accounted for approximately 10% of the company's total earnings. Despite its widespread use in the cardiovascular industry, the stent had problems. First, it came in only one size and was significantly more costly than competitors' products. Unlike Tylenol users, cardiologists—the main consumers of stents—typically did not adhere to the concept of brand loyalty. They ordinarily used whatever product was best for their patients and was sold at the lowest cost, regardless of the company producing it. Customers were beginning to loudly voice their dissatisfaction with the Palmaz-Schatz stent, but J&J did not seem alarmed by these complaints and did little to address customers' concerns.

Why? The most likely explanation is that J&J had become arrogant, fixated on its own success and relying on its past achievements. J&J was at the top of the stent market and did not perceive a threat coming from companies lower in the ranks. In late 1995, when J&J was still in its prime, it purchased Cordis, a small medical products company that was experienced in dealing with customers within this highly specialized industry. This merger was predicted to produce the "golden egg"—a stent so well designed that no other company could compete. With Cordis onboard, J&J likely felt impervious to the competition.

Unfortunately, J&J never allowed itself to realize the tremendous potential produced by this acquisition. One reason for J&J's poor performance

following the acquisition was that it was very slow to integrate the two organizations. J&J failed to harness Cordis's strengths early enough—or ever. The final blow came when the Food and Drug Administration (FDA) approved a competitor's stent in 1997. This new product addressed customers' needs at a cost that was significantly less than that of J&J's Palmaz–Schatz. Within 1 year, J&J's stent sales were down 8%, and consequently J&J lost control over an industry it had captured so tightly just a few years earlier. The company's unwise decision making cost it its industry standing as well as a significant source of profits (Finkelstein, 2003).

Analyzing the Two Situations

Why had Burke brought J&J through the Tylenol poisonings with such grace and aplomb, whereas Larsen allowed J&J to lose its footing in the stent business? Was it because the former leader possessed more analytical intelligence than did the latter? Perhaps. But it appears more likely that it was not Larsen's lack of analytical intelligence that led to J&J's problems with the Palmaz–Schatz stent; rather, it was his (and his colleagues') inability to integrate wisdom with his analytical intelligence and creativity. It could also be seen as a failure of logic because Larsen failed to truthfully perceive and account for the competition and challenges that his product would face on the medical market.

These two J&J dilemmas are harnessed as a method for illustrating wise (and unwise) decision making in organizational settings. Specifically, this chapter employs Sternberg's (1998, 2000, 2005b) balance theory of wisdom as a framework for analyzing decision making in each of these situations and for analyzing wise decision making in organizations in general.

After defining the balance theory and illustrating how the J&J examples relate to its specific components, the chapter examines wise decision making within three traditional frameworks of ethics and two frameworks of reasoning. It also integrates the fallacies of thinking that lead smart individuals to exhibit unwise behavior. The chapter closes by presenting an argument for the importance of wise decision making in business and suggesting strategies for developing wisdom in organizational settings.

According to the balance theory (Sternberg, 1998, 2000, 2005b), wisdom is the ability to use one's successful intelligence, creativity, and knowledge, as mediated by personal values, to reach a common good by balancing intrapersonal, interpersonal, and extrapersonal interests over the short and long terms to adapt to, shape, and select environments.

The first and central component of the balance theory is the use of one's intelligence. Possessing wisdom is not just possessing vast amounts of analytical intelligence and practical knowledge but also knowing *what to do* with that knowledge. People can be extremely intelligent but still not wise. Both Burke and Larsen had the necessary intelligence and information

required to carry out actions that could be beneficial for the entire organization, but only one (Burke) chose to apply this information in a way that balanced interests—moderating tendencies toward becoming focused too egocentrically on one's own interests. Wisdom is not solely about serving one's own interest but also about balancing various self-interests (intrapersonal) with the interests of others who are directly involved in the situation (interpersonal) and of other more external stakeholders (extrapersonal) such as one's city or country. Problems requiring wisdom always involve some element of these three potentially competing interests. Given the extensive area of needs, desires, and rights that these interests encompass when considered in concert, a decision must be made in the context of what the whole range of available options is.

