DECISION-MAKING IN THE REAL WORLD

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ABSTRACT

Decisions are derived from assumptions. It is imperative to surface assumptions for making sensible and effective decisions in the real world. Assumptions and associated decision models are plenty and diverse, even conflicting. Pragmatism, as an inherent sensibility in Chinese traditions, in indigenous American thought and in the Aristotelian 'phronesis' of practical wisdom, is helpful for accommodating and acting upon diverse assumptions and models. Adopting pragmatism, good practice, good research and good science rely on open and engaging conversations.

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Decisions in the real world are derived from underlying assumptions. The importance of assumptions has been stressed by many writers. Richard M Cyert, a behavioural economist and a key figure of the Carnegie School of organization studies, for example, warned researchers that 'Theories should be as realistic as possible in their assumptions'. To practical managers, he said, 'You have to deal with the real world – and the real world is messy and people make a lot of mistakes'. There is plenty of evidence: IBM's failure to capture the PC market, Kodak's late switch to digital cameras, Marconi's fatal me-too 'focusing' strategy, NASA's Challenger launch decision, Russia's centrally planned and controlled reform, America's recent war in Iraq, and so on. Time and again, costly mistakes and frustrating consequences are less due to lack of goodwill, commitment, resources or operational skills, but because of problematic, hidden and usually unquestioned assumptions. Such assumptions can take many forms: industry recipe, dominant design, institutional logic, ideology, routine, 'group think', 'normal science', 'best practice', just to name a few.

It is thus imperative for managers, policy-makers and researchers to ask ourselves: (1) Based on which assumptions and adopting what models are we doing our projects and research? (2) How are our assumptions and models related with the 'real world'? (3) How do our assumptions influence our decisions? (4) How realistic and effective are our decisions, suggestions and policies?

Social scientists and organization theorists have explored diverse, even conflicting, assumptions upon many issues that surround and shape decisions. For example:

Rationality. Some assume that people make decisions rationally and that irrationality can and should be overcome if proper information, incentives and decision tools are available. Others suggested that our decisions and actions are only intendedly rational but inherently bounded because rationalities are selective, contextual and adaptive,

due to limited cognitive capabilities and biases, as well as vested interests.

Preferences. Some assumes that actors' preferences are clear, stable, consistent and consciously followed in decision making. If this does not happen, then it is a problem to be sorted out. Others argue that in reality decision makers' preferences are usually ambiguous, fuzzy, ill-defined, inconsistent, changing over time, and that when making decisions, time and again, actors ignore or suppress their preferences for purpose. They see this as the real pattern in which decisions are actually made. If you demand these 'problems' to be sorted out before hand and/or in the process, you can never make decisions.

Information. Some assume that, in principle, information is fact-based, neutral, equal and available to everyone, that more efforts and better tools will supply more and better information, and that you should collect all necessary information before making decisions, let alone taking actions. Others found that information is inherently incomplete, subjective, asymmetrically distributed and costly to acquire due to real world complexity and uncertainty, human cognitive limitation, different organizational positions, diverse educational backgrounds and working experiences.

Communication. Some assume that the gab between decisions and actual outcomes is due to misunderstanding in communication, and that misunderstanding can be cleared by better communication technologies and multiple channels. Others think that human communication is inherently unfinished, uncompleted, non-determinated and reciprocal. A decision or policy is merely a gesture calling for responses, which is picked up, interpreted and acted upon by different actors differently due to different local situations. In this later view, we should expect many surprises in policy consequences and should exploit differences and diversity for novelty and innovation.

Human nature. From ancient times, in the West as well as in the East, human nature has been considered inherently good, bad, both good and bad, not good nor bad, and so on. This has raised interesting issues and debates: the Hobbesian jungle, the tragedy of the commons, the free-riding problem, opportunism, and so on. It also raises practical questions: in making decisions, in conducting business transactions, in searching for common goodness, in governing organization and society, shall we rely on the character of the 'good guys' or on socially devised institutions? What kind of institutions?

Human interest. Are human beings and decision makers fundamentally economic man, social man, or political man? Neo-classical economics is said to be based on the assumption of the economic man, Confucius is outstanding for his teaching of the social man, and Aristotle famously suggested that man is a political animal. Some take a broader view. For example, Habermas presents that as humans we have three differentiated 'cognitive interests': technical, practical and emancipative, and that ideal organizations and societies are those that function to nurture all three human interests rather than allow one to dominate or 'colonise' the other.

Environment-events. Can we, in principle, comprehend the world, plan for the future and control our actions? Some believe the world to be sufficiently orderly, stable and more or less manageable. Others, for example Taoism and the 'new complexity sciences', contend that the world is largely uncertain, chaotic, emerging, self-

organising and hence difficult to fit into prescriptive models or sophisticated plans. There are debates on whether the social world is objectively given, subjectively enacted or intersubjectively negotiated, and on whether 'embedded' actors really have decisions to make, have choices to make, have alternatives to select from. Some further consider that management decision counts for little because, like species in Nature, organizations and policies are disciplined and selected by 'the market'.

