# B

## Behavioral Economics & Finance

### ABSTRACT

A burgeoning field within the economics discipline concerns itself with consumer psychology. As such, the field of behavioral economics and finance employs a broad array of tools and methods to create a substantial composite of the consumer. Such an illustration is critical as it aids economists, financial professionals and policymakers to implement effective approaches and responses to problems within a system. This paper takes an in-depth look at the growing field of behavioral economics and finance and its significance for the overall study of economics.

### OVERVIEW

The esteemed political economist and writer Peter Drucker once said "A business exists because the consumer is willing to pay you his money. You run a business to satisfy the consumer. That isn't marketing. That goes way beyond marketing" ("Building brands," 2009).

The most significant "x-factor" in an economic system is the behavior of the consumer. How he or she acts or reacts in a given situation is arguably the key to determining a business's best course of action. It is for this reason that economics looks to understand consumer behavior as part of its pursuits.

For generations, the approach to understanding consumer behavior in economics has been somewhat limited, due scientific dependence upon modeling and "real time" assessments. Such a conservative approach has led to a lack of information regarding consumer mindsets and also on how consumer behavior impacts the economic system in question.

#### The Development of a New Sub-Discipline

Behavioral economics and behavioral finance are terms that apply to a field of study that involves the application of social and human cognitive and emotional patterns for the purposes of understanding economic decisions and how they impact market prices, returns and resource allocation ("What is behavioral economics?", 2005). Behavioral economics is combines the disciplines of psychology and sociology within an economic framework.

Because it entails the application of varying degrees of other scientific fields, a great deal of debate continues regarding the origins of behavioral economics. In the view of many observers, iconic economist Adam Smith was perhaps the first to see "psychology as part of decision-making," according to business professor Nava Ashraf, adding, "He saw a conflict between the passions and an impartial spectator" (Lambert, 2006). Regardless of the founder of this increasingly relevant field, the fact that many applications of behavioral economics in recent history have coincided with major changes in economic conditions is undeniable.

In the mid-19th century, for example, the introduction of the concept of social insurance (like Social Security) in Chancellor Otto von Bismarck's Germany represented a major change in economic systems. Such programs were implemented in large part to counter the growing socialist and communist movements in Europe. They also heralded a new order of government-managed financial assistance programs which transformed bureaucratic institutions and administrative budgets. At the same time that Bismarck introduced these programs, Germany saw an increase in the number of university departments and research institutions that were dedicated to studying the social aspects of economics. It was believed that the idea of social insurance programs originated not in economic policymaking circles but by non-academic social activists. Therefore, the study of the forces that created such programs would require methodologies and disciplinary applications from outside of the economic sphere, such as sociology, political science and psychology (Shiller, 2005).

**Prospect Theory**

The application of psychology and other non-economic disciplines to the study of economics has continued to develop for more than a century. One of the most prominent manifestations of this field of study came in 1979, when psychologists Daniel Kahneman and Amos Tversky introduced the "Prospect Theory." With this theory, Kahneman and Tversky offered a critique on the inability of mainstream economic analysis to accurately account for consumer decision-making behavior. Specifically, they noted that people tend to underweigh outcomes that are based on probability (as opposed to certain outcomes) in risk situations. In this capacity, value was assigned to gains and losses, rather than the conventional approach, which assigned value in terms of final assets ("Prospect theory," 2008). Their theory represented a milestone in the burgeoning field of behavioral economics and finance.

The evolution of behavioral economics and finance has indeed progressed alongside the ever-changing economic landscape; it is to the fundamental elements of this growing field of economics that this paper will next turns attention.

**Heuristics**

At the center of behavioral economics is the notion that neoclassical economics falls short of fully explaining consumer behavior. Neoclassical economics has long dominated microeconomics, focusing on supply and demand frameworks (such as pricing, output, profits and income distribution). However, it also relies heavily on assumptions that the actors involved in a given study are going to act in a rational manner in order to create the maximum utility (value derived from choice). Such themes are evident in utility theory, which is often used to explain decision-making in situations with risk and explicitly outlined probabilities ("Utility theory," 2009).