In reference to the Tylenol poisonings, Burke had concerns about the multiple interests seemingly at odds with one another. In the best interest of the public, he wanted to conduct a national recall of the product; however, both the FDA and Federal Bureau of Investigation strongly advocated against this option. The regulatory agencies argued that a national recall would encourage other mentally unstable individuals to attempt similar poisoning plots solely to satisfy their desire to attract national attention. Burke was faced with the challenge of managing multiple competing interests—those of his own company (intrapersonal), those of the public (interpersonal), and those of the regulatory agencies (extrapersonal). In the end, he decided to do what he thought was in the service of his most important constituency, the public, while at the same time not disregarding the needs of the “others” involved. His decision to remove all capsules from the market led to significant proximal costs for J&J (it is estimated that J&J lost \$100 million over the course of this crisis) but also led to distal gains for J&J. Burke's later cooperation with the FDA in the manufacture of safety-sealed bottles served the interests of the regulatory bodies (extrapersonal). But perhaps most important, his decision to recall all Tylenol capsules protected the safety of the public (interpersonal). He put the long-term common good of the public above the short-term good of himself or even, it seemed, his company.

Burke also applied his explicit and implicit knowledge. One way in which he did this was to collect the maximum information available so that he could make an informed decision. This procedure included conducting extensive surveys on consumer sentiment only hours after the poisonings began to receive national media coverage. This strategy allowed him to gauge how much trust had been lost. He also arranged multiple meetings with his colleagues to discuss the issue and debate multiple plans of action.

Last, the balance theory proposes that one must know when to *adapt*, *shape*, or *select* environments in reaction to a difficult dilemma. More specifically, one must consider how to adapt oneself or others to existing environments, shape environments to mold them into greater compatibility with oneself or others, or select new environments that are more conducive to meeting one's goals for the situation.

Burke's decision to pull all products from the market was an application of *shaping* the situation. He understood the issues involved, acknowledged all interests, and in the end decided that he needed to take the actions necessary to protect those who were most vulnerable to harm. How did he come to this decision? By applying the values on which J&J was founded—an application based in logic and truth.

In reference to Burke's focus on J&J's founding principles in resolving this crisis, he stated, "Everybody who puts something into this organization that builds that trust is enhancing the value long term of the business. I think that these values were here. We traded off them. We articulated them through the Credo. We spent a lot of time getting people to understand what we meant in the Credo" (quoted in Smith & Tedlow, 1989, p. 7). J&J's credo was not ambivalent about the organization's obligations. It stated, "We believe our first responsibility is to the doctors, nurses, and patients, to mothers and all others who use our products and services. . . . Everyone must be considered as an individual. . . . We are responsible to the communities in which we live and work and to the world community as well" (p. 22).

With a value system that targeted customers' needs so strongly and explicitly, how could J&J have so blatantly ignored complaints coming from doctors in the Palmaz-Schatz stent case? Clearly, J&J's exemplary leadership failed to see the warnings coming and thus failed to use logic as a basis of decision making. The leaders' proverbial eyes and ears were closed to the interests of the other parties involved—including those of their shareholders (extrapersonal). J&J had allowed its own hubris to corrupt its strengths.

We return to the discussion of wisdom and failures in wisdom later. But first, the balance theory is compared with theories of business ethics and general logic.

The Balance Theory and Traditional Theories of Ethics

The balance theory shares many characteristics with traditional theories of ethical reasoning. Most theories of ethical reasoning can be divided into three categories: deontological, teleological, and ontological (Newton & Schmidt, 2004).

Deontological Reasoning

Deontological reasoning, also known as nonconsequentialist reasoning, is based on the notion that every action has an underlying duty that one must observe to act ethically. A prescribed "duty" depends on a person's value system. Some values are universal (e.g., "murder is wrong"), whereas others are culturally specific (e.g., "it is wrong to commit adultery"). The balance theory captures this value-based component by acknowledging that the manner in which one decides to apply his or her knowledge and intelligence is based on a system of personal values.

