

Varona & Co Thought Leader Essay

Initial Statistics-based Proposal for the Ex-ante Decision Making Analytical Framework

This is what I propose:

Everything happens for a reason does not hold true. Cause and effect are the underlying mechanics of our world, and everything is random.

Every decision we make is a “cause”, the outcome of said decision is the effect. However, this outcome is not predetermined by the cause. The cause is the reason for the effect but it is not a predictor of it. The “effect” part is actually random.

Statistics says that in the long run and over many observations, we can usually spot trends and probabilities in data. However, this only holds true over the long run – a single observation tells us nothing about the probability distribution. Thus, we can argue that a single observation is, in essence, random. We can predict the probability of a certain outcome, but this will only hold true over many observations.

The “effect” of any of our actions is therefore a single observation in a set of statistical probabilities. And since we only get one observation for the effect of our decisions, we can conclude that the actual outcome of our decisions is random. We can control certain external factors in order to narrow the range of the statistical distribution for the possible outcomes of our decisions. However, even though we have narrowed our range and limited the possible outcomes, the actual outcome is still random (since it is a single observation). Furthermore, any given outcome can

be an outlier – far beyond our perceived range of statistical probabilities. It is therefore important to recognize our limitations in decision making. We must approach our decisions with a model that helps us take advantage of everything that is under our control, and that helps us identify all the external factors that we have no control over. Making this distinction is rather difficult in most cases. This is how we can leverage our understanding of the principles of “cause and effect”. If we can understand what actions can affect certain things (regardless of the outcome) we can best identify those things that we can control and those that we cannot.

In addition, hindsight is the worst enemy for decision making. If we believe that every outcome is one observation in a set of statistical probabilities, that tells us nothing about the distribution as a whole. Then hindsight will make us evaluate the quality of our decisions based on the one thing we had no control over – the one thing that was random – the outcome of the “effect”. Using hindsight, or evaluating decisions ex post, will lead to terrible decision making. In essence, hindsight tells us how we could have made a better decision in the past, but it doesn’t take into account that the outcome was affected by a state of nature that was not only out of our control, but also unknown to us at the time. And to top it all off, it only gives us information on decisions we already made. This is useless information because we are trying to improve our decision making skills in order to better approach uncertain situations in the future.

It is important that we re-perceive the approach we take when making decisions, both before and after the fact. We need to realize that the world is much bigger than us, and that there is no greater power that is impeding our success. Success in our endeavors is determined by a plethora of factors, and as we go through life we can learn to better identify and categorize these

factors. This way, we will put all our efforts into effecting favorable change in those factors that we do control. As far as the factors that are out of our control go, we will learn to be aware of them so that we can act as quickly and effectively as possible if there is an unexpected change in these factors.

We will make better decisions by being aware of those things that we cannot control – and acting on those that we do control. The concept of “cause and effect” will help us not only discern between the two, but it will also help us identify and decide on the course of action (“cause”) that is most likely to give us the desired outcome (“effect”).