

Strategic decision-making

Experience, Human Nature



“ Rational decision-making is an impossible ideal in strategy formulation and implementation due to incomplete information and organisational politics. ”

Strategy is formulated and implemented by organisations as a means of gaining competitive advantage and achieving organisational success.

Frequent fast, widely supported, and high quality strategic decisions are the cornerstone of effective strategy (Eisenhardt, 1999 in Clegg et. Al, 2012). In today's world of borderless business, ever-evolving technology and rapid change, can these decisions be made rationally?

Currently there are three main decision-making paradigms in the literature – rational decision-making, political decision-making and the garbage can model. Each paradigm frames the decision-making process differently and each will be discussed in turn in this essay. It will then be concluded that while rational decision-making is possible, it is only boundedly so due to incomplete information confounded by the limitations of human cognition, particularly in the fast-paced business world of today.

Furthermore, while people can be individually rational, collectively this is not the case (Eisenhardt ; Zbaracki, 1992) - as organisations are political systems, politics and power are often central to decision-making in the formulation and implementation of strategy. Rational decision-making Model According to the rational decision making model, clear goals and objectives are first identified and listed in order of importance. All the alternative courses of action associated with each objective are then identified and the consequences of each action are established.

Consequences are assessed against the values and objectives pursued, with the course of action that best maximises these values being the one that is

chosen. This logical step-by-step approach suggests that the outcome will be maximised. It also assumes the decision maker has complete knowledge of not only all possible alternatives, but also their consequences. For strategists who subscribe to this model of decision making, the organisation is seen as a rational bureaucracy where strategic planning is conducted by top management and organisational structure follows.

This prescriptive view of decision-making has scientific principles at its core as decision makers are thought to be accurate and objective. Research, however, has shown that the decision-making process used by managers is not as straightforward or linear in nature. In fact, the assumptions underpinning the theory of omniscient rationality, while 'strikingly simple and beautiful' (Simon, 1978), are fundamentally flawed. Although such an approach to strategy formulation may appear ideal in theory, it cannot be practised except for with relatively simple problems (Linblom, 1959).

Limits of the cognitive capacity of humans, and on available information set definite limits on a manager's ability to be fully rational. In addition to this, other members of the organisation may disagree with the decision makers choice leading to power plays and politics. Whilst strategic decisions then, fall short of omniscience, they are not necessarily irrational. Rather, they are, and can only ever be, a bounded rationality. Cognitive biases of managers limit the applicability of the rational decision-making approach (Santos & Garcia, 2006).

The organisational situation is framed by the decision makers who perceive an approximate model of the circumstances, choosing from a limited list of subjective alternatives. Some choices are given weight and others are

<https://assignbuster.com/strategic-decision-making/>

relegated to the background, thus large segments of reality are out of focus (Feehan, 2013). Simon (1956) recognising the limits of comprehensive rationality, posited the concept of 'satisficing', that members will choose the first alternative that is deemed to adequately meet the organisation's objectives rather than taking the time to survey all possible alternatives and finding the optimal choice.

This satisficing alternative will meet the minimal satisfactory requirements. Linblom's 'Muddling Through' theory (1959) was one of the first to recognise the role of politics in strategic decision-making. Linblom refers to the comprehensive rational model mentioned above, as a 'root' approach to decision-making where the process begins with the fundamentals, always starting from the ground up. This means-end analysis requires that values are clarified in advance of examining alternatives. He posits a 'branch method' of incremental comparisons as a more suitable method for complex problems.

Here, the decision-making process begins in the current situation, building out with incremental changes. Lindblom argues that the organisation and individuals may hold conflicting values which only become clear after the fact. A good outcome is therefore, not the optimal one but one that is agreed upon by all players. These theories highlight both the limits of rationality and the importance of context in strategic decision-making. Unlike many other decisions, strategic decisions are made in an organisational context where the reaction of the players affects the outcome.

This view of organisations not as rational optimisers but 'satisficers' resonates with the author's experiences. Having owned my own business I
<https://assignbuster.com/strategic-decision-making/>

understand due to time constraints, working memory limits and finite funding levels, it is not possible to make decisions in a perfectly rational fashion. There will always be alternatives you (the organisation) had not considered, preferences you have that may be conflicting, and choices that cannot be made due to disagreements among stakeholders.

This is not to say that the strategic decisions cannot be rational – they can but only boundedly so. It is important, in my view, to approach these significant and complex decisions in a systematic manner when possible. However in a dynamic world, where business is borderless and technology is advancing at an ever increasing rate, I would question the utility of this approach. Context is key. Political decision-making model The political model of decision-making presents a compelling case against the possibility of perfect rationality in strategy formation and implementation.

In fact, according to Clegg (2012, p. 267) the biggest enemy of rationality is the power and politics that are inscribed in every organisational decision. The division of an organisation into separate departments, encourages political activity between them as they compete for scarce resources (Pettigrew, 1973). Coalitions are formed around a perceived affinity of interests, with the ultimate aim being to accrue enough power to influence the decision-making process. It is out of this struggle for power that decisions emerge.