Within the organizational domain, the application of personal values when making a decision that affects the entire organization is a controversial issue. It is questionable whether a manager has the right to apply his or her personal values to decisions that have consequences for the organization as a whole. For example, an upper level manager may confront the question of whether or not to allow same-sex partners to receive healthcare benefits similar to those given to opposite-sex spouses. In such a situation, should the manager allow his or her own beliefs about same-sex marriage to enter into the decision-making process? In the context of the balance theory, the answer is *yes*—with some qualifications. To partake in wise decision making, the manager must allow these personal values to enter into the process *so long as* the ultimate decision balances the interests of the multiple parties involved. These multiple interests must also include extrapersonal interests, which include the interests of the corporate community. For a manager's decision to qualify as wise, the manager would need to consider how his or her interests would set a precedent for the entire industry.

Teleological Reasoning

A form of consequentialist reasoning, teleological reasoning, states that an action should be judged as ethical based on the good that is derived from its outcome. The ethicality of a result is calculated by weighing the benefits that come from the decision in comparison with the costs that it consumes. The utilitarian theory of ethics, one of the most widely applied theories of ethics in business, is considered to be under the rubric of teleological reasoning. Utilitarianism proposes that any act should not be undertaken if it consumes greater good than it produces.

The balance theory captures this same spirit of balance by incorporating the *common good* into the decision-making process. For a decision to be considered wise, it must first pass a common good litmus test; that is, does it collectively benefit all stakeholders rather than just serving a few isolated interests?

In application to the business domain, the issue of a common good is particularly salient. Often a leader's downfall is witnessed in his or her focus on one or a few isolated parties at the enormous expense of other parties. For example, a manager may decide to expand a currently well-functioning business into a new industry—one in which the organization has little history or expertise. The venture can lead the company to sacrifice its strong reputation and value to shareholders and may even cause the organization to need to lay off a significant percentage of the current workforce to support the costs of the poor decision. Such a decision would not be considered ethical by the standards of teleological reasoning, or wise by the standards of the balance theory, because it was not undertaken with an understanding of how a balance could be achieved from the decision's outcome.

Ontological Reasoning

Ontological reasoning, also known as virtue-based reasoning, proposes that a decision is evaluated for its ethical content based on its service to instilling good character within the decision maker. Ontological reasoning holds central the notion that every time a person commits an act, the person is simultaneously defining his or her character. Thus, ontological reasoning is based not only on outcome but also on the process and on how this process contributes to the ethical development of the decision maker. This form of reasoning begins with the assumption that individuals strive to be virtuous and to have traits that maximize their ethical value in whatever domain they seek to excel. It asserts that a person will avoid committing a crime or another unethical action not because of the effect that the action will have on the good of the society but rather because it will soil the virtue of the individual who commits it and will thwart the person's progress in becoming a valuable member of society.

This theory of reasoning integrates the three components of the balance theory discussed earlier: personal values, common good, and balancing multiple interests. The balance theory proposes that an individual not only must hold values that are conducive to realizing a good outcome but also must seek an outcome that is beneficial to more than just himself or herself. In other words, the individual should seek an outcome that is virtuous.

In reference to ethical conduct in management, ontological reasoning considers the characteristics of the manager in the context of the way this individual interacts with the environment. A manager must strive to hold the values needed to lead a corporation successfully while at the same time working in an environment where those values are ideal for business development. A manager can meet his or her downfall when he or she tries to embody a management style that is suited for a different industry or type of workforce. The balance theory proposes that an individual cannot be successful unless he or she is able to fit skills with environmental demands. A manager who tries to control a large, culturally diverse organization in the same way he or she would control a small family business is destined to meet resistance and impede the progress of the organization.

The Balance Theory and Theories of Logic

The traditional ethics-based theories of deontological, teleological, and ontological reasoning can also be contrasted within frameworks of dialogical and dialectical reasoning.

Dialogical Reasoning

Dialogical reasoning is the consideration of multiple points of view when partaking in decision making. In terms of the balance theory of wisdom, it

is the ability to look at intrapersonal, interpersonal, and extrapersonal interests and to balance these interests when making decisions. In reference to Burke's decision making that is described throughout this chapter, his decisions were based on what he thought would serve the company, the public, and the regulatory agencies that were affected by the crisis. In business, dialogical (and wise) reasoning suggests that a decision will always have the most favorable outcome when all stakeholders are considered.

