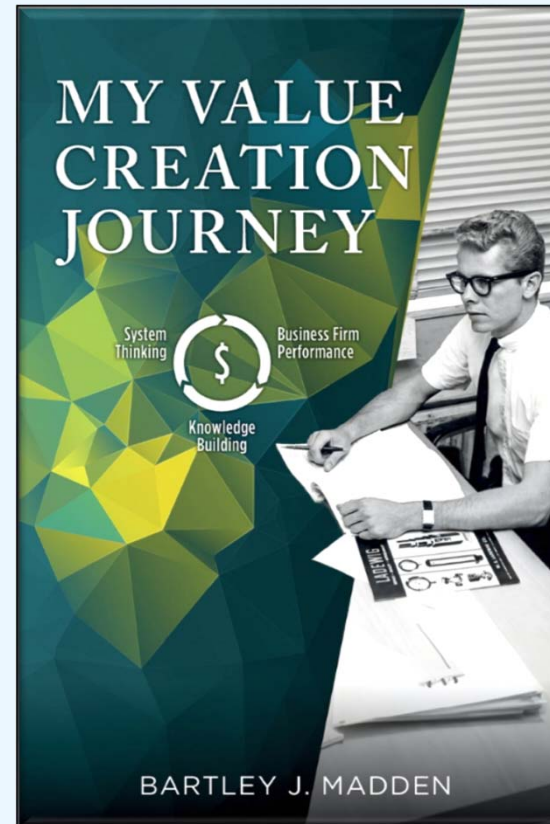
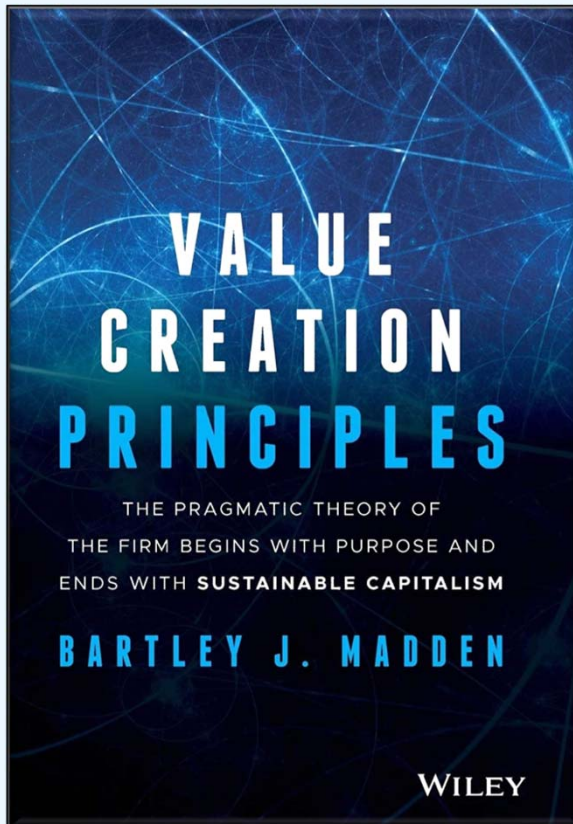




REPETITIVE INSIGHTS FOR SIX CRITICAL MANAGERIAL TASKS

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KNOWLEDGE-BUILDING AND VALUE CREATION ARE OPPOSITE SIDES OF THE SAME COIN



OUTLINE

- Six tasks are proposed that address essentially all of management's critical decisions.
- The knowledge building process is described by a knowledge building loop and can be the source of repetitive insights for those willing to think differently.
- Two examples illustrate application of the knowledge building loop to generate insights.
- First, what was the key to Sam Walton's **strategic thinking** that enabled Walmart to outperform S&P 500 100-fold, 1970-1990?
- Second, how best to flatten a bureaucratic command-and-control **organizational structure**?

