4.1 Beware of limitations

Judgmental forecasts are subjective, and therefore do not come free of bias or limitations.

Judgmental forecasts can be inconsistent. Unlike statistical forecasts, which can be generated by the same mathematical formulas every time, judgmental forecasts depend heavily on human cognition, and are vulnerable to its limitations. For example, a limited memory may render recent events more important than they actually are and may ignore momentous events from the more distant past; or a limited attention span may result in important information being missed; or a misunderstanding of causal relationships may lead to erroneous inferences. Furthermore, human judgement can vary due to the effect of psychological factors. One can imagine a manager who is in a positive frame of mind one day, generating forecasts that may tend to be somewhat optimistic, and in a negative frame of mind another day, generating somewhat less optimistic forecasts.

Judgement can be clouded by personal or political agendas, where targets and forecasts (as defined in Chapter 1) are not segregated. For example, if a sales manager knows that the forecasts she generates will be used to set sales expectations (targets), she may tend to set these low in order to show a good performance (i.e., exceed the expected targets). Even in cases where targets and forecasts are well segregated, judgement may be plagued by optimism or wishful thinking. For example, it would be highly unlikely that a team working towards launching a new product would forecast its failure. As we will discuss later, this optimism can be accentuated in a group meeting setting. “Beware of the enthusiasm of your marketing and sales colleagues”[4].

Another undesirable property which is commonly seen in judgmental forecasting is the effect of anchoring. In this case, the subsequent forecasts tend to converge or be close to an initial familiar reference point. For example, it is common to take the last observed value as a reference point. The forecaster is influenced unduly by prior information, and therefore gives this more weight in the forecasting process. Anchoring may lead to conservatism and undervaluing new and more current information, and thereby create a systematic bias.

4. Fildes & Goodwin (2007b)↩