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MANAGERIAL DECISION MAKING IN FAMILY-MANAGED ORGANIZATIONS ARE NOT ALWAYS EVIDENCE-BASED!

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Abstract

Abstract : *Managerial decision-making process in family-managed Indian organizations are still influenced by old values and beliefs, irrespective of business and strategic significance. Like all other organizations, managerial decision-making process in family-managed Indian organizations, follow the usual multi-step model like; establishing objectives, problem definition, identification of alternative solutions, evaluation of alternative solutions, and then taking decisions that give better expected results. This is the usual model of managerial decision making in every organization. To what extent managers follow such rigour of decision-making, largely depends on specific behavioural frame of mind of managers. Indian managers, in general, are risk averse. This is more explicit in family-managed business units, which are sustaining over several decades. Such family-managed business units had long time-tested experience of negotiating with the adversities of business environment, which could help them to develop their knowledge repository for successful business practices. Typically, Indian managers in family-managed business units prefer incremental and bounded-rational decision-making over rational and garbage-can model of decision-making. Incremental and bounded rational decision-making propensities take Indian managers in family-managed business units through the process of preference-utility framework. Weighing individual decisions in preference-utility framework compels managers to be extra cautious while they take decisions. Although it has its inherent defects, as it can potentially harm organizations to respond to changes, as organizations become more structuralist, but for family- managed business units in India, it has become normative. Lack of reconstructionist approach, often considered as deterrent to agility for family-managed business units of India. Whatever may be the criticism, family-managed business units in India have proved their ability to sustain, negotiating with the environmental flux.*

This paper is based on typical managerial decision-making style of some family-managed business units in India, as observed by the author through series of research studies primarily on managing family transition and change management. The study essentially negates the practice of evidence-based management in family-managed business units, although it is considered important in today's business. Evidence-based management suggests the need for managerial decisions based on logic and empirical truth. It discards beliefs that are rooted in ideology and cultural values, as such beliefs and values can potentially influence the managerial decision-making process. The paper first relooks into the theories of evidence-based management, and then examine how such concepts are replicated by the managers of family-managed business units. The second phase of the study, i.e., the extent of replication of evidence-based management, is based on managerial decision-making practices of three family-managed business units, which are surviving over several decades. All the family- managed business units have been selected based on convenience. Based on the study, the paper concludes how difficult it is to discard deeply held values and beliefs in family-managed organizations, and at the same time how managerial decision-making process in family-managed organizations still influenced by old values and beliefs. In this paper we have considered family-managed, family-controlled, family-owned and family businesses as one and the same.

Key Words: *Evidence-based management, Managerial decision-making, Family-managed business*

Introduction

Evidence-based management concept has its roots to medicine, and the term evidence-based management was first coined in 1990s (Pfeffer and Sutton, 2006). It suggests managerial decisions based on critical thinking and the best available evidences. Here evidences indicate supporting data or information, or some assumptions, based on which managers take their decisions. Quality of managerial decisions depend on the quality of evidences. Managers often take decisions emulating the best practices in other organizations, forgetting issues pertaining to validity, applicability, and generalizability. Such problems may weaken managerial decisions. For example, a best practice performance management system of one world class organization may not work in another organization for difference in the organizational culture. But with the evaluation of validity and applicability, managers can take more appropriate evidence-based decisions, that can help organizations in achieving their strategic and business goals. Theoretically we can see evidence-based managerial decisions are taken through conscientious, explicit and judicious use of the best available evidences. Obviously, this follows processes (Barends, et al. 2014) as under:

- Asking
- Acquiring
- Appraising
- Aggregating
- Applying
- Assessing

Managers are considered rational decision makers in terms of behavioural economics. This is for reasons that managers always try to maximize their present value of current and future earnings. However, we have several other assumptions, viz. different non-equilibrium models that influence managerial decision making. Rational models of managerial decision making are reference dependent and influenced by social preferences. Non-equilibrium models are bounded rational approaches to managerial decisions. These are bounded rational approaches as it is constrained by limited thinking, resources, managerial capability etc. Bounded rational decisions are not optimal decisions. Bounded rational decisions, like non-rational managerial behaviour are influenced primarily by self-control. Like rational decision making, bounded rational decisions also have influence of past references. Opposed to these, managers also take non-rational decisions, which are more intuitive, and not based on reasons or observation.

Application of formal behavioural models to managerial decisions is a relatively new area of research. When we study managerial decision-making process through the lens of behavioural economics and psychology, we find managers have propensity to feel biased to reference points (Lim and Ho 2007; Ho and Zhang 2008; Farber 2008). In this process managers disproportionately discount immediate future of the organization, concerning more for the distant future (Thaler 1981; DellaVigna and Malmendier 2006). Even in simple economic environment, managers often neglect the importance of equilibrium, in the veil of strategic decisions, a propensity to maximize pay-offs based on their individual beliefs.

In family-managed organizations, as observed from the sample organizations, managerial decision-making process is more inclusive, as it focuses on maximizing pay-offs of all stakeholders. Such decisions are more influenced by fairness and equity (Guth et al. 1982; Kahneman et al. 1986; Loewenstein et al. 1989; Camerer 2003; Anderson and Simester 2010). This is a typical syndrome of embedding social concerns in managerial decisions.

