

The difficulty of thinking simply

Markus Reitzig

It is right that MBA students learn how to distil complex business problems into their basic components, says Markus Reitzig, a strategy professor at London Business School. But, as the Fukushima disaster tragically illustrates, there is a downside: the danger of "overconfident oversimplification"

If I were to ask my MBA students at the beginning of their programme about the reasons behind the Fukushima nuclear accident, I would expect many of them to delve into a rather unstructured debate over technology or public policy. Perhaps, they would focus on the uncertainty of nuclear energy, or on short-sighted politicians who refuse to invest in sustainable-energy alternatives.

When I ask them at the end of their programme, I expect that most would explain the problem in a crisper way.

They may well reason that an accident such as Fukushima is possible because we price non-renewable energy too cheaply—and have been doing so for decades. That we do not sufficiently account for the externalities of burning hydrocarbons or splitting uranium atoms, be these health issues, climate change or the risk of radioactive destruction. In fact, when it comes to something as potentially devastating as nuclear energy, it is easy to argue that, were we to factor in the true associated costs, it would become entirely unaffordable.

They may even conclude that we still use non-renewable energy because we are in a "prisoner's dilemma". Even though it would be in everyone's greater interest to consume energy responsibly, if you are the one ignoring the call for moderation, you can gain an advantage over the rest. Hence no-one acts with restraint. And that means that we continue to pay little for energy and consume a lot, despite consequences such as floods and radioactive contamination.

This way of slicing a phenomenon into its core components, rationalising it using incentive-based theories, and drawing conclusions from the analysis is what we want future managers to pick up at a business school. (Though it is usually the last thing they adopt, because simplification is not an easy technique to acquire.)

I am a strong defender of this approach of teaching basic business to MBAs. For one thing, it makes these executives more rigorous thinkers. For another—and let's not fool ourselves here—it resonates with their expectation. People who pay \$100,000 or more for a degree tend to ask the question "tell me clearly, what is in there for me?"

However, as much as I am a supporter of training managers this way, I also see a dangerous downside: overconfident oversimplification. The Fukushima disaster analysis tragically illustrates what I mean. Whereas it is fine to simplify the problem to describe the status quo, it becomes dangerously misleading if managers confidently do what we encourage them to: base future actions on this analysis.

In fact, if they did, they would have to conclude that we should all continue to do business as before, drawing on cheap energy, as there is no way out. Not only is such inference wrong, but it also paints those who have only understood half the energy business as smart thinkers. And it gives a quasi-intellectual justification to those few established power suppliers who really have no interest in changing the status quo.

In a world in which the downsides of energy consumption start to affect us all more equally—climate change is global, radioactive clouds don't stop at national borders—the incentive to consume energy cheaply here and now starts to vanish. We are no longer bound to wind up in the prisoner's dilemma. In fact, the challenge for all parties now becomes to design institutions that suppress the undesired effects of free-riding, so that we can co-exist using energy in a more sustainable way.

Management students who take their analysis this far will be at a great advantage. They will benefit from being at the forefront of this process, and will be the first to shape business accordingly. But this requires an understanding of strategic business interaction which goes beyond the basic simplifications we draw on in our core teaching. It invokes the concepts of information, co-ordination and collective action in addition to that of competition.

Management researchers have much to say about these trickier business questions. But while students in our elective classes can learn that it is overly simplistic to view a business interaction through the lens of the prisoner's dilemma, we need to put much more emphasis on these aspects in our core syllabi. If we get the mass of our students interested in starting businesses that solve both their financial and our societal problems at the same time, then eventually their businesses will create the options we need. The more they work on it, the faster it will happen. The faster it happens, the better for us all.

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