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IS IT TIME

TO EMPHASIZE IRRATIONAL BEHAVIOUR?

Both rationality and irrationality are context-specific; how people behave is dependent on how situations and objects occur to them and how they perceive, imbibe and reject the same

Some recent literatures have made many people to sit up and think whether human behaviour is much lesser rational than that has been assumed. In his book, "Management Rewired", Charles Jacob asserts that most of what we thought we knew about management is probably wrong. According to Jacob, each person harbours his own perception of reality and that has implications on how human beings i.e. shareholders, customers or employee behave in different situations. Many neuroscientists and behavioural economists also point out the direction. Therefore, understanding what each member in various stakeholder groups thinks, what he feels and what he is likely to do, becomes important, instead of assuming away that each one of these members think the way the manager thinks and/or has the same reason to think in that manner. Many managers may call such behaviour on the part of stakeholders as irrational, without often recognizing that they expect everyone to respond the same way to a given stimulus. Probably, managers do this because it is easier to say that some or many stakeholder group members are irrational, rather than trying to know the reasons behind their behaviours and beliefs. According to laws of science anything that happens must have a reason for happening; and when we understand that we call it rational. Whatever we fail to understand, we find it convenient to term that as "irrational".

Perhaps it is time to recognize that "rational" is a theoretical concept that can not be used across the board. Therefore, instead of using the concept with the connotation of understanding the so called average individual, we need to recognize that every individual behaves to get their individual needs met. This will mean one has to understand the behaviour of persons on an individual basis, not on an average basis. Also, we must appreciate that individually everyone behaves in a rational manner given his priorities and motivations. It's we who use simplistic yardsticks to predict human behaviour and when we go wrong, we call other's behaviour as "irrational", instead of looking at our own so called "rational" act. If being irrational is considered as being emotional, then one would wonder whether anyone in this world is really rational. What is more, rationality and irrationality are both context-specific. How people behave is dependent on how situations, objects etc. occur to them and how they opinionate, imbibe and reject. Hence, Allan Greenspan's "irrational exuberance" was irrational only in the macroeconomic context, not at the level of individual investor's social context.

That brings before us a bigger question, one arising out of what the economic theory says. According to economic theory, man behaves rationally while making decisions. Economic theory assumes so because it tries to find optional solutions to the problem for which man should make a decision. Most of our so called management theories are developed on this very premise even as behavioural theorists talked about "bounded rationality" and some others raised serious questions like, "whether management has any theory at all". If the purpose of theory is to enable prediction and control, then the question assumes significance. B-school students only know it too well how their teachers would respond to their various questions during a case discussion. The proverbial response of the teacher, "it depends", says it all. Someone observed that to assume everything is rational or can be forced into becoming rational through study and research is nothing but complacency in disguise.

Should the managers then move away from the model of pure rationality to form a more realistic picture of individuals? The answer is perhaps both "yes," and "no". It is "yes" when it comes to understanding behaviour of various stakeholders and "no," when it comes to measuring business performance, planning, financing etc. However, the part for which the answer is "yes", we need to figure out how to go about. If economics is a study of value, then what we need to change is not the approach to value but the perception of value. While experimental approach had been the backbone in fundamental sciences, management is something that is built around experiential models. This would mean that from definitive approaches to thinking we need to go into context specific and systems oriented integrative approaches to thinking, as the economic world is never static nor does everyone neces-

sarily sees everything through an economic lens. In short, the need is to shift away from the thinking that we can predict and control the behaviour of others. Instead, we should be able to control our own behaviour based on some deeper understanding of the true nature of human behaviour. Managers, therefore, need the skills to recognize, nurture and facilitate patterns of behaviour that could jointly meet their stakeholders' needs and agendas as well as of their own. After all, what is normal or rational is framed by our view of reality.

Having noted the above, let me come back for a moment to classical economics which says that "humans act rationally to optimize their utility". In my view, this observation of the classical economists remain perfectly valid. Only thing that requires rethinking and possibly a change, is in the assumptions we make in deciding our actions, as managers. Distinctions must be drawn between knowledge and decision making process. We will do well by not forgetting that human emotions will always remain as long human beings live on this earth. Also, emotions will always play a part in the choice a person makes, irrespective how irrational the act may appear in the eyes of someone else. The holy grail of a management book that predicts behaviour in all situations does not exist in reality or, for that matter, has never existed. It is our mistaken belief that gave credence to such attempts. There have been many instances over the many years, latest being the financial tsunami, that brought before us the reality out there. Therefore, whether we like it or not, we need to take note of these and learn to give up the so called mindset of predicting and controlling things in the manner the Newtonian physics does. Obviously, this will create a great deal of discomfort as most managers will begin to realize that they are not the real play — callers. Someone said, business happens outside, it is only the costs that are incurred inside. Perhaps this statement is related to certain stakeholder groups, most notably, the customers. Be that as it may, clearly an "outside-in" perspective as opposed to an "inside-out" one and that too, treating every customer as individual, becomes the need of the hour. In our B-schools how we should prepare our students to imbibe these is the question then. We ought to ponder how to use the understandings drawn from these and to develop students' confidence to trust their own instincts.

EVERYTHING CAN HAPPEN IN A PERFECTLY RATIONAL MANNER AND ACCORDING TO THE LAWS OF PHYSICS ONLY IF THERE IS NO LIFE IN THE WORLD

Indeed, many may opine that if instincts are the only thing that are required what is the use of management education. But that may also appear irrational to a lot of people as they may see this as an act of throwing away the baby with the bath water. In the opinion of this writer, orientation must be provided to the students so that they are able to appreciate that intuition is a far wider channel of information than many rational constructs, if properly tuned in. Second, efficiency based models in management fail to assess the outcomes, we seek based on collaboration and cooperation in an interdependent world. Third, in the uncertain world of today, innovation is the only thing that can sustain you as you try to reconfigure your path while moving on from one day to the next. And innovation calls for out-of-the-box thinking which again, in many ways, is the product of intuitive instincts. Fourth, anyone facing a situation in which no previous experience or expertise helps need to essentially fall back on intuitive logic — howsoever unscientific or irrational it may seem. Therefore, traditional approach to economics and management can be made more meaningful the more accurately they reflect the human reality.

All said and done, things can happen in a perfectly rational manner and according to the laws of physics, only if there is no life in the world. But when life is brought into the equation, irrationality inevitably, becomes a part of it. Therefore, if rational management meant expecting people to respond the same way to a given stimulus, it is then time to change that and develop on understanding of the specific stimulus that will get an individual to respond as desired. GID

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