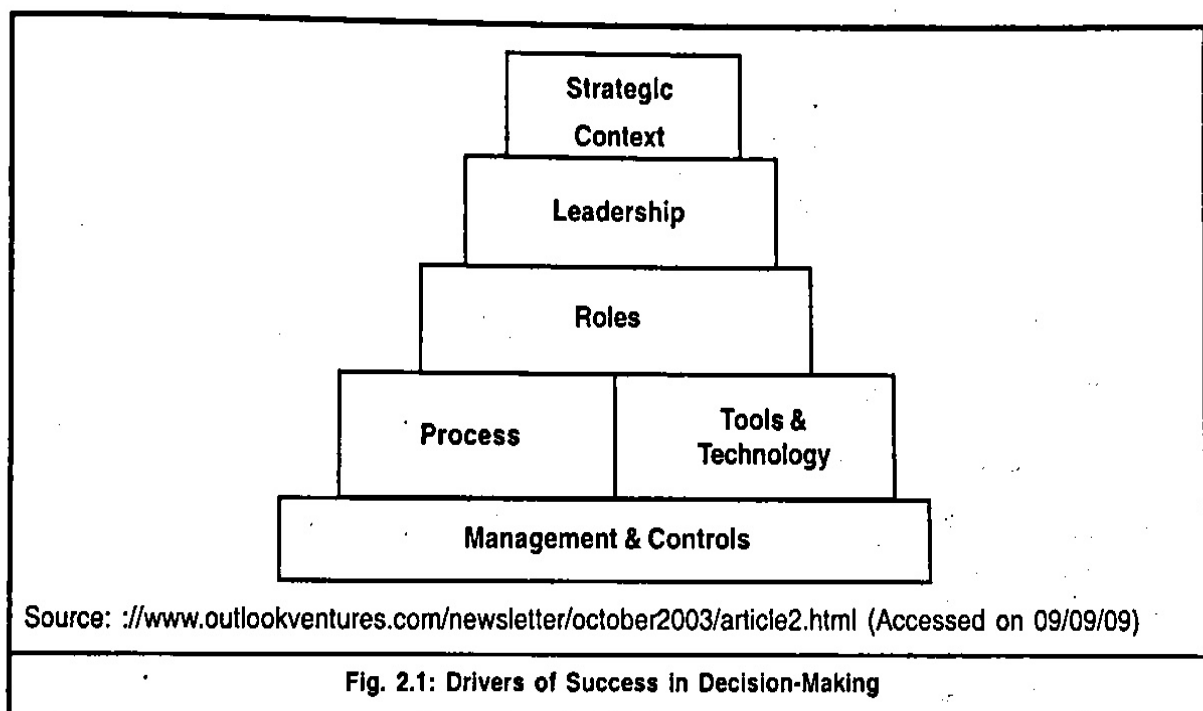# 2 CHAPTER

STRATEGIC DECISION-MAKING

Introduction

Managers in the business world often fail to make a decision at the right time and allow the opportunities to be grabbed by the competitors and the problems remain or magnify and culminate into a crisis. Decisions should be taken at the right time and implemented after problems have been thoroughly analysed. Decision-making means to come to a conclusion and implement it. Decision-making is defined as "the selection based on some criteria of one behaviour alternative from two or more possible alternatives." The need for decision-making arises only when there are two or more alternative solutions for a problem.

Values and Alternatives: To select one solution from the available alternatives, each alternative should be evaluated in terms of probable outcomes in comparison with other alternative solutions. The comparison should be based on values in terms of financial, social, psychological, technological and political. These values are often conflicting with each other and make the decision-making process a critical one. Concentrating on the important facets of the problem will help in reducing the conflict. However, taking strategic decisions is much more complicated task.

(B) Drivers of Success in Strategic Decision-Making

Sides and Associates has identified six drivers for success in strategic decision making. These six drivers as presented in Fig. 2.1 are: strategic context, leadership, roles, process, tools and technology and management and controls. Strategic context deals with strategic priorities, consistent criteria, risk profile, stakeholders' priorities, and organiational goals.