Strategic decisions are particularly likely to stimulate political actions because they are complex, significant, and subject to uncertainty. There may be much to gain/lose for each of the players from both a material and reputational point of view (Child, Elbanna ; Rodrigues, 2010). Take for <https://assignbuster.com/strategic-decision-making/>

example, an organisation such as a hospital. It is pluralistic in nature, often experiencing conflict between departments, staff subcultures and rifts between administrative staff and departments.

Imagine as part of a cost containment strategy, it is decided after rational analysis, that the optimal alternative is to reduce wage costs by 20%. The highly paid consultants and lower paid floor staff will be pitted against each other, each protecting their own self-interests. The cost cutting strategy may have to be adapted in order to appease the players. As this example conveys, it is out of differences in self-interests that conflict rises (Eisenhardt ; Zbaracki, 1992). Research has consistently found organisational decision-making to be political in nature.

A study of nine international corporations found that they were political systems comprised of a myriad of coalitions and groups (Quinn, 1980 in Child et. al 2010). Pettigrew (1972) observed a scenario where established computer analysts conflicted with a newer team of analysts over which IT system their company should invest in. A member of the established coalition of analysts acted as gatekeeper, using his role to control the flow of information to top management whilst communicating negatively about his opponents ideas at the same time.

This resulted in management deciding to take his advice. Another often cited example of the political decision-making model the Cuban Missile Crisis (Clegg et al 2011; Child et al 2010). Garbage Can Model The garbage can model of decision making offers an alternative insight into strategic decision-making in organisations. Here, the organisation is described as a loose collection of already-made solutions, waiting for new decision opportunities

to be applied. Contrary to the assumptions of the rational model, decision making in these organised anarchies is not an orderly, linear process.

The ambiguity is due to the radical instability of three premises – preferences, technology (know-how, techniques ; equipment) and participation. Decision-making occurs when the right problem arises and the right people are receptive to it's solution. These variables are coupled temporally, by chance, rather than consequentially by rational calculation (Rainey, Ronquillo & Avellaneda, 2010). The garbage can model differs from the rational and political models as it conveys the role of chance in the decision-making process.

Decisions are not arrived at through boundedly rational analysis, nor are they negotiated by the interactions of coalitions. Instead, they are the random result of the convergence of problems and solutions at a particular point in time. This is not to say that this model is intended to replace rational decision-making, rather it's purpose is to supplement it (Rainey et. al 2010). Not all decision making situations are organised chaos, neither are they all rational. Many organisations in the public sector serve as examples of the garbage can model of decision-making.

Many policy-making decisions for example, are imprecise and vague in nature with no defined goals attached. Participants in the public sector decision making process are prone to change – board members, consultants and even governmental parties are likely to change during the course of the decision-making process. Rational decision-making then, is problematic for making the predictions about the future preferences and consequences

when formulating strategy. The human cognitive system will simply not allow us to consider all possible alternative solutions to any given problem.

This assertion highlights the importance of brainstorming and group work in order to generate possible alternatives that we, ourselves, may not have thought of. Even taking this into account however, it is doubtful that an exhaustive list of all eventualities would be arrived at. Groupthink and politics are also likely to factor into the equation. Furthermore, even if rational decision-making were possible, it may not be even be the ideal. It does not allow for the input of emotional intelligence and ethical considerations which are often required in the decision-making process.

How then can the business of today ensure they are making adequate decisions when formulating and implementing strategy? Organisational learning has been posited as an alternative view to organisations as decision-makers. Organisations are seen as learning by encoding inferences from experiences which are then used to direct behaviour (Levitt ; March, 1988). Organisations adapt to changes in the environment, storing data in it's repository to be drawn on later.

References

1. Clegg, S. , Carter, C. , Kornberger, M. amp; Schweitzer, J. (2011) Strategy: Theory & Practice. London : Sage.
2. Child, J. Elbanna, S. & Rodrigues, S. . (2010). The Political Aspects of Strategic Decision Making. In: Nutt, P. C. & Wilson, D. C. Handbook of Decision Making. Sussex: Wiley. 105-138.

3. Eisenhardt, K. M. & Zbaracki, M. J. (1992). Strategic Decision-making. *Strategic Management Journal* 13, pp. 17-37.
4. Feehan, M. (2013) Organisation & Strategy Slides. IPA Moodle. Accessed on 21/01/2013.
5. Levitt, B. & March, J. G. (1988). Organizational Learning Annual Review of Sociology. 14, pp. 319-340
6. Linblom, C. E. (1959). 'The Science of Muddling Through.' *Public Administration Review* 19, 2. pp. 79-88.
7. Pettigrew, A. M. (1973) *The Politics of Organizational Decision Making*. London: Tavistock
8. Pettigrew, A. M. (1972) Information control as a power resource, *Sociology*, 6, 187-204.
9. Santos, M.. V & Garcia, M. T. (2006) Managers' opinions: reality or fiction. A narrative approach. *Management Decision* 44, 6. pp 752-770.