





Decision Making

# BUILDING BETTER DECISIONS

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Managerial activities include much more than merely technical decision making. They are related to developing business opportunities, to preparing for the future and also to motivating the members of the organization.

"THE RATIONAL FACTORS ARE IMPORTANT, BUT SO ARE THE IRRATIONAL ONES. THE IRRATIONAL ONES SHOULD NOT CONSIST OF MERE WHIMS, BLINDLY FOLLOWING WHAT OTHERS ARE DOING, OR AUTOMATIC ANIMAL RESPONSES."

**B**usiness management arose as the science of administration. Frederick Taylor is usually cited as the father of management, but all you have to do is read two lines from his books to realize that he is worlds apart from any modern concept of this discipline. He limited himself to focusing on how mechanical jobs could be performed more efficiently, which has nothing to do with decision-making or strategy. It was actually France's Henry Fayol who first considered how to tackle business administration at a time when the technical terms of the trade (administration, governance, direction, management, etc.) might have had meanings that are substantially different than what they are attributed today, despite the fact that the meanings we might assign them now are by no means shared across the board by everyone in the profession. In any event, we could say that administration, as Fayol called it in French, included a set of functions, principles and procedures with an admirable degree of common sense. Unfortunately, this this has been forgotten although we could learn a lot if it were revived. Yet nowhere in his work, as in the majority of the early works on management, did decision making appear as something crucial in anything more than an extremely implicit way.

In fact, this was a widespread idea in countries like Spain in the relatively recent past, and one that IESE came to stave off in the late 1950s and early 1960s. The implicit idea was that businesses could be considered as something given, they were the way they were and simply had to be "administered." "Decisions," if there were any, were relatively low-grade, almost bureaucratic or meant to sustain an elementary concept of efficiency, such as in the case of Taylor's techniques. This is a concept that inevitably leads to business decline. No product or business lasts indefinitely. It is necessary to "make decisions," and serious ones at that, which affect the very nature of the business.

#### "RATIONAL" AND "IRRATIONAL" DECISION MAKING

Chester Barnard was probably the first person to explicitly introduce decision making as a crucial issue in management. He billed it as the result of "deliberation, calculation, thought", in contrast to other processes that are "unconscious, automatic, responses to past or present internal or external conditions"<sup>1</sup>.

Later, management literature stressed analyzing decisions, at times neglecting this second part we have just cited, which is less conscious and rational than decision making itself. This has been rightfully criticized, yet often with arguments that are not well-founded or that exaggerate the role of the irrational in relation to the rational.

Going back to the previous point, it is crucial to put everything into perspective. The rational factors are important, but so are the irrational ones. The irrational ones should not consist of mere whims, blindly following what others are doing, or automatic

animal responses. This type of response might arise, but it would not be sensible to consider it "good management". We would consider it the management of someone who is incapable of thinking for themselves, who only follows their urges or viscerally responds to changes in their environment instead of using their heads. The reasonable irrational factors include intuition, routines created in the minds of decision-makers about what works and what doesn't, mental shortcuts that an experienced person might take without the need to profoundly reflect each time they come upon a similar problem because they already know (sense) the conclusion they would reach if they did so. Herbert Simon, 1978 Nobel laureate, stated this clearly in a famous article published in *Academy of Management Executive*, and we recommend it for readers interested in pursuing this issue further<sup>2</sup>.

#### MANAGERIAL ACTIONS

Yet "strict" decision making is not enough to describe and analyze the manager's job, and it is even more inadequate for giving managers recommendations. And management schools' colonization by bad economic theory in recent decades has only stepped up this process. Economic theory takes for granted that the important thing is decision making in an almost totally mechanical way. In other words, once the decision-maker defines a specific useful function, the problem of decision making is merely a problem of calculation. Implicitly or explicitly, business opportunities are out there somewhere, visible and free for the taking. This is an extension of the traditional position mentioned above of regarding a business as a "given". Now, instead of this, we consider the external factors as "given" and deem that calculations will lead us to the right decision.

The sophistication of the analysis improves the situation less than marginally. Recent years have shown that we need a more powerful plan for understanding the dynamics of industries and business strategy. This has led to all types of analyses on designing strategy, yet something that was already in the conventional wisdom of good management in the 1950s is often overlooked: that you have to create business opportunities, that to put them into practice you have to push, and that to do this you have to have a team of people that want to do it and are willing to learn if necessary.