Dialectical Reasoning

Dialectical reasoning integrates how the merits of an argument or outcome can change over time. It professes that a decision cannot be judged as good, or in this case as ethical, in a contextual vacuum; rather, a decision must be judged within the environment in which it exists and is being used. The balance theory addresses this method of logic by emphasizing the importance of both short- and long-term evaluation. A decision that may be prudent today might not be favorable in the future and vice versa. This proximal versus distal consideration is especially important to take into account within the organizational arena, which often emphasizes and rewards short-term, rather than long-term, outcomes. It could be argued that Burke would not have recalled all Tylenol products from the market had it not been for the specific and unique factors that were present, including the lack of clear evidence for how the cyanide had contaminated the capsules and the panic from consumers.

When Wisdom Fails

Not every business leader is likely to possess high levels of wisdom because such levels of wisdom are rare (Smith & Baltes, 1990). If one does not have wisdom but does have intelligence and creativity, can one still be an exceptional business leader? The answer, we suggest, is *no*. In fact, individuals who have high amounts of both intelligence and creativity may possess exceptional potential for leadership but will be incapable of demonstrating this potential through their actions (Sternberg, 2005a, 2005b). These individuals can be described as "charismatic," "innovative," or even "shrewd," but wisdom is required for a business leader to reach his or her maximum level of performance over the long term. The most dangerous individuals are perhaps those who possess the latter two components of the WICS (wisdom, intelligence, and creativity synthesized) model (Sternberg, 2005b), that is, those who are exceptionally intelligent and creative but who lack wisdom. These are the individuals who may use their own strengths to manipulate others. Smart people can do very foolish things (Sternberg, 2002, 2005a). Without wisdom, individuals are susceptible to committing at least one of five fallacies of thinking. These five fallacies are the fallacies of egocentrism,

omnipotence, omniscience, invulnerability, and unrealistic optimism (Sternberg, 2002, 2003, 2005a). In the context of business, some of these fallacies apply more to organizational structures, whereas others are more relevant to individual managers.

Fallacy of Egocentrism

The *fallacy of egocentrism* is the belief that one is, and rightfully should be, the center of attention—the most important entity, which should receive priority in all decisions. In the context of organizational and managerial decision making, the fallacy of egocentrism can manifest itself in multiple ways. For example, a manager can become so fixated on or infatuated with a certain project or idea that he or she begins to ignore the larger picture and allows other more practical issues to fall by the wayside. Usually the execution of the project is to the leader's benefit—or so he or she believes.

An example of egocentrism in organizations can be found in a corporation's tendency to focus only on what those inside the organization think and believe. The more successful a corporation is, the more likely this mentality is to take hold. Why, after all, should a highly admired organization listen to criticism from the outside? The belief that an organization is "the best" can set it up for dangerous thinking and "groupthink" (Janis, 1972), causing those within it to ignore warnings of which they otherwise might have been cognizant. When faced with the Tylenol poisonings, Burke counteracted this tendency by immediately gauging public sentiment on trust and loyalty to the now tainted product.

Egocentric organizations can also fail to see and anticipate competition. A corporation that is more focused on its own performance than on the outside climate will shut its eyes to challenges that lie ahead, leaving it no leeway to make preparations. For example, J&J paid little attention to the small international stent producers that were beginning to flex their muscles in the American marketplace. As Larsen stated in response to problems among J&J's multiple consumer lines when he assumed the role as CEO, "We were arrogant. . . . We had leadership positions, and we were slow to respond to the competition" (quoted in Deutsch, 1988, sec. 1, p. 6).

Last, egocentric managers can fail to hear the complaints and suggestions of employees, just as egocentric organizations can fail to hear the complaints and requests of customers. There are many organizations that are good at producing what the market demands, but unless they are first receptive to these requests, they will often miss the mark and customers will go elsewhere. This fallacy of thinking could be attributed to why J&J failed to listen to the suggestions of its customers and to be prepared for the ensuing competition in the stent industry.

Fallacy of Omnipotence

The *fallacy of omnipotence* is the belief that one is all-powerful—able to direct others to follow one's every whim and wish. In the organizational context, this fallacy can manifest itself in the belief that the organization is capable of manipulating random or uncontrollable factors to work in its favor or in a leader's belief that he or she can direct outcomes of situations that are, in reality, determined by the confluence of many external factors beyond his or her control.