Behavioral economics does not necessarily dismiss utility theory — rather, it compliments it with an additional perspective. By adding the psychological concept of heuristics (a method used to rapidly come to a conclusion based on the probability of an optimal solution), behavioral economists believe a more comprehensive picture of the consumer's decision-making may be presented. In essence, heuristics involves so-called "rules of thumb" rather than in-depth, case-by-case analysis.

Heuristic decision-making processes entail biased judgments. In other words, past experiences or conditions that are either familiar or imaginable to the individual are seen as influences on the decision being made. In fact, people often overestimate the likelihood that past events and experiences will occur again (or have occurred prior to the decision), which will in turn create more biases in the decision-making process. In financial investments, such judgments may be critical to how the individual proceeds with his or her money.

Heuristic decision-making also often involves "representativeness." This term applies to judgments by individuals of conditional probabilities that are based on how the data or sample represents the existing hypothesis or classification (Camerer & Lowenstein, 2002). For example, an individual who is operating from the hypothesis that a student fits the profile to attend a certain class might glean a set of generalities about that class and affix them to the student's profile.

Like other forms of heuristics, representativeness does not necessarily provide wholly accurate information about a concept — however, what is important for the purposes of this paper is the fact that such a thought-process creates a short-cut methodology for individuals to make decisions on how they might proceed in a given economic situation. These "short-cuts" may in fact diverge from rational consumer behavior and create inconsistencies in terms of the outcome of a given transaction or series thereof.

**Framing**

In an ideal situation, an individual bases his or her decisions on the information that is manifest. In other words, the individual simply takes account of the data presented and acts based on that information. Of course, such ideal situations are rarely part of reality. Instead, data and information is both presented and perceived — this latter term suggests that the individual making the financial decision may experience bias due to the way in which the information is presented. This fact is demonstrative of another element of behavioral economics and finance, one that often proves integral in the manner by which individuals make their financial decisions: Framing.

In economic terms, framing can be defined as the manner by which a rational choice problem is presented. Framing looks beyond the rational and seeks to understand the perception of the individual, providing once again a more comprehensive illustration of the mindset of the consumer.

In retirement planning, for example, framing appears to play a role in individual savings. In a recent study, two approaches to an employee retirement plan were examined. On one hand, employees were told that they would have to make a "positive election" to join the company's 401(k) plan. On the other hand, employees were automatically signed up for the plan at a given participation rate with the ability to opt out of the program. The two ways by which this plan was presented showed a significant difference in terms of the amounts participants saved. Those who were told that they were required to opt into the program saved very little for the program. However, those who were simply enrolled at the company rate invested significantly more. One company saw plan participation rates skyrocket from 37 percent to 86 percent among new hires under the automatic enrollment. The clear divide in response between this framing suggests that workers are not particularly firm in their retirement planning behavior, and that the way in which options are presented may make a difference in how much an individual saves (Mitchell & Utkus, 2006).

By understanding the impact framing has on the consumer, the economist develops a better grasp of the individual's decision-making process. Indeed, framing is neither a fully rational nor logical type of behavior — in fact, it may be argued that it is largely based on sensitivity or emotion rather than rationality. However, taking framing into account helps an economist to better develop a profile of the consumer and aids businesses and leaders in the implementation of effective policies.

**Market Anomalies**

As stated earlier, behavioral economics and finance was borne of the view that the traditional notion of economics — a system that operates based on rational behavior — was too rigid to account for an assessment of certain anomalies. Thus far, this paper has focused on one side of the equation regarding such behavioral anomalies — the consumer. However, behavioral finance and economics concurrently reviews the economic system which is built, maintained and even undone as a result of consumer behavior: The market. It is to this area of the economy that this paper next turns attention in order to illustrate the field of behavioral economics.

Behavioral economics and finance has evolved as a response to irrational behavior among economic players. However, there are anomalies that occur in the marketplace that would suggest irrational behavior within the system itself. In the late 1970s and early 1980s, several scholarly works pointed to apparent inconsistencies between market prices and economic conditions. One suggested that an apparent illusion of inflation resulted in the undervaluation of the stock market. A similar claim was made regarding bond prices, suggesting that the realities of the economic landscape simply did not correspond with the resulting price.