SIX CRITICAL MANAGEMENT TASKS

#1 KNOWLEDGE-BUILDING CULTURE

#2 STRATEGIC THINKING

#3 ORGANIZATIONAL STRUCTURE

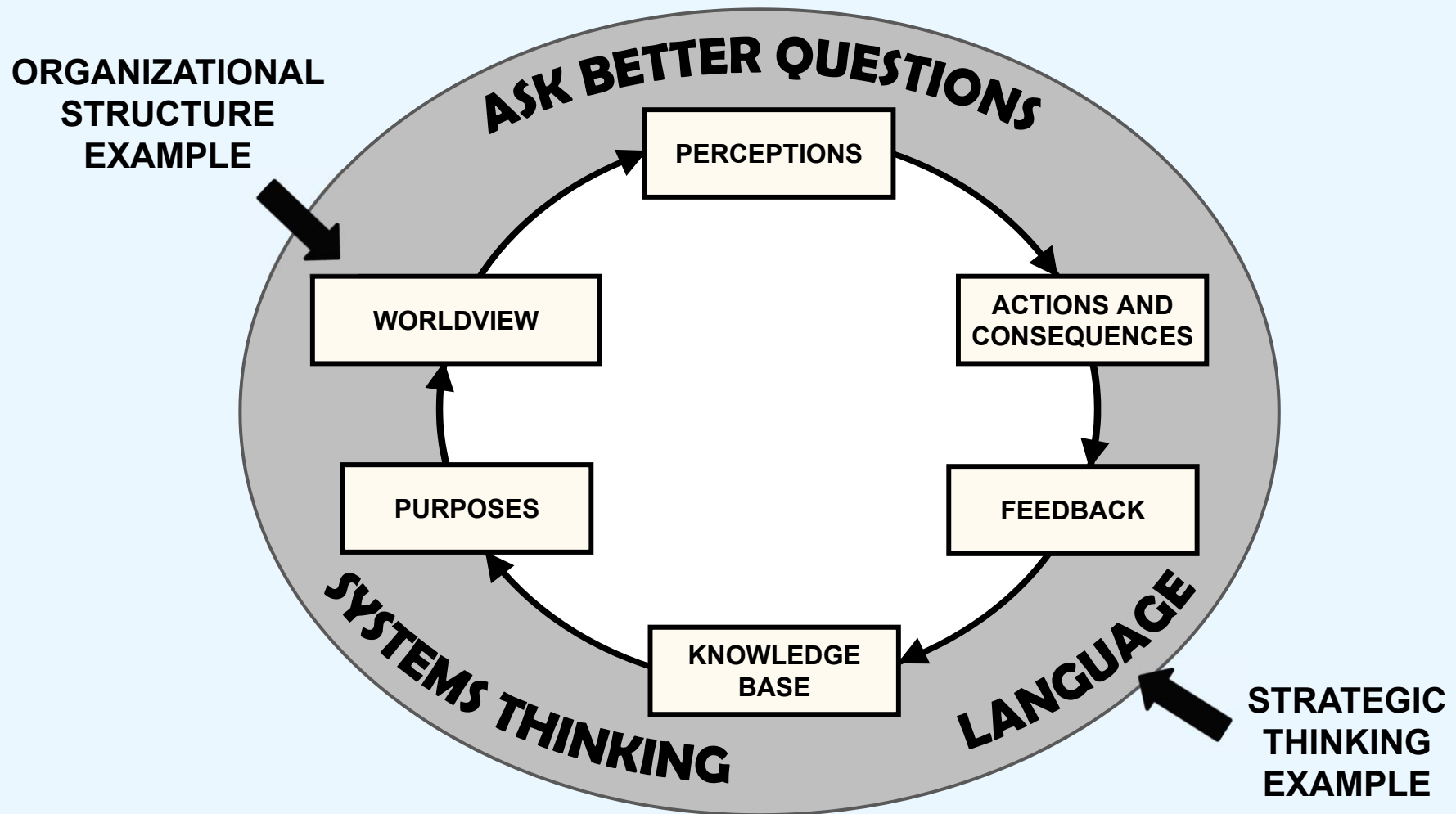
#4 EFFICIENCY OF EXISTING BUSINESSES

#5 INNOVATION FOR EXISTING AND
FUTURE BUSINESSES

#6 CONTEXT-SPECIFIC PERFORMANCE
MEASUREMENT

See Chapter 2 of Bartley J. Madden. 2023. *My Value Creation Journey: An Autobiography of My Work*

KNOWLEDGE-BUILDING LOOP



Knowledge building is about fast and effective traversing of the knowledge building loop. We participate (via assumptions based on past experiences) in shaping our perceptions of "reality." The language we use implies that things have an independent reality. Relationships are simplified with linear cause and effect thinking (noun-verb-noun). Overcoming the limitations imposed by language is one path to generating insights and, at times, large-scale innovations.