This fallacy can also manifest itself in a manager's attitude within the workplace. One of the most dangerous behaviors that can stymie wise decision making is a leader's portrayal that he or she is so powerful that followers are discouraged from voicing any open dissent. Wise decision making is based on a balanced presentation of the situation and the multiple interests involved. If a leader acts as though he or she is all-powerful, other perspectives will never be acknowledged or presented. In reference to J&J's problems in the stent industry, it is likely that the hierarchy of authority was so elaborate and confusing that customers' complaints were never able to reach the level of management responsible for making changes to the stent's design.

We are not arguing that an organization should not strive to be at the top of its industry; rather, we are arguing that this should not be the organization's explicit goal at the expense of responsibility to all stakeholders. This mind-set encourages organization personnel to adopt strategies that may focus only on short-term gain rather than on long-term sustained viability.

Fallacy of Omniscience

The *fallacy of omniscience* is the belief that one is all-knowing. A leader's downfall can result from a false belief that he or she knows more than do others around him or her—particularly more than the leaders of other competing organizations. For example, a leader may believe that his or her organization is capable of surpassing other larger competitors, even though none of the objective factors seems to support this notion. An omniscient mind-set can also give birth to an unreceptive manner of logic and decision making. Managers who believe that they know everything will not listen to or solicit criticisms from inside or outside the organization. They will not admit to and learn from mistakes. Why? Because they believe that there is nothing they can learn from others. They will also not actively seek out information to help them improve their organization because they do not believe that they can learn from others' successes or failures.

When Burke was making his decision as to how to proceed with the Tylenol poisonings, he first arranged and participated in a series of discussions—sometimes heated—with his subordinates so that a variety of opinions would be presented and acknowledged.

If one knows everything, he or she is incapable of making errors. For this reason, possessing the fallacy of omniscience makes one intolerant of others' errors. Managers or organizations that believe they know everything will cultivate an atmosphere where anything less than the appearance of (often shallow) perfection is met with contempt and penalty. This attitude sets an organization up for unwise decision-making processes. Wise decision making can result only from weighing all of the facts and acknowledging the main party's faults as well as its strengths—a strategy built on principles of logic.

Fallacy of Invulnerability

The *fallacy of invulnerability* is the belief that an individual or organization is not susceptible to any harm or ill effects—whether self- or externally inflicted. In business, a manager's downfall can originate from his or her belief that a product or strategy will not suffer the same fate that a similar strategy suffered when attempted by another organization. It may also manifest itself in an organization's determination to create maximum efficiency—even if this fast production rate is at the expense of the quality and safety of its products. An organization may be under the fallacious belief that it can manufacture a product faster than other companies and with fewer preshipment safety measures and not fall prey to any ill effects from these policies.

The fallacy of invulnerability can also manifest itself in an organization's belief that it can never fail—no matter how risky its ventures become. It is sometimes the most successful organizations that fall prey to such beliefs. If an organization's prior track record indicates only stellar performance, the organization is likely to believe that all future performance will conform to past results. It is often the underdogs in an industry that will rise to supremacy as a result of their more prudent plans and respect for the power of unforeseeable and unpredictable negative events. Remember that J&J held 90% of the market share in cardiovascular stents before it began its rapid descent (Finkelstein, 2003).

Fallacy of Unrealistic Optimism

The *fallacy of unrealistic optimism* is the belief that even the worst acts will result in favorable outcomes. In reference to organizational and managerial behavior, this fallacy can manifest itself in a leader's willingness to commit unethical and even illegal acts while believing that he or she will not be caught or punished for this behavior.

Even after an organization has made one or several poor judgments that are obvious to outside observers, managers who have succumbed to the fallacy of unrealistic optimism will never admit to failure and will claim that their actions were done for the organization's welfare. They may even claim

that actions that were obvious blunders have yet to realize their positive potential for the organization. These managers are blind to their faulty behavior, thereby setting a pattern where they are unable to learn from their mistakes and to make better decisions in the future.