The imbalance between the climate and market conditions has led to a reinvestigation of the traditional concepts of market efficiency. Some economists assert that this imbalance is caused by investors who take advantage of market inefficiencies so as to yield higher returns. These traditionalists suggest reviewing the returns as a method for pinpointing and correcting market inefficiencies. However, a 1993 study concluded that while this approach may remove some irrational behavior from the markets, it will not correct fundamental inconsistencies (Summers, 1993).

**Prospect Theory**

A useful analytical tool in this arena is the aforementioned Prospect Theory. Whereas traditional utility in economics has been measured by market returns, Prospect Theory focuses on the separation of gains and losses as definitive of utility. This practice provides a more comprehensive illustration of the consumer's trading behavior which permits investors to make decisions concerning risk on a case-by-case basis. In addition, Prospect Theory allows investors to combine high- and low-risk situations and assess the overall portfolio before proceeding.

In terms of market anomalies, Prospect Theory is of particular use in analyzing the behavior of market agents (those who make market transactions on behalf of the investors). According to a 1998 study on stock market trading and a 2001 study on housing transactions (both of which employed Prospect Theory in their evaluative approaches), investors treat each asset on a separate basis, weighing losses and gains and making decisions on risk aversion and acceptance appropriately. The resulting profile of investor behavior within the marketplace is therefore more complex than the traditional, return-based analysis of investor behavior (Pesendorfer, 2006).

Prospect Theory has come under some criticism, however, due to the sheer complexity of the profiles it creates. For example, the reference point by which utility is determined is somewhat nebulous, since it focuses on a set of gains and losses rather than a final, fixed figure. Still, in light of ongoing market inconsistencies in an era of economic flux, more careful analyses of how investor behavior affects markets (and vice versa) continue to generate interest in economics and finance.

**Behavioral vs. Neoclassical Economics**

Behavioral economics and finance developed from a perceived need to provide greater answers about consumer decision-making and how it affects the overall economy. However, there remains a debate as to the usefulness of applying psychological concepts to the field of economics.

The example of market anomalies described earlier in this paper provides one such area of controversy. The fact that much of this growing field focuses not on the outcomes of such decision-making but rather the risks and gains makes the process and its assessment somewhat difficult. Without conclusive evidence that such a focus provides insight on neoclassical utility analysis, traditionalists suggest that behavioral economics may not be of value in dealing with systemic inefficiencies.

This debate may not be concluded without mentioning the successful application of behavioral finance and economic tenets to fiscal policy. Behavioral concepts have been useful for the development of legal business contracts, as they allow consumer mindsets to be better understood and supported. As one study indicates, "the success or failure of the behavioral challenge will be judged by its ability to improve upon neoclassical economics — both descriptively and prescriptively — in specific legal applications" (Bar-Gill & Epstein, 2007-2008). Until greater clarity can be applied to the conclusions of behavioral economics as a compliment to neoclassical finance, the debate for or against its utility will likely continue.

## CONCLUSION

The American author Dale Carnegie once advised, "When dealing with people, remember you are not dealing with creatures of logic, but creatures of emotion" ("Dale Carnegie quotes," 2009). Indeed, in virtually every facet of life, humans demonstrate the propensity to behave both logically and emotionally. Quite often, however, these two types of behavior are significantly divergent from one another.

Throughout its long history, the science of economics has proceeded from the standpoint that the system it studies adheres to a logical, rational mentality. Within this framework, economists conclude that markets and systems operate based on rational behavior that pursues maximum utility. This assumption in many ways discounts consumer behavior because it is not always manifested in this logical manner.

Since the late 19th century, as market economies have developed and flourished, it has become increasingly clear that the consumer is a more complex element than previously assumed. Although Adam Smith would make such assertions more than a century prior, interest in consumer decision-making and behavior became more relevant as social welfare programs became more commonplace. Kahneman and Tversky's Prospect Theory of the late 1970s was arguably one of the most significant contributors to the development of the subdiscipline known as behavioral economics and finance.

