

## JUAN A. PÉREZ LÓPEZ: THE VIEW FROM 2016

# CONSISTENT DECISIONS, TRUST AND BEING MINDFUL OF CONSEQUENCES



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Looking for a way to analyze problems effectively? Need a trust-based incentive system that goes beyond indicators? Want to keep your decisions from leaving a negative mark on other people? In response to these issues, Professor **Juan A. Pérez López** (1934-1996) offered solutions that substantially improved the art of management.

DECISION ANALYSIS • ACCOUNTING AND CONTROL • LEADERSHIP AND MANAGEMENT

With all due respect to the other great work performed at IESE, I think I'm not going too far out on a limb in saying that the work of Prof. **Juan A. Pérez López** is perhaps the most original produced at IESE, in terms of both teaching and the creation of knowledge – I avoid the word “research” because today that word tends to mean anything but the creation of knowledge.

His career began in the early stages of IESE and continued until his death. Prof. **Pérez López's** work was particular, peculiar, and very structured, although sometimes it didn't look that way – he used a torrent of words, both in speaking and writing, and sometimes seemed to be making a series of unconnected claims, all of them sensible and generally attractive, but with no logical relationship among themselves. This was not the case, however. His words were supported by a very solid logical structure.

This trait was already uncommon in the world of business management, and today it has become even rarer.

When an institution like IESE is founded, it must efficiently imitate what others do and strive eventually to do it a little better than they do. Progress comes not through mechanically repeating what others have done, but rather through rethinking it. Then, when this task has been performed successfully, it becomes possible to move on to thinking about new things.

But those who imitate don't always imitate well. When I did my Ph.D. in the United States, I had to take a course that I had already taken previously in Spain, using the same basic text. I wanted to skip the course in order to finish my Ph.D. faster, but my adviser insisted: I had to take the course. His reasoning was that the course was fundamental and that the professor was excellent; I could learn a lot from him. My adviser was right. Years later, the professor was awarded a Nobel Prize and I never regretted taking the course. What a difference from what I had seen in my previous class! The second professor, who was personally acquainted with the authors, knew the book inside out, including all of the cited references. A fantastic class. The difference between the two classes was clear: the first professor didn't know how to imitate



## DECISIONS ARE PUT INTO PRACTICE BY PEOPLE, SO PEOPLE ARE ONE OF THE MOST IMPORTANT FACTORS TO KEEP IN MIND IN DECISION-MAKING

well (or perhaps he simply wasn't able to, because of his personal circumstances), and the second one did. In both cases, using someone else's book is imitation, something we have all done many times. But it has to be done well, not superficially, but in depth.

Another example involves an old Harvard finance professor. He was surprised and horrified because in Europe, "They give the same cases that we give, but they don't know the basic finance literature!" In other words, we imitated badly, and only superficially. Under these circumstances, a case became a mere anecdote, with no conceptual content behind it.

Prof. **Pérez López** imitated well. In some senses even too well, because he couldn't help exploring the ideas, and found reasons and reasoning that the people he used as a model hadn't considered. If he had a flaw in this regard, it was that in the final product, it was difficult to distinguish what was his from what was not. His reluctance to cite authors contributed to the confusion, of course, but he knew the literature well. Very well. He was a self-declared bookworm, although he obviously didn't stop there.

Bearing this in mind, there are two aspects of the work that Prof. **Pérez López** put a lot of effort into that are particularly important nowadays, because of the path that today's business world has taken. The first idea stems from the course he baptized simply as Case Analysis and that today is called ASN in Spanish or ABP (Analysis of Business Problems) in English. It's not easy to set

out his ideas clearly, partly because complex issues can be difficult to set out in words (something I'm facing now as I write this), let alone put into numbers.

What Prof. **Pérez López** taught in that course is something that others have tried to emulate, although we have rarely reached his level or remained true to his main objectives. To simplify, he said that: (1) Problems can be thought of in a way that clarifies the process of making and analyzing decisions; (2) It's essential to think about the unintended consequences of any decision. These are often negative, and they take their toll in the long term, or even in the short term. Not all that glitters is gold, and it's important to avoid being naive and seeing only the short term; (3) Therefore it's necessary to weigh different factors, some obvious and others less so (to put it lightly), some of them quantitative and others qualitative, and of every type; (4) Decisions are put into practice by people, so people, their abilities and their identification with the organization are some of the most important factors in decision-making.