These last three statements are part of what IESE has preached almost right from the start. They are part of the core of what has always been taught at our institution. The philosophy that implementation follows a decision, which is at least as important (and

<sup>1</sup> See Chester I. Barnard, *The Functions of the Executive*, Harvard Business School Press, Boston, Massachusetts, 1937

<sup>2</sup> See Herbert Simon, "Making Management Decisions: the Role of Intuition and Emotion", *Academy of Management Executive*, February 1987.

## "IMPLEMENTATION FOLLOWS A DECISION, WHICH IS AT LEAST AS IMPORTANT (AND OFTEN MORE IMPORTANT) THAN THE DECISION ITSELF."

often more important) than the decision itself. For this reason, some of us would rather talk about "managerial acts" than decision making. Because we believe, in the best traditional spirit of the institution in which we work, that the managerial act encompasses much more than a mere decision. Below we would like to identify this way of seeing things with three proper names that have played a key role in this approach throughout IESE's history.

### BUSINESS OPPORTUNITIES

The first proper name is Antonio Valero, who used to say that business opportunities are not something that are out there, like roses in a garden waiting to be plucked. They are more like truffles, buried under the earth, which only a connoisseur knows how to sniff out. If you pushed him a bit more, he would tell you that you often had to go much further, that not even the truffles simile was enough. Opportunities had to be created from scratch, detecting the type of social needs that were waiting to be met, but that to do this you had to give shape to them without having pre-established formulas at your disposal. The founding of IESE might be a fine example of what he had in mind, but put into practice.

Yet there is more. Antonio Valero used to vehemently claim that "you have to love your objectives badly enough to want them!" He used the Spanish word "querer", which can mean both want and love, and he was playing with this double meaning of having both the desire and the passion to achieve your goals. It is not enough to set them; you also have to be convinced that they are worthwhile and achievable, and you have to seek them in a day-to-day struggle that will require sacrificing things that might also be worthwhile (including, most likely, short-term profits). You have to be tenacious when going after what you want and not get distracted by a supposed opportunity that sidetracks you from your set course.

Right now it might be valuable to recall what the Stoics preached: to achieve happiness in this world you have to work hard to change the things you can, accept the things you can't, and have the wisdom to know the difference.

In management, we should add that if we take a wrong turn, it won't be for a lack of effort. That is, in case of doubt, we have to assume that we're in the first case and work hard to achieve the goals we consider worthwhile. They should be difficult, so much so that at times they might even seem impossible. Some textbooks on goal-setting have even postulated the absurdity that goals should be slightly impossible. Proposing something impossible is never a good idea; and something "slightly impossible" is impossible. Difficult, almost impossible might be a good goal; utterly impossible isn't. And to achieve things that are almost impossible, you have to push. That is, once again, the first message.

Pere Agell, another legendary IESE professor, tended to say in a field that, on paper at least, seems much more technical or

even aseptic, for a forecast to become a reality, first you have to believe in it, and then you have to "push it" to make it come true. This had to be done without the kind of "tricks" that are unfortunately all too common today; "spinning" information to make it say what it doesn't.

This in fact shows that it is erroneous to regard forecasts as something merely technical or mechanical, a common standpoint in other institutions, as a mere application of statistical-econometric principles. Forecasting skillfully is true management, and true management cannot do without it. It includes managerial acts, which are not mere weather forecasts, rather it contains what we regard as desirable for the organization, combined with reasonable estimates and serious considerations of what is possible.

### MOTIVATION?

Finally, we have one factor remaining which, continuing along the lines of associating the concepts with historical names at IESE, we shall associate with Juan Antonio Pérez López. Goals, or the results of a decision, cannot be put into practice without the steadfast determination of the people who tend to be under the person who made the decision in the organizational chart. In other words, you have to motivate people in order for them to put the results of decisions into practice.

This way of saying it is perhaps less accurate for two reasons. The first is that in recent years, the prevailing school of economic thought has dictated that the prime means of motivating employees is via monetary incentives in any shape or form. This idea is false at the root, as we shall try to demonstrate below. The second is that sometimes people talk about motivation as if executives could plan the people who work with them at will, as if they had a series of little levers that, by slight adjustments, could always render the desired result. And this is even more erroneous.