Leadership includes senior executives' role in providing freedom to junior managers in decision making, input for decision-making and supplying adequate and right information at the right time. In addition, democratic and participative styles of leaders enhance decision-making culture in the company. Roles include collaborative, challenging and contributory roles of the individuals in committee and team/group decision-making. Process includes open versus closed communication as well as wider participation versus limited participation in decision-making. Strategy to be effective should be open communication and wider participation with the inbuilt devil advocacy in the process. Tools and technology includes cross-functional teams, quantitative techniques, modelling and institutional learning systems. Management and controls should include the measures that contribute to the enhancement of output as well as reducing the input requirement. These measures enhance the efficiency and profitability that contributes to the organisational goals.

Source: ://www.outlookventures.com/newsletter/october2003/article2.html (Accessed on 09/09/09)

Fig. 2.1: Drivers of Success in Decision-Making

Types of Decision

Decisions are classified into routine and strategic or programmed and non-programmed decisions. Routine or programmed decisions are taken by an established or systematic procedure. The decision-maker, in general, knows the situation in routine or programmable decisions. Managerial decisions covered by policies, procedures and rules are taken by following established guidelines.

Strategic or non-programmed decisions have little or no precedent. They are relatively unstructured and generally require a more creative approach. The decision-maker must develop a procedure to be followed. Generally, it is difficult to make non-programmed decisions compared to programmed decisions.

(C) Approaches to Strategic Decision-Making

Different theories have suggested different approaches of decision-making. These approaches are discussed hereunder:

(a) The Intuitive-Emotional Approach

Decision-maker takes decisions based on intuition which is characterised by the use of hunches, inner feelings or the 'gut-feeling' of the decision-maker. Decision-maker who makes decisions based on intuition, practices management exclusively as an art. This decision-maker prefers habit or experience, relative thinking, and instincts using the unconscious cognitive process. The decision-maker takes into account a number of alternatives into consideration, but simultaneously jumps one step in analysis and search for another and back again.

(b) The Rational-Analytical Approach

In the rational-analytical approach, the decision-maker is intelligent and rational. The decision-maker makes the choice in full awareness of all available feasible alternatives to maximise advantages. The decision-maker considers all alternatives as well as consequences of all possible choices, orders these consequences in the light of a fixed scale of preferences, and chooses the alternative that procures the maximum gain.

The rational approval to decision-making includes the following steps:

(i)   Recognise the need for a decision;

(ii) Establish, rank and weight criteria;

(iii) Gather available information and data;

(iv) Identify possible alternatives;

(v)   Evaluate each alternative with respect to all the criteria; and

(vi) Select the best alternative.

(c) A Satisfying Approach

There are limits to human rationality. Therefore, an individual must take decisions based on limited and incomplete knowledge. In view of this, the individual decision-maker cannot optimise but only satisfy.

Optimising means choosing the best possible alternative. Satisfy means choosing the first alternative that meets the decision-maker's minimum standard of satisfaction.

Satisfying approach to decision-making is presented in Figure 2.2. If the decision-maker is satisfied that an acceptable alternative has been found, it is selected otherwise, the decision-maker searches for an additional alternative.
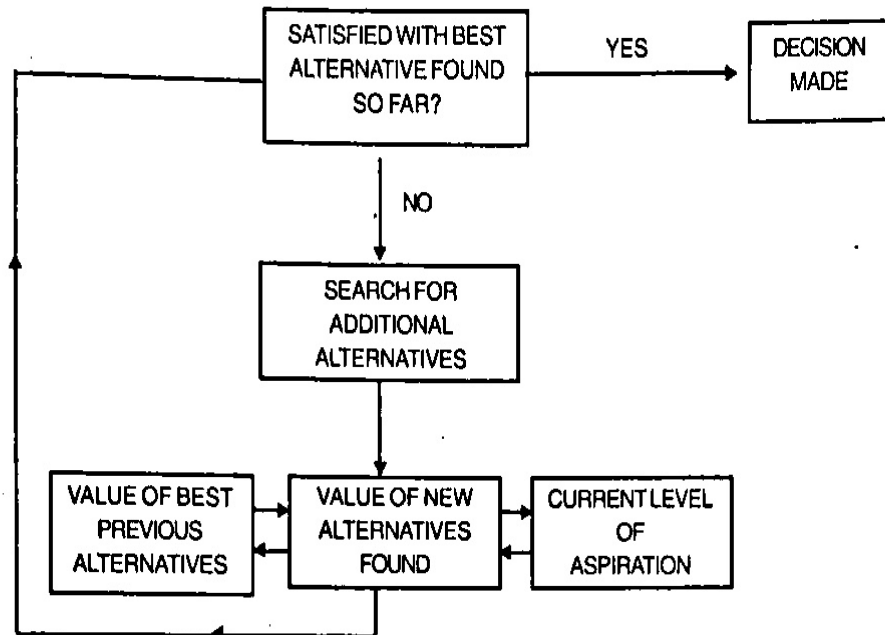
Fig. 2.2: Model of Satisficing Approach

