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## **The use of Capital Budgeting Methods, the Holistic Individual and the Decision Making**

The article investigates the use of capital budgeting methods in the light of the machine analogy (Hopwood 1980), the holistic individual (Rauhala 1986; Pihlanto 1991; Carr & Pihlanto 1996), and empirical information collected by interviewing decision makers in a firm consisting of several relatively independent profit centres.

According to the holistic individual image, the individual's basic modes of existence are consciousness, situationality and corporeality. These modes form a holistic entity. All three modes are needed in order to make human existence possible and understand the holistic nature of human behaviour. They are inseparably linked to each other and changes in one mode cause changes in the others.

Consciousness consists of psychical-mental processes. Meanings ("thoughts") emerge in these processes from objects in the outside world and help human beings understand such objects. The sum of all the meanings in one's consciousness make up the world view of an individual. This subjective world view guides the emergence of new meanings. So understanding depends on what has been understood before.

Situationality is the totality of relationships between a person and all aspects of his or her situation. A person's situationality is unique and components of a situation can be both concrete and ideal. Corporeality, the third part of the holistic entity, maintains the basic processes of existence. The human brain, nervous system and sense organs are needed when objects are observed and meanings formed.

Decision situations can be divided e.g. on the basis of uncertainty over the objectives for action and the uncertainty over consequences of action.

As both the objectives and consequences are relatively certain, decision making can proceed in a computational manner. It is possible to compute whether the consequences of action will or will not satisfy the objectives. For instance, capital budgeting methods play a central role and serve as answer machine aids to decision making. A decision maker's consciousness and situationality are assumed to be simple and the same for all the participants. According to the empirical information collected, calculation methods were seldom used as answer machines. The calculated profitability of an investment project was not decisive, but rather acted as the third or fourth criteria when the final decision about implementation was to be made.

The potential to compute diminishes as the consequences of action become more uncertain. Decisions are made in a judgemental manner, and calculation methods play the role of learning machines. A decision maker's personal world view is important, as the decision situations are interpreted individually and subjectively. Understanding new information depends on prior understanding. Situationality consists of all the factors that can influence the future values of the components in a calculation. In practice, capital budgeting methods were often used as learning machines. They helped to explore the implications of the investment project and the decision maker obtained new and more detailed information about the project.

Disagreement or uncertainty regarding objectives results in a political situation characterised by bargaining and compromise. In this situation, capital budgeting methods serve as ammunition machines. A special type of meaning emerges in the consciousness of the actor when he tries to promote his own interests through calculations. It requires ability to understand the desires and objectives of other people. Situationality includes not only calculations but also social and organisational components, or other actors and their organisational units. The interviewees reported that e.g. for reasons of prestige, the originator of a project may want to see it accepted. Income figures could thus be overestimated and costs underestimated.

When both the objectives and the consequences are uncertain, the situation can be defined as inspirational. Investment

calculation techniques play the role of rationalisation machines. Informally and intuitively made decisions precede the calculations, so decisions have to be justified and legitimised. Information in form of meanings that support the investment project are brought into the situationality of other actors. The interviewees reported that decisions sometimes had to be "sold" to persons that had not taken part in the initial decision making. For instance, decisions made at lower level in the organisation required acceptance by upper level decision makers.

We can conclude that investment process included both quantitative and qualitative information. The interviewees accentuated especially the relevance of feelings or emotions in the decision making. The information was also largely informal. Discussions and negotiations represented, in principle, the social dimension of the investment process.