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Academic view: The difficulty of thinking simply

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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.)

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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.

Markus Reitzig: *Assistant professor for strategic and international management, London Business School*

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Desi Babu Be Feb 15th, 09:01

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Compass Architect May 12th 2011, 17:20



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Compass Rule: Assess the Big Picture in terms of its tangibility and remind yourself about your values before deciding anything.

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criticality Apr 20th 2011, 00:25

This author oversimplifies the issue of nuclear power when he says that the "risk of radioactive destruction" would make nuclear energy entirely unaffordable. In fact, the nuclear industry is one of the most conscientious industries in using risk-benefit analysis. The analyses have been done, and the conclusion is NOT "entirely unaffordable."

The incident in Japan is unfortunate and one of the worst in history, yet it has not and likely will not cause negative health effects. Mr Reitzig is riding a wave of popular opinion rather than supporting his arguments with facts.

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HeDes Apr 15th 2011, 05:50

The article has pretty much pointed out the root cause of this oversimplification followed by the MBA's. Game Theory. MBA education assumes and teaches (thereby making it a self fulfilling prophesy) Game Theory in Strategy.

Sadly this theory does not assume 'human' decision making, mostly profitable ones, which is what the MBA's then play out.

Talk about destructive tendencies !!

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Nirvana-bound Apr 14th 2011, 16:49

Oversimplification is the bane of our modern, instant-gratification society. Unfortunately, shortcuts are now the road to success & little knowledge is no longer a dangerous thing, but the way to quick recognition.

And the ensnaring tentacles of this spurious, albeit self-serving culture, have infiltrated every walk of life today, including the domain of the MBAs.

The end result is what we are witnessing here, everyday.

The billion \$ question is, will we learn from our opportunistic mistakes, or continue to lurch mindlessly & headlong in a heady sweep of juvenile hubris & cockiness??

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subrashankar Apr 14th 2011, 13:53

Social responsibility is an odd couple with capital employed for ROI and IRR best scenario parameters.

It appears that when utilities are privately managed there can be more than urgent greed, given the long gestation and uncertainties. It is a fashion statement for giant corporations to add a social agenda and often the advertisement spending on ambitious goals might exceed funds directed for avowed purposes.

It should be through regulatory and disciplinary action mechanism that giants can be managed. It is important to make the young and budding managers aware about their social inclusion and corresponding expectations about social advancement in a safe and serene way.

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Toundra Apr 14th 2011, 11:28

This plant should have been closed years ago and replaced by one from a better and safer design,

Why not? The anti-nuclear protester! Almost everybody in the industry will tell you: if we close one we will not get a permit for a new one until it is freezing in hell.

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braincoach Apr 13th 2011, 22:42

..."ALL ACTIONS MUST BE SUSTAINABLE !...basic tool: TRIZ method, apply the 40 Inventive Principles for Business, start with defining the Ideal Final Result...both for business and society at the same time, go backwards until you find the most favourable starting- point".....

Good Luck !

braincoach

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DavidBlanchard Apr 13th 2011, 21:50

In his article on the difficulty of thinking simply, Mr. Reitzig says, 'They may even conclude that we still use non-renewable energy because we are in a "prisoners' 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.' I believe this would be an example of the tragedy of the commons, not the prisoner's dilemma.

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Houland Wolfe Apr 13th 2011, 17:23

I would take the Retzigian hypothesis and apply it to all stages of production/consumption. Capitalism realizes much of its profit from externalizing costs, be it unsafe resource extraction (worker health and safety), environmental degradation from materials processing (Canada's tar sands), transportation of goods (more pollution), design (consumer goods that can only be replaced, not repaired), and, at end of product lifetime, thoughtless disposal instead of recycling.

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DC Diogenes Apr 13th 2011, 15:35

"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."

Hmm, one does have to wonder when eventually is, and what the price of getting there will be. Many potentially great businesses died because their entry into the market was either too early or too late for successful acceptance of their products. Eventually hardly seems like the kind of concept that will catch on in most business schools.

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