(d) Political-Behavioural Approach

Normally, decisions made by organisations affect a variety of people and organisations. Hence, another view suggests that the corporations must consider all the people and organisations in making decisions. Corporations interact with a variety of stakeholders as the corporation and its stakeholders are mutually dependent on each other.

The employees exchange their human resources for fair salaries, benefits and harmonious industrial and human relations. Customers exchange their money for qualitative products and courteous services. Shareholders exchange their money for high rate of dividend and safety of their capital. Government provides security and protection and in turn expects payment of taxes regularly. Financial institutions exchange their finance for high rate of interest, security of principal amount and regular payment of interest. Suppliers of inputs expect fair terms of trade and continuous business. Competitors exchange information through chamber of commerce, trade and industry for mutual existence and development. The dealers expect continuous business. Thus, a stakeholder is an individual or organisation who can affect or is affected by the decision-making and achievement of organisational purpose and objective.

A Synthesis: The decision-maker being a human being possesses a rational and the emotional mind. Environment is a mixture of analysable and chaotic change and pressures. Therefore, decisions are made in a typically human way, using the rational, conscious analysis and intuitive, unconscious 'gut feeling' in light of political realities. Blending of these prescriptive and descriptive approaches helps to understand how decision-makers operate.

(D) Process of Strategic Decision-Making

Though, we have studied different approaches to strategic decision-making, the research suggests that the process of decision-making which actually takes place in organisations and give rise to strategic decisions possess the following five steps in the process: They are:

   (i)   Problem Awareness;

   (ii)   Problem Diagnosis;

   (iii) The Development of alternative Solutions;

   (iv) The Selection of a Solution; and

   (v)   Implementation of the Solution.

(i) Problem Awareness

Mostly individual employees identify the problems in various areas. Individuals when they get a 'gut feeling' that something is wrong, identify the problem. The awareness of a strategic problem mostly occurs to employees at grass-root level like sales people, machine operators, finance assistants, human resource assistants, etc. This awareness is likely to develop through a period of 'incubations' in which managers sense various stimuli that confirm and define a developing picture of a problem. Norburn and Grinyer call this stimuli as 'signals' or 'ear twitchers' and are of three types.

   (a)   Internal performance measurements like level of turnover or profit performance.

   (b)   Customer reaction particularly to the quality and price of the products and/or services.

   (c)   Changes in the environment, particularly in terms of competitive action, technological change and economic conditions.

These three factors together provide a picture of the deviation of an organisation's circumstances from the planned or expected one. This can be the deviation from a normal trading pattern.

The accumulation of stimuli will clearly indicate the existence of the problem in the organisation. This 'triggering point,' will soon be highlighted by the formal information system in the form of decline in sales, profit, and increase in the rejection level in the production department.

Successful business performance depends upon the ability of management in sensing its environment. Therefore, managers should respond when the problem is identified by the individual employees at the bottom level.

(ii) Problem Diagnosis

After the individual employees are aware of the problem and it is passed onto the managers, managers will gather the information and define the problem.

Information, may be gathered in the following ways:

   (i)   Information may be explored to determine the facts of the problem in detail. Such information may be gathered on a verbal and informal basis.

   (ii)   Rationalise the information and stimuli relevant to the problem so as to clarify the situation.

