

Leadership—Bounded Rationality

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Bounded rationality¹ is a concept based on the fact that rationality of individuals is limited by the information they have, the cognitive limitations of their minds, and the finite amount of time they have to make decisions. This contrasts with the concept of “*rationality as optimization.*”²

Another way to look at bounded rationality is that, because decision-makers lack the ability and resources to arrive at the optimal solution, they instead apply their rationality only after having greatly simplified the choices available. Thus the decision-maker seeks out a satisfactory solution rather than the optimal one.

Some models of human behavior in the social sciences assume that humans can be reasonably approximated or described as rational entities. To support this, check out “Rational Choice Theory.” Many economic models assume that people are on average rational, and can in large enough quantities be approximated to act according according to their preferences. The concept of bounded rationality revises this assumption to account for the fact that perfectly rational decisions are often not feasible in practice due to the finite computational resources available for making them.

Heuristic³ is an adjective for experience-based techniques that help in problem solving, learning and discovery. A heuristic method is particularly used to rapidly come to a solution that is hoped to be close to the best possible answer, or “optimal solution”. Heuristics are “rules of thumb”, educated guesses, intuitive judgments or simply common sense.

¹ Wikipedia. <http://en.wikipedia.org/wiki/Bounded>

² Simon. 1957. <http://ai.eecs.umich.edu/cogarch0/common/theory/boundrat.html>

³ Wikipedia. <http://en.wikipedia.org/wiki/Heuristics>



Time is one of the other factors which force leaders to make decisions knowingly without all the information. There is a tendency to approximate the best possible decision without all the resources and information available. Sometimes good leaders just can't wait. "Just In Time"⁴ Training would be an example of this. Getting the right training, at the right time, with the right people is an approximation based on what "right" is at that moment.

Resources are often limited and staff are asked to do more with less. Profoundly, there are optimum limits to downsizing and outsourcing which appear to be the "modus operandi" of the day. Many companies will hire a new manager, CEO, to fly in and make a difference economically within six months. The first actions are often to downsize and outsource on a needs basis. Money is saved and the manager/CEO appears to be doing a good job. In the short term things look rosie. However, in the longer term, deadlines get missed because resources (materials and people) get outsourced to complete projects. "Just In Time" no longer happens. Customers get dissatisfied and look to the competition. Sound familiar.

The "bounded rationality" is that the big picture was abandoned for small term gain. The heuristic response is that an approximation of good decisions are made. The overall vision and goals are lost and the company soon loses ground. Thus the downswing. Once it starts it is even harder to get back to where you once were.

Mentor Leadership Training offers an alternative approach to this kind of movement. When you recognize and value the intellectual capital from within your organization, support them to use their strengths, empower them to take action, good things happen. Strong leadership is understanding this bounded, irrational thinking and moves to strengthen the people that you already have.

Years ago, the **Johari Window**,⁵ was designed as a cognitive psychological tool created by Joseph Luft and Harry Ingham to help people better understand their interpersonal communication and relationships. It is often used as a heuristic exercise in self-help groups and corporate settings. Personally, I like this approach to examining what we know, what is hidden, and what is blind in order to expose some things that are unknown to us. It is wise for companies when strategizing what to do next to go through some exercises to brainstorm and articulate what the possibilities are.

⁴ Just In Time Learning. A.S.T.D. v60. n2. p.47-50. February, 2006.

⁵ Johari Window. "Cognitive Psychological Perspective." Joseph Luft & Harry Ingham. 1955.



I like to use the Johari Window in the Mentor Leadership process to assist the mentee/partner to brainstorm barriers and possibilities.

