Strategic management and decision making

When the benefits of actions are predictable, when the forces or variables that drives the firm are known and move in deterministic manner, when the deviations aren't high , one can easily use standard decision making optimization techniques. But when the situations are unpredictable, forces are unknown and move in unpredictable and non-linear manner, and then optimization principles will not help much. And this is what we are facing today. The utter necessity of tactical, operational and strategic approach is the solution to such dynamic situations that can be achieved through making important decisions strategically.

CHARACTERISTICS AND APPROCHES TO STRATEGIC DECSION MAKING

Unlike routine decisions, strategic decisions are highly substantial and significant that has pervasive and long term effect on an organization life. Such decisions must have following characteristics to be considered as a direction for future actions throughout an organization, these are:

Rare: Strategic decisions are rare and unusual and do not have any example or model to follow.

Consequential: Since strategic decisions are substantial, therefore its demands lot of dedication from people at all levels.

Percussive: Good strategic decisions serve as a role model and set standards for upcoming decisions in future.

Also as stated by Cyert and March(1963) that in established organization, the scope for decision making is limited by prior decision, either explicit or implicit, as well as being limited by morally committed to resources and departments etc.

According to Thompson’s (1967) decisions has 2 major dimensions i. e. preference about possible outcomes and cause and effect relations. And the degree of certainty and uncertainty is defined by causation and outcome preference, as shown in figure below:

Fig. 1

Situation

Certainty

Uncertainty

Certain

Computational

Compromise

Uncertain

Judgmental

Inspirational

Computational Decision Making:

Computational decisions are the outcomes of linear relation between causation and preferred outcomes. For examples, if company wishes to increase its sales by 2%, it must increase its advertisement by 4% , and for 4% sales, it must increase advertisement by 8%, knowing linear relation exists between cause and effect. Thus increasing advertisement increase sales by double and this is called programmed decisions by Simon(1997).

Judgmental Decision Making:

It occurs when cause and effect relation is uncertain, but outcome preference is certain. For examples a company targets to increase its sales by 2% for the coming year, but is uncertain about how to much increase advertisement to reach such target. So some kind of experienced powerful individual of committee with high intuition is required for effective decisions.

Compromise Decision making:

Compromise decisions are the outcomes of situations where there is certainty about causation and uncertainty about preferred outcomes. From previous examples, if company knows from its historical data that for every 2% increase in sales, the advertising must be increased by double, this is causation certainty, but there is uncertainty about achieving desired goals with respect to increase in sales.

Inspirational Decision Making:

Such decisions are the outcomes of both uncertainty about cause and effect as well aS preferred outcomes. For an instance, a company isn't sure that how much advertising percent be increased to get certain percent of sales increment. So for such cases a entrepreneurial mode or well planned mode is required to make careful decisions.

Because of uncertain business environment, decision makers face difficulty matching probability with outcomes, having many decision tools in hand.

However, again despite of having such tools, lack of accuracy is also one of the biggest obstacles in making decisions strategically.

In short we can summarize typical problems involved in strategic decision making are:

Uncertainty: Dealing with excessive complexity and rapid changes

Self-fulfilling prophecies: Coping with situations that external factors aren't fixed, but are affected by decisions.

Fragmentation: Working to connect regional functional groups.

According to Mintzberg, there are different approaches to making strategic decisions, that could be done by one person or by team.

Entrepreneurial Mode

The strategy is developed by one individual with strong entrepreneurial capabilities, supported by the owner's vision of direction. It is a good example of availing the available opportunities. Example AOL, Amazon. com.

Adaptive Mode

Unlike entrepreneurial mode, adaptive mode is the focus on the threats posed by external conditions, rather than search for opportunities.

Planning Mode

Planning mode is the combination of both entrepreneurial mode and adaptive mode, which consist of proactive search for opportunities and reactive solutions to current problems. It is a typical form of decision making where set alternatives strategies are presented and the best are chosen and implemented.

Logical Incrementalism

This philosophy of decision making is characterized by achieving organizational objectives by disseminating large organizational objectives into small steps for better focus. Though it is time consuming, but offers greater flexibility.

STEPS IN STRATEIC DECISION MAKING PROCESS

One of the distinguishing factor of strategic decisions from other decisions is context in which decision is made. The figure below represents this context in 3 C’s form i. e. Company, Competitor and Customer. This means that managers (company) make decision within organizational context , with influence from other players like customers and competitors . Thus we can say that managerial strategic decision is outcome of number of players like manager himself, customers, competitors, public, media etc.

As we can also see from figure that many factors, both external and internal are involved in strategic decision making. There are modifiers, influencers, and controllers and so on that decides the viability of decision making.

As mentioned before that most appropriate approach to strategic decision making is Planning mode, because it is more analytical, flexible in dealing with complex and changing environment, and consist of presenting set alternative strategies in response to solution for existing problems or looking for new opportunities. Following are the steps involved in strategic decision making process, shown in fig. 4

Evaluate current performance result:

The first step in decision making is (a) evaluating current performance of the company in terms of various measuring tools of decision making i. e. NPV, ROI, profitability etc and (b) evaluating the current mission, vision, strategies and policies of the organization.

Review corporate governance

Assess the performance of the organization's board of directors and top management, and agency head.

Scan and assess the external environment

Analyze the external environment. i. e. Societal and Task environment, for opportunities and threats and weigh external strategic factors.

Scan and assess the internal environment

Analyze the internal environment i. e. organization Culture, Structure and Resources for example programs, IT needs, constraints and weigh strategic factors in terms of strengths and weaknesses.

Analyze strategic (SWOT) factors

Consider strategic factors in light of current department situation and review and revise the firm's mission, vision, strategies and objectives.

Generate, evaluate and select the best alternative strategy

Keeping in view the previous step of analyzing strategic factors, operate and evaluate strategic alternatives and options and choose the best feasible options.

Implement selected strategies

Once the strategies are chosen, the next important step is to implement them keeping in considerations factors like budget, resources etc.

Evaluate implemented strategies

This is a very important step in decision making to check for any deviation from actual desired and pre- planned outcomes.

CONCLUSION

Strategic management is one of the very important areas in business environment and making decisions strategically is one of the biggest challenges in today’s rapidly changing and complex environment. Strategic decision making is a process of generating alternatives and choosing the best feasible alternatives for achieving long run objectives of the organization. Good strategic decisions are rare, consequential and directive, that set standard for future actions. The context in which the decisions are made is very important, as mentioned; it is external players like customers, competitors, media etc along with internal input from managerial efforts that effect quality of decisions. And also it is very important to know how these factors influences the quality and effectiveness of strategic decision making and be proactive to convert threats into opportunities, rather than being re-active in finding solutions to current problems.

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