



DECISION ANALYSIS

# BETTER DECISION MAKING

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Professional managers are constantly making decisions. Therefore a sound analysis of the situation at hand is crucial before taking action. This article offers an overview of the genesis and content of one of IESE's main tools for developing the habit of creative and organized thinking.

## "JUAN ANTONIO TAUGHT US HOW TO NAVIGATE IN THE MIDST OF THE UNCERTAINTY OF THE WHYS, OF SOMETHING THAT MIGHT BE ONE WAY OR THE OPPOSITE, OF UNDERSTANDING IF SOMETHING IS HEADS OR TAILS, FRONT OR BACK."

Case Analysis (CA) or Business Situations Analysis/Business Problems Analysis (BSA/BPA) was a course invented by Professor Juan A. Pérez López. While engrossed in his Action Theory, Pérez López decided to adapt certain concepts of the General Systems Theory to the common practice of confronting problems he referred to as "non-structural" or non-operative, i.e. those problems which are not technical.

In all fields there are knowledge professionals, whom we call academics, who are dedicated to research and teaching. There are also action professionals who are dedicated to improving reality by "doing". A medical professional might be a studious doctor who teaches, or he/she might be what we call a "clinician". Likewise, politics has knowledge professionals as well as action professionals, and the world of business management is also full of academics, executives, entrepreneurs and others.

Management professionals endeavor to transform reality. To achieve this, they must do things, and this requires decision-making. However, reality is one thing, while the degree of understanding we have of that reality can be partial and/or limited.

A distinction has long been drawn between "technical" or structured problems and "prudential" or non-structured problems. A technical problem is one in which knowledge is so formalized and mechanical that it is likely to be resolved by the corresponding expert in such a way that both the solution and its process are a "given". For example, in this day and age an appendectomy is an entirely technical problem. Similarly, if a car's engine does not start, two good mechanics will make a series of virtually identical checks. Once the problem is identified, they will both implement the same specific solution in order to make the motor function properly.

Unfortunately, not all problems have a tried-and-tested solution. Despite advances in techniques for solving many problems, knowledge about the true nature of these problems remains confusing, uncertain and partial at best. Such problems, which we call "discretionary" or "prudential", require definition, study, and resolution processes that are fundamentally different in terms of the circumstances that shape and surround them. They also vary according to the decision-maker, whose chief interest is implementing the most appropriate and feasible action plan possible.

Decision-making in an uncertain environment with limited knowledge requires specific training. It is precisely this senior management content and training that IESE strives to deliver, not because all decisions require it but because all decisions should at least be approached as such.

### PROFESSOR PÉREZ LÓPEZ AND THE BSA/BPA "TEACHING UNIT"

Prof. Pérez López developed a course that was initially designed for the MBA program but which made clear references to what Harvard

considered the "Administrative Point of View". However, Pérez López's ABP course differed substantially by shifting from something more or less conceptual to something that was entirely practical and methodological. His course explored the art of thinking in an organized fashion to produce actions with breadth, depth and scope. Specifically, this meant thinking more broadly as a product of illuminating and considering the problem's most relevant features, thinking more deeply as a product of a detailed, accurate breakdown of the problem's meaning and of each of its relevant factors, and thinking with greater scope as a product of anticipating the consequences that each of those factors might have on a future action. Therefore, in a way the BSA/BPA course content provides pure methodology and training in the dialectic on how best to understand "the way it is" and develop possible ways for improvement. This proves particularly useful for graduates with limited experience, although it can also be beneficial for executives with years of experience.

At IESE, this subject is "administered" by a team of professors that, though not actually a department in and of itself, was established more than 25 years ago as a "teaching unit" composed of professors from the entire faculty. The Department of Accounting and Control is particularly well represented, as it is here that the concept began. The Strategic Management Department and the Marketing Department are also well represented, although the unit is open to any business school professor who wishes to participate.

The unit's objectives are to cover IESE's programs as stipulated by its directors and serve as a "testing and training ground" for instructors (perhaps more apt here than "professors") in the case study method. The unit also publishes technical notes and case studies that naturally encompass the widest possible variety of business and real-life situations.

The BSA/BPA has had a major impact on all of IESE's sister schools. It is a highly successful and popular course featuring an expert teaching community of no fewer than 40 professors.

In short, what Pérez López contributed was the well-known problem consideration scheme used to improve the quality of decisions on non-structured problems, which I will summarize below.

### WHAT IS THE PROBLEM?

By "problem" we mean any undesirable or improvable situation that requires a decision. Non-structured decisions are characterized by their habitually erratic diagnoses due to the fact that not all symptoms are clearly and precisely identified. The common denominator of these decisions is that their content is "murky". This requires a certain effort when trying to "define the problem" because we are usually seeing just the tip of the iceberg. For example, a small demonstration on a bottling company's loading dock during a peak production month, which could be seen as the formal or explicit problem, might actually point to a more entrenched problem. This

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underlying problem might actually be a protest over a misunderstood or unfair decision or a first warning about the next round of collective bargaining. Here, it is essential not to misdiagnose the problem, for different diagnoses will lead to different courses of action. If we get the diagnosis wrong, not only will matters not improve, they might even get worse.