The above is just a taste of the diverse and usually conflicting assumptions around decision making. There are many more. Based on and around these assumptions, researchers reveal a wide range of decision making patterns and propose many decision making models and tools. For example:

Rational: systems/social engineering, strategic planning, decision trees, simulations, road maps, formal methodologies, strategic choice, structural contingence model …

Natural: muddling-through, logical-incrementalism, emergent strategising, garbage-can decision-making …

Political: power game, language game, agency theory, resource-dependence, decoupling efforts …

Institutional: 'iron-cage – coercive, imitative, normative isomorphism', path-dependence, lock-in effect, competence trap, lid on the garbage-can …

Fatalist-pessimistic: organizational ecology, 'Decisions do not matter' …

Interactive: gesture-responses, evolutionary game, strategic ambiguity, 'Good managers do not make policy decisions' …

The list can go on and on. Given this diversity and complexity in underlying assumptions and decision models, the questions to managers and researchers are: Where do we stand? What kind of assumptions do we feel comfortable with? How to make assumptions transparent? How to justify our assumptions? How to share assumptions with others? Perhaps, at the first instance, we need to ask ourselves whether we realise that we indeed make decisions and take actions based on assumptions of a certain sort. Humans have made many efforts to tackle hidden assumptions. For example, in the East, we have the Chuang-tzu Taoist 'forgetting' and the Zen Buddhist 'enlightening'; in the West, we have methods like 'Strategic Assumption Surfacing and Testing' and 'Soft Systems Methodology'.

Another question is what to do with the diverse assumptions and models. Some warm hearts prefer an ideal world. They consider the 'dark side' in assumptions and models of the political and institutional sort to be too negative and pessimistic. If we place too much emphasis on the 'dark side' and the 'negative aspects', they will become self-fulfilling prophecies. For example, if everyone adopts the 'political man' assumption, then each of us comes to the office in the morning calculating how to mobilize and manipulate colleagues in order to exploit emergencies for personal interests, then organization and society will become a very ugly and stressful place to live in. These warm hearted people – they can be managers and researchers – propose subsequently that good leadership is to transform human stupidity and errors, nurture trust and care

and shape positive behaviour, via means of good organizational cultures, socialisation, etc. Others dismiss such an attitude as too romantic. After all, we are living in a real world and therefore should be realistic in decisions and actions. We may not like the 'dark side' and the 'negative aspects', but they are always here to stay with us, they will not disappear simply because we do not model them in, there are limits of what we can do with them, and we have to face them when making immediate decisions. Some take a positive view of the 'dark side' and 'negative aspects', suggesting that effective leadership is not to assume the 'dark side' and 'negative aspects' away but to exploit them so as to get things done, to achieve unique competitiveness, to realise common goodness. They call this 'technology' or 'intelligence' of 'foolishness'.

Perhaps, I suppose, a more promising and more realistic approach lies in idealist pragmatism, which is close to what Professor Ikujiro Nonaka, the Founding Dean of the Knowledge School, Japan Advanced Institute of Science and Technology, recently calls 'phronesis'.

Pragmatism can be understood as a theory of knowledge, a methodology for action and a philosophy for life. It is an inherent intellectual and cultural sensibility in the Confucian tradition which is shared by, among many others, the Chinese and the Japanese, as well as in indigenous American thought and the Aristotelian 'phronsis' of practical wisdom. It had been caricatured by some for a very long time as anything-goes, as being distasteful of any theory, as an instrumental kind of thinking, distinctively non-intellectual, altogether uninformed and unrefined. However, a genuine pragmatic sensibility is to me featured by a refusal to entertain ideas and actions as disjunctively related, a rejection of 'the spectator theory of knowledge', a commitment to endow experience with learning rather than seeking 'truth', a willingness to take action without knowing how things might unfold in the future, a readiness to embrace uncertainty and surprises, an eagerness to capitalise on the unanticipated and unexpected, a conviction that validity of knowledge should be sought based on the consequences of acting upon it, an enjoyment in conversation with situated agents about possibilities for change, a proposition viewing temporal conversations in a community, not any extra-historical Archimedean point, as our only sources of guidance for action, and a belief that participative consensus, if ever achievable, are often achieved at the aesthetic and cultural levels rather than with regard to the claims of Reason.

Pragmatism has significant practical implications for decision making practice and research. To practice, pragmatism means sensitivity to contexts, willingness to take action, focus on consequences, open to uncertainty, comfortable with paradoxes, skilful in ambiguity, keen on flexibility, good in language games, caring for common goodness, playing with emerging possibilities and using available resources to find workable solutions. What differentiates good decisions from bad ones are situated sensitivity, inspiring envisioning, timely political judgements and social skills that are appreciated and shared by the community.

To research, pragmatism does not promise integration, synthesis or transcendence of diverse and conflicting assumptions and models because it recognises that while each and every assumption/model is partial and limited, each and every one is unique in focus and method, and therefore cannot be subsumed or reduced into one or the other. Pragmatism hence values different assumptions and conflicting models because,

properly connected and juxtaposed, skilfully compared and appreciated, differences, diversity and contradictions provide us with richer perspectives, deeper insights and fuller understandings of the world, of ourselves and of our decisions.

To pragmatism, good science is good conversation, not talking to ourselves but carefully listening to others. We need critical spirit and engaging conversations in our communities, not pretended agreements or trained indifference. We need intellectual division of labour and focuses in research, but, to phrase it in Economics jargon, specialisation is good only when accompanied by subsequent trade – looking into and buying in what other theories/models produce and offer. In the end, it is difference, diversity, pluralism, tolerance and dialogue that make our assumptions transparent, make 'group think' and 'trained incompetence' less likely, and hence are good for knowledge creation and innovation, as well as for decision-making in the real world.