Having leaders in an organization hold and encourage a positive upbeat attitude is an advantageous asset; however, this perpetual “Pollyanna-ism” can lead a company to begin to ignore its shortcomings and to punish those who are messengers of less than cheerful, albeit realistic, news. Organizations need to stay hopeful and vibrant, but they can and should do so only if the organization’s performance warrants such an attitude. Turning the other cheek and smiling can often be synonymous with ignoring vital information. As Finkelstein (2003) wrote in his book, *Why Smart Executives Fail*,

Gradually, a relentlessly positive attitude will change the whole way the business runs. It becomes a company of yes-men. Employees might deliver whatever senior management asks for, but no one in the company will speak up if what is requested turns out to be the wrong thing. Company executives might keep things running smoothly, but they won’t be able to introduce more disruptive innovations necessary to keep the company competitive over the long haul. (p. 177)

Mechanisms of the Five Fallacies of Thinking

These five fallacies exist on a continuum. Some managers and organizations have more susceptibility to each fallacy than do others, and it could be claimed that every manager or organization is susceptible to each of the fallacies to some degree. The five fallacies are not all-or-nothing constructs, but it is those who have the most susceptibility to them who are also most in danger of committing foolish harmful mistakes.

Organizational leaders may be even more susceptible to making foolish mistakes that sabotage their organization’s success than are individuals in non-leadership positions. When one is at the helm of an organization, he or she is capable of exerting control over that domain, allowing these fallacies to be lived out within the walls of his or her small dominion (Finkelstein, 2003; Sternberg, 2002). The five fallacies are just that—cognitive constructions of reality. In truth, no mortal is ever all-powerful, but a corporate leader (without sufficient governance by a strong and assertive board of directors) can wield an unreasonable amount of control over the workings of the organization, creating a fiefdom rather than a democratic organization. Likewise, no one is ever invulnerable, but a corporate leader can create the appearance of invulnerability by building an insular series of protocols where information and criticism from the outside environment cannot penetrate the organization’s existing strategy. Finally, no one is omniscient, but a corporate leader can appear to be omniscient and lead subordinates to

believe that he or she is so by forging an alliance of advisers who supply the individual with an unending amount of information and by creating an environment where dissent is always punished and agreement is always praised.

The notion that one's own hubris can be the cause of one's demise is not entirely novel. The classic tragedy in Greek mythology often describes the fall of the once heroic protagonist because of a flaw in character that eventually proved to be fatal. For example, the myth of Icarus tells of the impetuous youth who was warned by his father not to fly too high because the sun would melt his wings made of wax and feathers. Fully absorbed in his exceptional ability to soar across the sky, Icarus ignores his father's warning and falls to his death in the sea. In a similar vein, the myth of Sisyphus tells of a man known for his great chicanery and cunning. After falsely believing that he could outwit the god Hades and evade his fate to stay in the underworld, Sisyphus is punished and made to spend the rest of his days eternally pushing a boulder uphill. The myths are fantasies, but their lessons are real.

The Importance of Wisdom in Organizational and Managerial Contexts

There are few important situations in business that do not require, or at least benefit from, the application of wisdom. Given this fact, it is surprising how little attention has been paid to cultivating it or explicitly seeking it in those in leadership positions in comparison with the other dimensions of the WICS model. Perhaps this is because the factors that produce the wise man or woman seem far more elusive than those that produce the analytically intelligent or creative man or woman. It may also be because the products of analytical intelligence and creativity are easier to quantify explicitly. An exceptionally intelligent individual in business may be one who displays skills in understanding market forces or who knows the history of an industry inside and out. And an exceptionally creative individual in business may be one who is able to generate innovative competitive strategies or new product ideas. However, what are the markers of an exceptionally wise individual in business? Investigations that report people's implicit theories of wisdom demonstrate that individuals believe that wise people are peaceful, understanding, empathetic, intuitive, able to learn from ideas and environments, perspicacious, and sagacious (Clayton & Birren, 1980; Sternberg, 1985)—all characteristics that are not highly likely to manifest themselves in a tangible product. The skills of wisdom prepare an individual to be labeled as an exceptional leader or as someone who defines an era within an organization, but they are not those that necessarily lead one to receive a high score on a measure of analytical intelligence.