As this paper has demonstrated, behavioral economics and finance has evolved not as a replacement of neo-classical economics but as a complement thereto. By employing psychological techniques to the study of economic and financial systems, behavioral economics helps cast a light on irrational consumer decision-making and behavior.

Shown above, the study of heuristics, framing and market anomalies can help the economist create a more complete profile of consumer behavior. Adherents to the field of behavioral economics assert that understanding the basis of irrational consumer behavior not only aids business development but government policymaking as well; particularly during times of economic recession and/or market flux.

Debate continues as to the relevance of the application of behavioral economics in the study of economic systems. In particular, while the field does raise interesting questions about irrational consumer decision-making, it often falls short of contradicting the conclusions of neo-classical economic analysis. Nevertheless, behavioral economics and finance does provide important insight into the mechanics of economic systems; analyzing the relationship between the market and the rational and irrational human elements that play a major role therein.

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# Behavioral Foundations of Management

## ABSTRACT

Management is the process of efficiently and effectively accomplishing work through the coordination and supervision of others. To do this effectively requires an understanding of human behavior in the workplace; in particular, how to lead employees, motivate them to do what needs to be done, and provide an environment that facilitates them in achieving team and organizational objectives. Regardless of one's theoretical approach to leadership, certain practical behaviors have been found to characterize successful leaders. In addition, good management depends not only on understanding the behavior of the manager but also on understanding the behavior of the subordinate. Managers need to be able to motivate their employees to contribute to the success of the organization.

## OVERVIEW

Although there are many aspects to management, including administration, decision making, and supervising, at its heart, management is the process of efficiently and effectively accomplishing work through the coordination and supervision of others. To do this effectively requires an understanding of human behavior in the workplace—in particular, how to lead employees, motivate them to do what needs to be done, and provide an environment that facilitates them in achieving team and organizational objectives. Leadership is not a characteristic or quality that automatically induces other people to follow the leader. It is a process: a series of actions, changes, or functions that bring about the desired result. Leadership is also an intentional act. Although leaders' behavior may inspire others to action or to follow in their footsteps, they are not leaders unless they are conscious of the attempt to modify the behavior of others.

### Levels of Leadership

As shown in Figure 1, there are three levels of leadership.

*Attempted Leadership*

The first level is attempted leadership, where Harvey attempts to modify the behavior of other people in order to do what he wants them to do. This can be done with one of three orientations.

- Task orientation is an approach to leadership where the would-be leader focuses on the thing to be done (such as meeting a quarterly sales goal, designing a new widget, or producing gizmos with fewer defects). People who have a task orientation to leadership tend to be good managers or executives and focus on organizational goals.
- The interaction orientation to leadership is one in which the would-be leader is cognizant of the needs, abilities, and personalities of the followers. The primary goal of the interaction oriented leader is to maintain group harmony. This is an important orientation for group leadership and necessary for facilitating efficient group interactions. In fact, in many group situations, there are two *de facto* leaders: One who is task oriented and one who is interaction oriented.
- In addition, there is a third approach to attempted leadership — the self orientation. The person who attempts to lead by this approach tends to be a day dreamer or underachiever who sees the world as a stage on which to act. Self-oriented leaders think more about themselves than about the task at hand or about the people who are accomplishing that task.

*Successful/Effective Leadership*

If the people whom Harvey is trying to influence actually change their behavior as a result of his attempt at leadership, he is a successful leader. If, on the other hand, they do not change their behavior as a result of his efforts, Harvey's attempts at leadership have not been successful.

**Styles of Leadership**

There are three general styles of leadership that are based on some combination of power and ability. Without one or both of these characteristics, the attempted leadership will not be successful.