   (iii) Act diplomatically to establish peer groups or political support for individual views of the problem.

Try to define the problem through debates and discussions and also get organisational view or consensus on the problem to be solved. The problem, then may take a clear shape by interweaving managerial experience of the executives and political process in the organisations. Some executives, may not accept to proceed ahead or define the problem and ask for additional information or the triggering of a different problem owing to different managerial experience and different views in right of social and political process. In such a situation, the process reverts back to the stage of triggering.

(iii) The Development of Solutions

After the problem is diagnosed clearly, the tendency of managers is that of searching for ready-made solutions. They do this process: (i) through memory search in which the managers seek for known, existing or attempted solutions, or (ii) passive search which entails waiting for possible solutions to be offered. If the managers fail in these two searches, they search for their own past experiences and other managers. If they fail to find a solution even through this method, they attempt to designing solutions.

They start designing or developing solutions through a vague idea, gradually improve it, refine it by recycling it through selection routes back into problem identification or through further searches. This process of developing solutions takes place through discussions, data analysis, debates, consultations and brain storming sessions and by sharing management wisdom and experience. Data warehouses provide required data and information for the development of solutions. This can take place both in the form of structured and unstructured team works. The solutions once developed are to be refined until they are developed to the stage of perfection within the available human and other resources of the organisation.

(iv) The Selection of a Solution

After the alternative solutions are developed, the solutions have to be formally evaluated based on their inherent strengths and weaknesses and also based on the environmental threats and opportunities for implementation. These solutions are to be ranked on the basis of their weights in terms of strengths and opportunities after eliminating the non-viable solutions in view of their weaknesses and environmental threats for implementation.

After the formal evaluation and ranking is completed, the managers tend to re-evaluate the solutions based on the managerial judgement followed by political bargaining as the formal evaluation is not the predominant criterion for assessing the feasibility in practice. Therefore the techniques for evaluation of solutions also include social and political process. Quinn suggests that successful managers actively adopt consultation/bargaining process in order to challenge prevailing strategic inclinations and generate information from other parts of the organisation. The solutions may also be referred to the senior level to seek authorisation.

David Hickson and his colleagues in their study identified three broad types of decision-making processes. They are:

(i) Sporadic processes characterised by many delays and impediments, many sources of influence and information on decision, and therefore, protracted personal

interactions and informal negotiation. This type of process exists mostly in public sector organisations.

(ii) Fluid processes in which there are fewer delays and sources of influence, and more formal channels of communication which takes rather less time.

(iii) Constricted processes in which information sources are more readily available and decisions can be taken within groups or by individuals without extensive reference to others in the organisation. This might be the case in a business with a dominant chief executive or where there is an issue which relates primarily to one part of an organisation.

The managers should keep in mind the various processes discussed above while selecting the solution for implementation. If the managers fail to arrive at a consensus, the process may be recycled to search for new design.

(v) Implementation of the Decision

Implementation of the selected solution is a part of the decision-making process as the process may be required to be recycled due to impediments in the process of implementation. The managers should secure the support of the top management for allocation of resources, time, etc., regarding the implementation of the decision. A detailed programme of action specifying the minute details of action, people who will execute it, when it will be implemented, who will provide all necessary resources, how it will be implemented and who will co-ordinate the work, is needed. Employees concerned will be entrusted with the work and relevant information should be fed to them before hand. The managers should also ensure for getting feedback about the progress of implementation. If the decision cannot be implemented due to major hurdles in the implementation process, the process may be recycled for the possible modification.

Conclusion

Strategic decision-making, though plays a vital role in strategy crafting, there is every chance for the failure of strategic decision-making due to various reasons including the irrational thinking of the managers, unreliability of data and information, failure of the managers in evaluating the environment, lack of experience on the part of junior managers in decision evaluation and the political behaviour of the employees. Hence, management has to take all possible care in evaluating the situations as objectively and accurately as possible against the environment and organisational mission and goals.

(E) Questions for Discussion

(1) What is strategic decision-making? Describe the drivers of successful decision-making.

(2) What are the approaches to strategic decision-making?

(3) What is the process of strategic decision-making?

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