

## Going by the hunches

**In the present age of computers with reams of data, impressive charts, graphs, decision trees, probabilities and statistical technologies the reliance of the very decision making is laid solely on quantitative techniques. Making decisions under ambiguity is one of the skills managers must acquire, argues Prof.(Dr)VIDYA HATTANGADI.**

There is a fundamental paradox in Human Behaviour the more unpredictable the world becomes, the more we seek and rely upon forecasts and predictions to determine what we should do. In most of the world economies the only certainty is uncertainty. Most of the enterprises all over the world are facing the challenges of highly uncertain, complex and rapidly changing environment of business. The business managers need to cope with this uncertainty intelligently on the basis of knowledge, insight, understanding before making decisions.

It is in this context, that the modern managers have a low tolerance for ambiguous situations and have a tendency to perceive them as threat. Ambiguous situations are those that cannot be categorized because of lack of familiarity. In today's globalized markets what is constant is only change. Most of the businesses in today's scenario operate in the Darwinian Markets -where the rule is survival of the fittest. The modern managers are laid into multi-functional roles. They are forced to take instinctive decisions at times.

The management schools fail to train the management graduates to make decisions under ambiguity. Instead the students are taught that they must decide as opposed to choose, implying that control of all facts and variables is possible. If enough hard facts are collected and analysed, the ambiguity will be removed and optimum decision made.

The B-schools teach the students 'illusion of control'. The modern B-school graduates are largely selected and evaluated on the basis of their being well-versed with quantitative techniques.

The average student gets an impression that to make a decision on capital budgeting without discounting cash flow analysis or decision on a new

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product market without a discriminating analysis or a factor analysis of a questionnaire or a multi-dimensional scaling program is unscientific or unsound. What is sad is that management has come to believe that data processing in this manner is sustensive. The random element is completely removed. The modern managers are not using capital budgeting, new product market research and strategic planning research in intended manner. This may partly be true because of the the way business students

are taught where reinforcement of the school systems imbues them with intolerance to ambiguity.

Henry Mintzberg describes that making decisions under ambiguity is one of the skills managers must acquire. The degree of excellence achieved by a firm has direct relation with the information system operated by it. While every organization requires a continuous flow of information for taking various decisions, the information needs of large organizations are far greater and large. The size of the organization creates voluminous data to be gathered which needs to be processed before the decisions can be taken. In large organizations, the decision makers are many times located far away from the field of activities. They manage decision-making on the basis of information reaching them.

According to Green & Tull, Marketing Research is the systematic and objective search for and analysis of information relevant to the identification and solution of any problem in the field of marketing.

The failure rate of new products test marketed and actually introduced has been estimated to be over 70%. To improve the average, most new products in large firms are subjected to an incorrect market research.

Market research can show the consumer's preferences and interest in products and concepts that consumers are familiar with. However, products that

represent major changes in use or lifestyle or which might alter the habits may create negative reactions among consumers. The implications of esoteric marketing research and applications of marketing concepts lead to minor product innovations and not really new and technically innovative products.

Appraisal of proposals for new investments in many larger firms is required to show a certain minimal Internal Rate of Return (IRR). Very few proposals are put forward that do not meet the target rate of return. Often the capital budgets are fiddled with until the target rate of return is achieved. Bela Gold and earlier J.M.English have commented on the problem of capital budgeting with respect to difficulty in accurately forecasting costs and revenues. This difficulty varies from industry to industry and with time. Very few capital budgeting programs have follow-ups to determine which projects come close to behaving in the predictable manner and yielding the predicted rate of return. The published figures on public capital budgeting programs show that on most large, long-term projects cost overruns by 100% more than estimated. Sales or benefits as compared with predictions are seldom published.

The technique of capital budgeting would be most useful in determining which projects are at high risk. It is in these situations that the technique is subject to gross errors and therefore of little value in decision-making.

R. More complains that planning without the proper antecedent conditions leads to a frustrating exercise. Most of these planning initiatives are lavish in organizational process in written form, but barren in substantive strategic changes. Failures, according to managers, often take place due to failures to change strategy. Managers usually tend to choose a future strategy that

requires very little change and then look for supporting data in that scenario.

Strategic plans that recommend huge financial resources, human resources, consumer behaviours, new products, new market segments, fundamental missions and goals are most

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likely met with no actions. Instead, alternative scenarios will be sought that require no actions or practically no changes.

Decision making of all kinds rests upon assumptions about our ability to predict the future. While even a common man observes that the business or a man's life in general cannot be predicted entirely. It is unlikely that all decisions made by any human being are 'good' decisions. Organizations are complex and this complexity is reflected often in their problems.

Our involvement in decision-making often leaves misconception concerning the process that has taken place. Many decisions are taken over a period of long time in which there are many starts and stops. The environmental factors also keep changing at a vital speed therefore; practitioners often overestimate how rational they can become.

The decision maker is always not in position to obtain all facts and figures. By the time he collects the relevant data and

assesses it and by the time he takes the decision the time lag itself can invalidate the decision. The individuals who feel that decision making is a matter of gaining right data and applying the analysis often do not recognise the range of group and organizational activities that their decision making has involved.

Decision-making is such a vital and complex process that it justifies both academic study and critical examination by the practicing managers. In order to make better decisions there is a need to be aware of what is happening around at that moment.

#### **Life is series of decisions.**

Former president of General Motors, Alfred Sloan comments on the company's founder William Durant characterizing him as a man who would proceed on a course of action guided solely on his intuitive flash of brilliance. He never felt obliged to make an engineering hunt for the facts and figures, yet at times he was astonishingly correct.

In the present age of computers with reams of data, impressive charts, graphs, decision trees, probabilities and statistical technologies the reliance of the very decision making is laid solely on quantitative techniques. It becomes a mundane job for the modern age managers to live with the data. Limitations of information, time and certainty limit the rationality of a decision maker.

In the words of Donald Bullock "most of our executives make sound decisions. The trouble is many of them have turned out not to be right".

Take a clue

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