- The coercive leadership style is based strictly on power. Within the organization, this is typically organizational power (such as one's position as a supervisor or manager), but it can also be any other type of power to reward or hurt the followers. This style of leadership is frequently seen in organizations with supervisors or managers who invite neither discussion nor participation on the part of the employees but use their organizational standing and concomitant power (e.g., promote or fire; give or withhold raises) to get employees to do what they want them to do.
- On the other end of the spectrum is the persuasive leader who leads purely on ability. This type of leader can be seen in organizations in the form of the expert on a work team who is followed because of his or her level of technical expertise, ability to organize and facilitate work, or other skill. Strictly persuasive leaders do not have any power and must lead solely by their ability.
- Some leaders, however, use both power and ability to lead others using a permissive style of leadership. People using this type of leadership style use both their power and ability to bring about the desired actions of the part of their followers. For example, many persuasive leaders within organizations use their abilities to lead their followers in most circumstances and rely on brute use of organizational power only in extreme circumstances.

A leader can be said to be effective if his or her efforts bring about a change in the behavior of others and they do what the leader wanted them to do. This, however, does not necessarily mean that the leader was effective. The effectiveness of Harvey's leadership lies in the perceptions of those he was leading, specifically whether or not they were rewarded for following Harvey. Reward can be monetary or social — such as a bonus or praise — but it can also take more subtle forms, such as getting the task accomplished on time

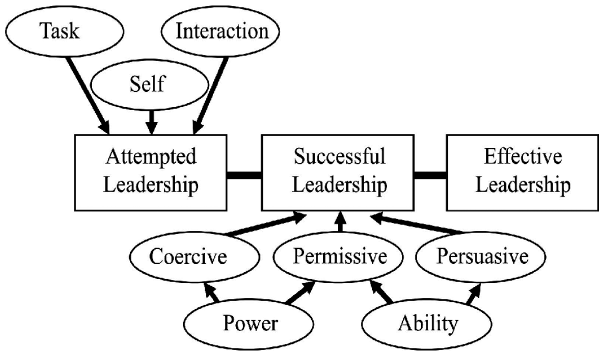


Figure 1: Three Levels of Leadership

and within budget. Those who have been effective leaders in the past will typically attempt to lead in other situations in the future.

**Traits & Behaviors Common to Successful Leaders**

Leadership theorists have examined the traits and behaviors of successful leaders for decades in order to help determine what distinguishes an effective leader from one who is not. Although many theories have been posited over the years, one enduring theme is that leaders need to change their behaviors depending on the characteristics of the situation such as the motivation and abilities of the people that they are leading. In some situations, a good leader needs to focus on concern for the task, while in other situations a good leader needs to focus on having concern for people. For example, a leader may be both successful and effective with a hands-off approach in a situation in which the people who are being led are experienced and trained in the task that they need to perform. In such situations, a good leader is often well-advised to provide the environment that the employees need to do their job and to support them rather than actively trying to be “in charge.” On the other hand, in a situation where the leader has knowledge and experience not possessed by the followers, he or she may have to be more directive as a leader in order to get the task accomplished. In the situational approach to leadership, theorists state that effective leaders change the style of their leadership depending on the ability and even the personality of the people they are trying to lead. Similarly, the contingency model of leadership suggests that effective leadership depends on whether or not the leader’s style is appropriate to the situation. For example, a leader who prefers to wade into a situation and tell people what to do will not be successful in a situation where a team works best through synergy, piggybacking ideas off each other, and developing a product or idea greater than they could have done alone.

No matter one’s theoretical approach to leadership, certain practical behaviors have been found to characterize successful leaders.

- First, successful leaders tend to be fair and objective in their evaluation of the work of others. Organizational rewards such as promotions, raises, and bonuses are often linked to performance in high performing companies, so it is essential that performance appraisals be fair.
- Second, it is also important that a leader treat all employees fairly and equally. Lack of fair treatment or perceptions of favoritism can lead to job dissatisfaction among employees.
- Third, good leaders need to be available to all the employees and be willing to discuss the employees’ problems with them. This observation stems from the need to be concerned both with the task as well as with the interactions of a work group and the individual needs of the employees.
- Finally, good leaders tend to delegate responsibility as appropriate to their subordinates. This allows the employees to learn new skills, helps them prepare for even more responsibility, and lets them feel as if they are making a valued contribution to the organization.