"Technical" decisions are characterized by a particular set of symptoms that precisely defines a particular problem, which in turn has a specific solution in a given manual. However, in non-structured problems that require discretionary or prudential decisions, identifying the problem is a tentative step by nature. As such, once all the criteria and circumstances defining the problem have been considered, we must then decide to construct a given course of action that, as long as it is perceived as correct and effective, will be pursued. The moment it is perceived as ineffectual or misguided, it must be reviewed. In short, technical action is conclusive, while political action is always tentative.

This is what Pérez López tried to encompass and teach us. With the support of some of his works, and also those already published by the Dean of IPADE, Carlos Llano, Pérez López prepared us to navigate amidst the uncertainty of the "whys", of those things that be can interpreted one way or the other, and to understand whether something is heads or tails, or should be tackled frontward or backwards.

#### **WHAT ABOUT THE CRITERIA?**

Identifying and considering a decision's "criteria" or attributes is particularly important, as it sheds light on the hidden side of the problem and determines each alternative's desirability factor.

The exercise of outlining the conditions that an alternative action must fulfill in order to be considered the most reasonable provides an extremely valuable threefold mental exercise. "Listing" the criteria helps us realize the complexity of each decision in terms of the conditions it must fulfill. It expands our mental reference points, reveals what "had never occurred to us" and opens our field of vision to reality. Considering each of the criteria also provides what we could call "depth" and "scope". Analyzing one aspect of reality means contemplating it in depth, understanding it, quantifying it to the extent possible and estimating its impact. Yet the analysis must also help establish the relative importance and duration of a decision's effects when considering this criterion or not.

In fact, many of us who have been fortunate enough to take a BSA or BPA course have experienced a profound change inside our "university trained" minds regarding our ability to contemplate and interpret what we have before us, both professionally and personally. And those of us who have had the privilege of teaching this course often receive - perhaps on an airplane, perhaps in a restaurant, hotel or alumni meeting - the undeserved

recognition that "your course was the one that impacted me the most during the MBA". This praise is actually undeserved because Pérez López was the one who pioneered the course, and therefore any such recognition is owed to him.

Obviously, explaining for explanation's sake or analyzing for analysis' sake is a senseless endeavor. Instead, we must use these processes as means for choosing an "alternative" through which we can come to a decision. In the end, the goal of this kind of thinking is not to gain more and better knowledge but to do things more effectively and correctly.

#### **THE ALTERNATIVES**

By "alternative" or "option" we mean any course of action that improves the status of the problem or unwanted situation. Action alternatives give rise to possible paths to follow, and again, discovering them reinforces the ability to create. Considering or analyzing them is nothing more than examining the different criteria for each alternative.

It should come as no surprise that there is a noticeable difference between recent university graduates, who are not yet hardened in the arts of practical action, and the more seasoned executives who participate in our programs. This is not only true when observing their consideration of criteria but also especially evident when observing the degree of realism they employ in generating or choosing alternatives. It is worth stating here that "you learn to do by doing" and that action reinforces practical intelligence. For this reason, just as when we consider the criteria, when we analyze the alternatives, the "instructor" is always on the counterattack, playing devil's advocate, questioning and casting doubt on everything. The reason for this is clear: in order to reach a "reasonable" decision, you have to have passed each alternative through the filter of "But what if...?".

#### **FINALLY... THE DECISION**

All of this lacks meaning if it is not aimed at making a decision, at choosing an alternative that is practically viable and the best of all those considered given the criteria. After reaching a decision, an action plan has to be established in order to turn the idea into reality.

The act of decision-making is truly fun. It is where we learn to recognize the "Hamlets" who are always suffering because they lack some piece of data or information. It is where we discover the pure "Othellos", who shoot first and aim later. These people may hit the target, but later they are unable to explain how, thus reflecting a less explicit learning experience. Decision-making is fun because it exposes some people's haste, others' anxiety, and most people's insecurities. This is especially true with the youngest ones, who reveal their beginner's naiveté by projecting an air of security and self-assuredness that only time can cure.



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#### AND THE ACTION PLAN

Having an action plan still means "thinking". Executing it means "doing". This is difficult to simulate in the classroom, with the exception of certain role-play exercises that we resort to as instructors. These are amusing because 90 percent of the time MBA students shy away, unable to withstand the test. This is highly illustrative, especially when compared to the same exercise done with executive participants who find it easier to give in than to argue against another participant who expresses a different opinion.

It is common for participants to feel they need more "session closures" by the professor, complete with decision and action plan. In truth, the majority of instructors are convinced of the usefulness of a pure analysis of criteria and alternatives, which quite frequently "redefines" the problem. In doing so, we reemphasize that what truly matters to us is a student's or participant's self-discovery. That's all. The "solution" must be absolutely personal and, therefore, only relatively relevant to others, except as a means for comparison.

We tend to encourage students and participants to adopt a proactive attitude in class. Ideally, they enter a session looking for a fight, willing to argue in order to comprehend and persuade us, through participating and exerting themselves. At the end of the class these students are the ones who tend to say, "Wow, was I ever wrong about this or that!" as opposed to those who entered the classroom

relaxed, with their hands in their pockets, resigned to listen carefully to everything. Naturally, at the end of the session, the latter's conclusion will sound something like "That's just what I thought."

It is certainly no coincidence that Juan A. Pérez López ended his sessions (the course was then titled Case Analysis) by saying, "Well, that's as far as we got today; more tomorrow." This is precisely the type of training for the "Administrative Point of View" we are talking about; pure orderly dialectics that help us better understand situations in all their breadth, depth and scope thanks to the input of others. It is precisely this that prepares us for something as important as business leadership.