Returning to the J&J examples highlighted earlier in this chapter, one should refrain from drawing the conclusions that Burke was a wise

organizational leader, whereas Larsen was not. First, in this chapter we have considered each individual's behavior in response to only one isolated situation. We have not considered the leader's behavior, as well as the corporation's performance, during the leader's entire tenure at the organization. Second, just as there are many positive developments that came out of the Larsen administration, J&J did experience struggles during the time that Burke was at the helm. For example, the Tylenol poisonings that characterized Burke's time as CEO left an indelible dent on company finances for which Larsen then had to take responsibility (Smith & Tedlow, 1989).

In organizational management situations, it is difficult to classify an organization as being a "wise corporation" or a manager as being a "wise leader." Other than those exceptional organizations or individuals who take part in multiple egregious acts that eventually run a previously healthy organization into the ground, organizations and individuals set an inconsistent track record. Most leaders produce several exemplary and several not so admirable decisions throughout their histories or tenures. It is more accurate to examine organizations' and individuals' actions and to label them as including or discarding the tenets of wise and balanced (and thus logical) decision making than to make sweeping judgments that characterize their leadership.

In summary, recommended actions for promoting wisdom in organizations and management begin with promoting awareness of the fallacies of thinking. Unless a manager can harness tendencies toward believing that he or she is the center of attention, all-powerful, all-knowing, invulnerable, or unrealistically optimistic, the manager is likely to adopt these faulty and dangerous cognitions (Sternberg, 2002, 2005a). Organizations and individuals who are at the top of their games may be even more vulnerable to these fallacies than are those who are just beginning to create reputations in their industries.

Research Directions in Organizational and Managerial Wisdom

Effective promotion of wisdom within organizations also requires a sufficient understanding of wisdom in this context. The dearth of existing literature on the topic provides a bounty of possible areas of investigation. For example, this chapter has highlighted the need for research that answers the question of who has wisdom in organizations and how having wisdom within an organization's leadership ranks affects corporate outcomes. Research that examines managers' inclusion of the various dimensions of the balance theory in their decision making is also needed. How well do managers balance multiple interests? How well do they integrate both proximal and distal implications? One could also undertake a qualitative examination of managers' use of adaptation, shaping, or selection in response to difficult decisions.

Studying wisdom also illuminates questions about lacking wisdom. In other words, what is the role of the fallacies of thinking in organizational

and managerial situations? A scale that measures a person's susceptibility to these fallacies already exists (Jordan, 2005); however, the fallacies' implications for decisions in organizational settings have yet to be examined.

Developing Wisdom for Organizational Settings

How does one develop wisdom for organizational settings? Ideally, wisdom-related skills would be developed in undergraduate and graduate business programs. They would also be developed through job-related experience. Here are some principles for developing wisdom in managerial settings:

1. *Dialogical thinking.* Dialogical thinking involves understanding single issues from multiple points of view. How do different stakeholders within an organization comprehend a managerial decision? How can the decision be communicated to various stakeholders so that they best understand the decision and, ideally, the rationale for it? Moreover, how do people in other organizations understand the decisions that are made? It is often important to maintain favorable relations with suppliers, distributors, and even competitors. Understanding their way of thinking is important. In case study teaching, the cases should be understood not just in terms of the readers' points of view but also in terms of all stakeholders' points of view.
2. *Dialectical thinking.* Dialectical thinking involves recognizing that what constitutes a good answer to a question can change over time. Managerial solutions that are wise at one time or in one place might not be wise at another time or in another place. Hence, decision makers must learn how to contextualize their decisions so as to optimize their decision making for a given time and place.
3. *Role modeling.* One method for teaching wise decision making is role modeling. One cannot develop wise thinking in others unless one serves as a role model for it. If managers make foolish decisions, they can expect that their subordinates will follow their example.
4. *Balance for a common good.* At the heart of the balance theory is balance that seeks the common good. Decision makers need to learn to weigh various factors and to achieve an outcome that represents the greatest good in common for all.
5. *Knowledge for good use.* Students today exist in an environment that often emphasizes knowledge for its own sake rather than knowledge for a common good. Ultimately, wisdom is about using knowledge well—not just about possessing it.

In sum, then, wise decision making can be developed. We have a way. We need only the will.

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