## APPLICATIONS

**Understanding the Employee**

Good management depends not only on understanding the behavior of the manager but also on understanding the behavior of the subordinate. In addition to good leadership skills, managers need to be able to motivate their employees to contribute to the success of the organization. Too much emphasis on the task at hand and not enough concern with the needs of the individual employee can easily result in a situation in which the employees are dissatisfied and do not contribute to helping the organization maximize its performance. Too much emphasis on the needs of the individual without concern for the task, on the other hand, may end with employees who are satisfied with their jobs but still do not contribute to helping the organization maximize its performance.

One of the ways that a manager can help reach the proper balance between these two extremes is through an understanding of motivation theory and application in the work place. Motivation is the study of the needs and thought processes that determine a person’s behavior. By understanding what motivates employees, a manager can better reward them for behavior that contributes to achieving the objectives of the organization. For example, a worker who is motivated by money can often be motivated through the possibility of raises or bonuses. For an employee who is motivated by status or power, the possibility of a promotion or corner office may offer a greater incentive for desired behavior.

**Motivation**

Although part of the role of the manager is to clearly specify what kind of behavior is expected in the organization and to encourage employees to meet or exceed these standards by providing feedback, most employees need more from the organization than to know that they are helping it succeed. To motivate employees to perform at a consistently high level, the organization must give them what they want or need. Good managers tend to try to determine what motivates their employees and offer these things within the confines of the organization in order to encourage them to contribute to the success of the organization. High performing organizations in particular frequently motivate employees to contribute to the company's high performance by linking desired performance to rewards.

Different people are motivated by different things. While Harvey may want security to save for the future, Mathilde may have what she needs for a secure future and want, instead, more time to spend with her family. Harvey is more likely to be motivated to work to earn more money, whereas Mathilde is more likely to work if she is promised more time off. Some motivation theorists try to reduce motivation to an equation that connects the probability of increased performance with such things as the employee's perceived expectancy of obtaining a reward for doing so. Others, however, posit that different people are motivated by different things, from having one's physical needs met (e.g., food on the table and a roof over one's head) to having the esteem of others or some other internal incentive. However, most motivation theorists recognize that people working in organizations both need and expect remuneration. Money means different things to different people and can act as a motivator for various needs. For example, some people are motivated by money to meet basic physical needs or to have the security of knowing that those needs will continue to be met for the foreseeable future. Others see pay incentives in the form of bonuses, raises, or promotions as recognition from the organization for a job well done.

**The Hierarchy of Needs**

One of the most enduring theories of motivation that has been applied to the understanding of employee behavior is Abraham Maslow's hierarchy of needs (Figure 2). Maslow hypothesizes that people are motivated by different things at different times in their lives depending on what needs have or have not been met. The hierarchy also hypothesizes that needs lower on the hierarchy must have been satisfied before higher level needs can be satisfied.

*Physiological Needs*

According to Maslow, the most basic level of needs is the physiological needs, including the needs to satisfy hunger and thirst, sleep, and sex. From an employee motivation point of view, this means that a manager is unlikely to motivate an employee who cannot put food on the table by offering him or her the possibility of a promotion without a pay raise; the need to eat in this case is more important than the need to impress others with a fancy new title.

*Safety Needs*

Once the physiological level of needs has been met, people become more concerned with safety needs, including the need to feel safe, secure, and stable in life (e.g., having a job so that one not only has food for today but also can buy food for the foreseeable future). People who are at this level of Maslow's hierarchy want to feel that their world is organized and predictable. From an employee motivation point of view, this might mean that people at this level of need would be willing to work without a raise for a given period of time if they were assured that there would not be a layoff during that period.