When managerial decision-making is influenced by behavioural strategy, it embeds cognition, emotions and social behaviour (Powel, et al. 2011). What is important to observe that behavioural strategy often neglects the concept of `nudge units` (social purpose) to make managerial decisions more inclusive. Hence when managerial decisions are influenced by behavioural strategy it is likely to suffer from individual cognitive biases, as such decisions may not be inclusive. However, when managers take a reductionist view of behavioural strategy, i.e., focusing on measurement, experiment, cognitive intelligence, and even hypotheses testing; decisions become more holistic, as they understand behaviour and psychology in the context of the organization. Powel, et al. classified behavioural strategy into three distinct school of thoughts; reductionist, pluralist, and contextualist. While reductionist approach makes use of experimental methods, the pluralist approach makes use of statistical and qualitative methods along with bounded rationality and social psychology. The contextualist school of thought makes use of ethnographic approach, i.e., basing decision-making process both in strategic and organizational contexts.

Powel (2017), based on organizational research, recommended rather than getting influenced by behavioural strategy in managerial decision making, it is appropriate to adopt the approach of `diligence-based strategy'. Diligence-based strategy recommends diligent accomplishment of basic activities to realize decision outcomes, leveraging technology and core management lessons. It is seen more as an applied method of framing and executing strategy in organizations.

Family-managed Business in India

More than 80% of Indian businesses are family-owned, and large number of such businesses have started in eighties. There are however, some century old family-managed businesses like; Dabur, Godrej, Murugappa Group, Tata, etc. Eight percent of family-managed units dominate Indian economy. Among 500 valuable companies in India, as high as 461 companies are family-managed, and these companies contribute 79% to India's GDP. In all these family-managed business units in India large number of managers, who are not family members, also work. Over the years it is observed decision-making process of such managers are influenced by their deeply held values of the families. Such decisions are more contextualist and diligence-based, hence more inclusive.
For this paper three family-managed organizations have been chosen based on convenience. In all the cases such organizations change management decision processes

have been analyzed. All these organizations are successfully operating over five decades and are sustaining in ever changing competitive environment.

Organization-A is a manufacturer of alcohol and marine foods, Organization-B is a tool-maker, and Organization-C is a food processor.

For Organization-A, problem with their distillery unit was raw material sourcing. This organization produces rectified spirit through the processing of industrial molasses. Problem of sourcing of industrial molasses was so acute that the organization even faced the challenge of sustaining. With stringent price control by Government agencies, they had also no option to make extra money through price adjustment. In addition, they faced the stricture from pollution control board to check carbon emission through the installation of Effluent Treatment Plant (ETP). ETP installation decision with huge investment, plus addressing the problem of raw material sourcing, etc. was taken by the organization with an inclusive approach. For any rational decision maker this could be closing of unit rendering hundred of workers job less. Organization-A through their such value-based inclusive decision could not only save them from the verge of closure, even could address their problems converting to multi-grain-feed distilling process and making effective use of carbon deposits. Carbon deposits help them to start dry ice plant, and manufacture organic manure, both are fetching them more profit than their core process of distilling. Usual rational and strategic decision could have been closing of the unit.

Organization-B, the tool maker, all along enjoyed the captive market privileges, as they were the core vendor for country's defence. They used to get tooling cost for investing in innovative tool design and manufacturing for captive supply to Ordnance Factories (Defence units). With changing manufacturing technology like computer numeric control (CNC) and direct numeric control (DNC), and even flexible manufacturing systems (FMS), use of specialized tools drastically changed. Being the customized precession tool maker for country's defence, the company after losing this market faced the challenge of sustaining with three hundred plus head counts. Being captive defence vendor, the company also had no visibility in market. From this critical situation the company positioned them successfully in hand tool market, using pool of their technical people also for marketing. Marketing through technical people who manufactures tools received well by the users, as they could understand better on hand tool nitty-gritties. Today this company could not only protect the job of their existing people in pay roll, but for new export market opportunities could even go for new employment generation. This is again another example of inclusive decision with deeply held values.

Organization-C, the food processor, lost their market to MNC brands that started operating in India. They reduced them to contract manufacturing for couple of multi-nationals operating in India. Known for their quality, they did not erase from the minds of consumers, primarily because of their socially visible sponsorship activities, which a company insider says a signal to the market `we still survive'. Contract manufacturing could help them to overcome their immediate cash crunch, along with what they continued their investment in innovative product research. Today the company is back in market with their own brands of innovative food products, cultivation of agri-products for export market, etc. Here again managerial decision was more inclusive, value based and balanced.

Conclusion

Evidence-based managerial decision-making process is now adjudged as the best way to achieve success in organizations. With technology support, evidence-based decision-making process is legitimate, as it considerably minimizes decisional errors also. But family-managed businesses in India largely take managerial decisions based on their value systems. Many family business units of India are surviving over several decades; some even are centurions. Some family businesses to pace with their expansion and growth engage professionals. But in such units also professional managers are bounded with the family values, and gradually such managers also transform them to take decisions aligning with family values. We, however, have exceptions, and such exceptions are more evident when family businesses go through generational transition. Recently in Indian IT major WIPRO, we find similar trend, i.e., overriding role of professionalism or evidence-based managerial decision making. Non-family executives or managerial talents in such organisation may not often be in sync with family values and beliefs, while taking decisions. Such managers will be more influenced by technology-enabled evidence-based decision making. However, which one suits better requires more longitudinal studies on trends of managerial decision-making processes in family businesses in India.

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