Prof. **Pérez López** described these concepts as if they were standard ideas emerging from Harvard Business School (HBS) or any other management school, that is, as though these were principles with which academics from around the world were perfectly familiar, which is not the case. A large part of this approach was his own creation, developed from concepts he had learned at HBS and Carnegie Mellon University.

It's impossible, then, to describe his approach in a few words; suffice it to say that in today's business world it's more necessary than ever, as the focus on short-term outcomes leads us to forget these concepts mentioned previously.

The second idea is closely related to the first, although maybe not at first glance, and it is tied in with his specialty: the area of control. Beyond



financial or cost accounting, Prof. **Pérez López** saw the system of evaluation and incentives as the management tool par excellence. Yet again, borrowing from the foundations of the Harvard Business School, he imitated well and went further in some aspects.

He imitated the formal base of the systems – indicators – efficiently. Indicators are older than dirt, but in order to make the concept look new, we call them “metrics” (a very inadequate word).

Conventionally, the focus of monitoring systems was to analyze the outcome of using certain indicators to decide whether to punish or reward managers. For Prof. **Pérez López**, this approach was the same as **Aristotle’s** in *Politics*, in which he analyzed the various constitutions of the Greek city states. Up to this point, Prof. **Pérez López** had been a faithful imitator, improving the original with potentially important aspects.

But he went much further. First, he argued that, because it is impossible to find indicators to measure everything that we want a manager to do, we have no choice but to rely on informal systems based essentially on mutual trust between the manager and the managed – in other words those same subjective factors that so horrify those people today who haven’t realized that in this world nothing important is “objective.”

Nowadays, it’s more important than ever to remember this insight, because he already knew that quantitative indicators alone get us nowhere. Until now, however, the management world has insisted on the idea that solving problems merely requires the use of the appropriate, and a sufficient number of, indicators. Fortunately, this absurd idea appears to be receding and a considerable number of companies are removing systems that don’t work and can’t work.

Second, Prof. **Pérez López** went further than the conventional focus when he rigorously introduced dynamics, that is, the future effect of present decisions. People inev-

itably learn. For better or worse, as **Heraclitus** said, you can’t step into the same river twice, because the water will have changed. Likewise, you can’t have the same interaction with the same person twice. By the second encounter, he or she will have learned something, in terms of knowledge, skills, or – above all – attitudes.

Prof. **Pérez López** introduced the concept of “negative learning” (although this idea also has antecedents in conventional academic literature), an idea that was both frequently cited and frequently misunderstood. Take the following example. Two people interact (for example, a boss and an employee, although the same could apply in other relationships.) After their exchange, one person (for example, the boss) is very satisfied because he has obtained the desired results, while the other person (the employee) is dissatisfied because she feels that she has been insufficiently compensated, or has performed work beyond her job description, or has carried out a pointless task. Here we have a case of negative learning. In their next interaction, the boss will find it more difficult to achieve these satisfying results again, because the employee will make it harder and harder for him.

This can lead to a situation that has been called pseudo-control. This state occurs when all measured variables show the desired results, yet the system doesn’t work. In jurisprudence, this has been called law without justice, a condition to which we are drawing dangerously close in today’s world.

In summary, Prof. **Juan A. Pérez López** talked about three issues in decision-making that today seem more important than ever: 1) We have to keep all of a problem’s variables in mind and not just the ones that interest us; 2) Basing our ideas and actions exclusively on supposedly objective formal systems is impossible; 3) As **Rafael Andreu** would say, anything that we do today leaves a footprint. Three simple but compelling ideas. Let’s put them into practice.

## WE HAVE NO CHOICE BUT TO RELY ON INFORMAL MONITORING SYSTEMS BASED ESSENTIALLY ON MUTUAL TRUST BETWEEN MANAGER AND MANAGED