But let's begin with the positive. It should be obvious to anyone with a minimum of common sense that for people to work in an organization they have to truly want to achieve the goals that have been set, and that, due to the reasons mentioned above, this is necessarily a difficult feat. They must (1) be very clear about what is being asked of them, and (2) have solid reasons for doing it. These are the essential problems of organizations, in addition to defining the goals, which we shall set aside for now. They are what Juan A. Pérez López called (1) "the structure of purpose" and (2) "the realization of purpose". For now we are not going to delve into the "formulation of the purpose", an expression that Juan used to refer to defining the goal, as it is a complex issue that would need an article all its own.

Neither of the two actions is trivial, nor was Pérez López choice of words; we are referring to the word "purpose". Structuring

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"tasks" or "specific activities" may not be difficult; however, structuring "purpose" is. Tasks and specific activities run out all by themselves. If we ask a person to perform a merely mechanical job, it is not difficult to measure their performance and design a remuneration system that adapts to this yardstick. But if we talk about the manager's job, or meeting a customer's needs, things get much more complex. Structuring the purpose means assembling a team of people in which each one has to do different things, specialize in a given task or set of tasks.

And this is where the different motives people might have come into play. The prevailing school of economic thought, assumes that a system of material incentives resolves the problem, given that this approach takes no other motives into account. If, however, we realize that there are other types of motives, the ones that Pérez López called intrinsic (the satisfaction of a job well done) or transcendent (the desire to contribute to resolving others' problems), the "structure of the purpose" (that is, "divvying up the work") is a much more complex undertaking. Viewing the positive side of this, as we said, the job will be divided so that each person does what they like, is paid suitably and contributes to resolving the problems of both the company and its customers. There is no doubt that this is not an easy job.

Taking into account people's various motivations makes things tricky, and even more so if we think about them not as mere instruments to execute our will but as whole people, with their own rights and responsibilities, and their capacity for initiative, decision making and learning. Thinking about them as mere instruments to execute our will inevitably leads one to manipulate people for the benefit of a specific person (or of a few).

The most popular theories on motivation run along these lines. Some of them only take economic factors into account, explicit monetary incentives to achieve the desired effect, which they rarely do. At the root of many of the scandals in recent years are the incentive systems with which certain companies have operated. Others try to influence other types of motives (mainly intrinsic ones, in Pérez López's nomenclature) in an effort to find the psychological lever that has to be pulled in order to achieve the desired behavior. Either case is manipulation, pure and simple.

Pérez López stressed the importance of transcendent motivations, yet he also stressed that they essentially consisted of giving work meaning, of showing employees to what extent they can contribute to resolving a customer's problem. Or even more close to home, to what extent they can help resolve their own company's problems. This obviously means the problems of everyone a person works with, in order to resolve the customer's problems, too. In short, to give employees a good reason for doing what they do. Pérez López used to paraphrase Archimedes, saying "give me a good reason and I'll move any person".

Obviously, the reason for moving the earth cannot be making shareholders wealthier, or sharing a yacht with the CEO. This cannot make any reasonable employee happy or motivate them to do anything. When the economics-only vision preaches that what you should do is increase shareholders' wealth, the first thing that occurs to the average person is that luckily slavery was abolished years ago. The reason has to lie in showing employees how it makes sense to resolve the customer's problems, how it makes sense to identify with the company by doing something that is worthwhile with opportunities for professional and personal development.

When what prevails is a reason with meaning, not a yacht-with-the-CEO-style reason, or a fantastic building for senior management, the transcendent reasons take center stage. The predominance of transcendent motives fully precludes manipulating people, and it is also an important feature of an honest, effective and long-term concept of management that contributes to social development beyond just the economic and financial variables.

In short, what takes place in organizations goes far beyond technical decision making. It has to do with imagination, with developing opportunities for both the company and the people working in it, and with implementing the decisions bearing in mind the motives that move people and their real interests. For this reason we believe that the expression "managerial actions" is more appropriate than simply "decision making" because it implies much more than choosing an alternative, like someone who chooses a structure so that a bridge does not collapse. It implies "assembling a human structure" with the intention of it reaching set goals, understanding them "wanting/loving" them, and being genuinely motivated by them. In other words, next to nothing! We also think that this is one of IESE's original values that is worth preserving.