*Belongingness Needs*

Once the security and safety needs of the individual are satisfied, the next level of needs is for belongingness. People at this level of need are motivated by such factors as the need to feel accepted and part of a group, to love or feel affection and be loved in return,

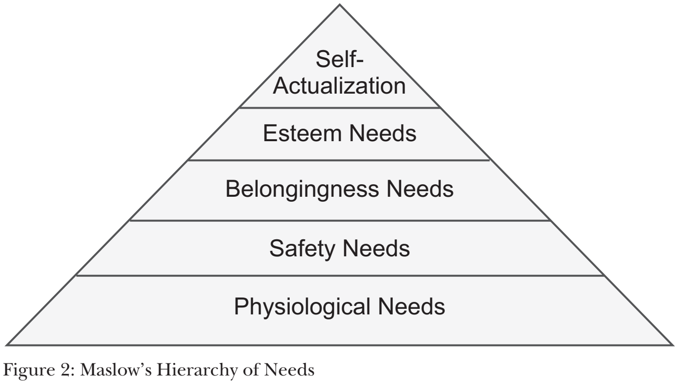


Figure 2: Maslow's Hierarchy of Needs

and to avoid loneliness and alienation. Someone at this level of need may be motivated by being given the opportunity to work on a special team to solve an organizational problem, thus allowing him or her to feel part of a group.

*Esteem Needs*

The next level of needs in Maslow's hierarchy is the esteem needs, including such things as the need to achieve, be competent, and be independent. Other needs at this level of the hierarchy include the needs for self-respect and a sense of self-worth as well as the need for recognition and respect from others. From an employee motivation point of view, someone at this level of need might be motivated by the offer to be part of a special team not because it was an opportunity to be part of a group but because it was a respected position that showed his or her importance or expertise.

*Self-Actualization*

The final level on Maslow's hierarchy of needs is self-actualization. This is a complex concept that basically means the need to live up to one's full and unique potential and is associated with such concepts as wholeness, perfection, or completion; a divestiture of "things" in preference to simplicity, aliveness, goodness, and beauty; and a search for meaning in life. Employees at this level in the hierarchy would be less interested in the things that motivated at lower levels on the hierarchy unless they enabled them to reach other goals, such as learning, spiritual development, or enjoying the wonders of nature.

*Other Points of Interest*

In addition to the fact that different people are motivated by different things, there are several other things that can be learned from Maslow's hierarchy of needs that have direct application to good management.

- First, employees can move not only up the hierarchy, but down as well. For example, although most adults are not worried about the safety and security needs (i.e., they have a regular paycheck and live in a safe neighborhood), the situation can change. An accident or ailing parent may mean that more income is needed. A divorce or change in a family situation may mean that one's esteem needs a boost.
- Further, in addition to moving up and down the hierarchy, people can experience multiple needs at once. For example, in negotiating a strike settlement, a manager will understand that although the workers need more money, they also need to have the assurance that they will continue to have jobs. Sometimes settlements can be negotiated that take such considerations into account by giving a token or low level raise in the short term for the security of a continuing job with the promise of reevaluation of the situation after a given period of time.

## CONCLUSION

To be a good manager requires an understanding of organizational behavior. In particular, it is important to understand the behaviors necessary to be a good leader and how these behaviors may change depending on the individual situation. In addition, good managers need to understand the motivations for the behavior of their subordinates so that appropriate rewards can be tied with performance that contributes to the objectives of the organization.

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# Business Data Management

## ABSTRACT

Business data management is an essential activity in all types of companies. This article explains the four basic steps in business data processing: Data creation, data storage, data processing, and data analysis. Various methods to accomplish the four steps are examined along with changes in technology that have impacted how the steps are being accomplished in a modern enterprise. As business practices have changed over the last few decades so have business data management methods. The emerging supply chain business model is explained along with its implications for business data management. The necessity for contingency planning for business data management is examined and the basic steps to contingency planning are explained.

## OVERVIEW

Over the last two decades corporations have been placing increased emphasis on the management of data (Goodhue, Quillard & Rockart, 1988). Business data management is a core activity for all businesses and supports a wide array of activities including financial management, accounting, purchasing, sales, human resource management, facilities management, product planning, manufacturing, and strategic planning. The activities of virtually every employee in every organization are dependent on business data management. There are four basic steps to business data management: Data creation, data storage, data processing, and data analysis.

Generally, it is the central Management Information Systems (MIS) department that designs, implements,