THE KNOWLEDGE BUILDING PROCESS

We go through life traversing a knowledge-building loop (illustrated in the prior slide) while continuously learning which actions help best to achieve our **purposes**. The components of the knowledge building loop serve as guideposts that help audit how we know what we think we know. The **knowledge base** contains assumptions of varying degrees of reliability. One's **worldview** represents ideas and beliefs through which we interpret and interact with the world. A worldview that favors a deeper understanding of causality and nonlinear system complexities improves one's knowledge base, leading to more efficacious **actions that produce desired consequences**. Brain scientists affirm that our **perceptions** are based on memories that facilitate predictions via analogy to the past. We see what our brains tell us to see. Especially important is orchestrating **feedback** that can overcome our automatic reliance on the past and reveal obsolete assumptions earlier than otherwise.

One key insight from the knowledge-building loop is the importance of continuous awareness of the need for constructive skepticism about strongly-held assumptions that influence our perceptions and our actions. **Scrutiny of the language we use can generate insights about new ways of framing situations.**

Chris Firth. 2007. *Making Up the Mind: How the Brain Creates our Mental World*. Hoboken, NJ: John Wiley & Sons. The underappreciation of how individuals participate in creating their perceptions is discussed in Teppo Felin, Jan Koenderlink, and Joachim I. Krueger. 2017. "Rationality, perception, and the all-seeing eye." *Psychonomic Bulletin & Review* 24(4): 1040-1059 and Bartley J. Madden. 1991. "A Transactional Approach to Economic Research." *Journal of Socio-Economics* 20(1): 57-71.

LANGUAGE IS PERCEPTION'S SILENT PARTNER

“I didn’t think languages could shape the nuts and bolts of perception, the way we actually see the world. That part of cognition seemed too low-level, too hard-wired, too constrained by the constants of physics and physiology to be affected by language ... I was so sure of the fact that language couldn’t shape perception that I went ahead and designed a set of experiments to demonstrate this ... but I found exactly the opposite. It turns out that languages meddle in very low-level aspects of perception, and without our knowledge or consent **shape the very nuts and bolts of how we see the world.**”

Lera Boroditsky, Professor of Cognitive Science

Lera Boroditsky. “Operation Perceptual Freedom” in John Brockman. 2009. What Have You Changed Your Mind About: Today’s Leading Minds Rethink Everything. New York: HarperCollins.

WHAT IS A STORE?

LANGUAGE IS FOCAL POINT



- KMART – a “store” is a stand-alone entity
- WALMART – a “store” is a node in a network



INSIGHT

From 1970 to 1990, Walmart outperformed S&P500 100-x fold

In the early 1970s, Kmart was the number one retailer in the U.S. Walmart’s strategy and execution skill eventually drove Kmart into bankruptcy. I verified in personal correspondence with Sam Walton that, in Walmart’s early years, he truly did see a store as a node in a network. See also, Richard Rumelt. 2011. *Good Strategy/Bad Strategy: The Difference and Why It Matters*. New York: Crown Business pp. 25-28.

HOW BEST TO FLATTEN A BUREAUCRATIC COMMAND-AND-CONTROL ORGANIZATIONAL STRUCTURE?

FOCAL POINT



- 1) KEY ASSUMPTIONS PART OF THE **WORLDVIEW** OF TOP MANAGEMENT AND BOARD:
 - FUTURE IS PLANABLE
 - LOWER-LEVEL EMPLOYEES ARE NOT TO BE TRUSTED
- 2) WHAT FEEDS THE COMMAND-AND-CONTROL MACHINE?
- 3) THE BUDGET
- 4) WHY NOT TRUST EMPLOYEES AND ELIMINATE THE BUDGET?



INSIGHT

MANY LARGE EUROPEAN FIRMS HAVE SIGNIFICANTLY IMPROVED PERFORMANCE BY ELIMINATING BUDGETS

BJARTE BOGSNES:

“The three purposes [of the budget] should be separated and then solved in three different processes because they are about different things. A target is an aspiration, what we want to happen. A forecast is an expectation, what we think will happen, whether we like what we see or not. And resource allocation is about optimization of resources.

... Some tell me it is impossible to operate without a budget. My response is that this separation lets us do everything the budget tried to do for us, but now in much better ways: better targets, better forecasts, and a more effective resource allocation. It also improves how we measure, evaluate, reward, and coordinate. How impossible and how scary is that?”

Bjarte Bogsnes. 2023. *This Is Beyond Budgeting: A Guide to More Adaptive and Human Organizations*. Hoboken, New Jersey: John Wiley & Sons. pp. 36-37

TAKEAWAY

A different approach to handling critical managerial tasks is to analyze in-depth how the components of the knowledge-building loop may offer a novel insight of high practical value.

Chapter 2 of My Value Creation Journey describes in detail what is involved

For a series of short videos communicating key ideas about knowledge building and value creation, see <https://www.youtube.com/BJMValueCreation/playlists>