A paradigm for strategic decision success

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A formal management decision-making process is conducive to strategic decision success

Strategic decisions are highly complex and involve a host of dynamic variables. The pre-eminent characteristic of strategic decisions is their significance for the long-term health of the total organization. Drucker notes the overriding significance of strategic decisions as follows:

> Effective executives do not make a great many decisions. They concentrate on the important ones. They try to think through what is strategic...rather than solve problems. They make a few important decisions on the highest level of conceptual understanding[1].

Strategic decisions are those which normally fall within the purview of the management[2]. Strategic decisions are important to the organization either because of the scope of their impact and/or because of their long-term implications. Because of their importance, strategic decisions are closely linked with one another to form a consistent pattern for unifying and directing the organization. This pattern of decisions reflects the long-range strategy for the entire organization.

Strategic decisions are seldom made by chief executives acting alone. Rather they are usually the product of the top management team – i.e. the CEO and the managers reporting directly to the chief executive. Strategic decisions are made by the application of managerial perceptions conditioned by managerial values and experience to information obtained largely from the external environment[3]. Strategic choice is the critical variable in strategic management[4,5]. "A strategic decision...is characterized by novelty, complexity, and open-endedness, by the fact that the organization usually begins with little understanding of the decision situation it faces or the route to its solution...Only by groping through a recursive continuous process involving many different steps and a host of dynamic factors over a considerable period of time is a final choice made"[6]. "Decisions to launch radically new or different products, to expand into other areas of business or non-business, or decisions to invest in new technology, for example, all contribute to fashion the characteristics of...organized society"[7].

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The following five principal criteria constitute a profile of the salient characteristics of strategic decisions in most organizations:

(1) The decision must be directed towards defining the organization's relationship to its environment...a strategic decision is externally-oriented and is concerned with articulating the nature of the interface between the organization and its (external) environment.

(2) The decision must take the organization as a whole as (its) unit of analysis.

(3) The decision must be multifunctional in character, that is, it must depend on input from a variety of functional areas.

(4) The decision must provide direction for, and constraints on, administrative and operational activities throughout the (organization).

(5) The decision must be (critically) important to the success of the organization[8].

A profile of strategic decision success

Given the declared significance of strategic decisions for the long-term viability of the total organization, it would seem that the literature of management would abound with studies of successful outcomes resulting from such decisions. Such, however, is not the case. In particular, there is a paucity of recent research that focuses directly on factors contributing to the success of strategic choices made at the top management or CEO level. However, there are a few noteworthy contributions to this impoverished area of research. Examples include:

- Stagner's study of 500 vice-presidents in 125 different business firms[9];
- Mintzberg *et al.*'s study of 25 strategic decision processes[6, pp. 246-75];
- Peters and Waterman's study of a cross-section of America's best run companies[10]; and

- Donaldson and Lorsch's study of 12 mature corporations[11].

Another significant contribution is the comprehensive Bradford studies of strategic decision making conducted in Britain[12]. And, finally, Harrison's study of the determinants of strategic decision success at the CEO level in 61 American companies also made a contribution to this critically important literature[13].

Another group of studies and writings focuses mainly on strategic decision failures and tries to explain the reasons for the failures. Weitzel and Johnson, for example, explain what went wrong at W.J. Grant and Sears, Roebuck[14]. Whyte offers reasons why decision fiascos occur and how to prevent them[15]. Hartley evaluates a cross-section of managerial decision-making mistakes[16]. Nutt provides several examples of débâcles in decision making[17]. Janis avers that group-think flaws many strategic decisions made at the highest levels of government[18]. Crozier declares that the DeLorean decision failed because the objective was rendered unattainable from the outset by the decision makers who disregarded several significant constraints[19]. Furthermore Huxham and Dando suggest that failed strategic decisions may result from bounded vision on the part of the decision makers[20]. Regrettably, few if any of these case studies of strategic decision failure or allegedly flawed approaches to decision making propound any new models or new approaches, the use of which is likely to improve the prospects for strategic decision success. That, of course, is the basic purpose of this article.

At this point it seems advisable to set forth a definition of success for the decisions normally made at the highest levels of management in most organizations. For our purposes, a successful strategic decision is one that results in the attainment of the objective that gave rise to the decision within the constraints that had to be observed to bring about such attainment. For example, a strategic choice resulting in the attainment of its objective within time, cost, and environmental constraints is most likely to be considered successful. Conversely, another strategic choice resulting in the attainment of its objective at the expense of the organization is less likely to be viewed as successful. And a strategic choice that does not result in the attainment of its objective in any case is likely to be judged a failure, even in the presence of extenuating circumstances. On balance it would seem that the notion of intended ends accomplished within designated means affords a defensible definition of strategic decision success[3].

A process model for successful strategic decision making

The paradigm for strategic decision success is based on the process model of managerial decision making. There is a large literature, dealing with the efficacy of a process approach to managerial decision making[3,21-24]. Regrettably, none of this literature has empirically demonstrated that a process model significantly contributes to successful strategic outcomes. The purpose of this article is to extend the body of knowledge in this important area of managerial activity. Using a paradigm for strategic decision success, several high-visibility strategic decisions from different large organizations are evaluated to support the hypothesis that a formal decision-making process is conducive to successful strategic decision outcomes. The results of this evaluation clearly indicate that, in the absence of any process or in the presence of an underdeveloped or misused process for strategic decisions, successful outcomes occur mainly by happenstance. Moreover, although a process-oriented approach affords no guarantee of a successful outcome, the likelihood of this occurrence tends to increase with such an approach[3].

The components of the managerial decision-making process are the functions of decision making which include:

- *Setting managerial objectives.* Cycles through the process commence with the setting of an objective and culminate when the objective is attained; new objectives initiate new cycles within the process.
- *Searching for alternatives.* Search involves scanning the relevant internal and external environments for information from which to formulate alternatives.
- *Comparing and evaluating alternatives.* Alternatives represent various courses of action for attaining the objectives. They are compared and evaluated using the information at hand, conditioned by the preferences of the decision maker for a given probabilistic outcome.
- *The act of choice.* This function is the moment when the decision maker chooses a given course of action from among a set of alternatives.
- *Implementing the decision.* Implementation causes the chosen course of action to be carried out within the entire organization.
- *Following up and controlling the decision.* This function is intended to ensure that the implemented decision results in an outcome that attains the objective which initiated the cycling of functions through the decision-making process [25].

The process model is oriented towards long-term results. It looks towards growth and the future. Essentially the process model is strategic in its emphasis. With its long-term horizon, the process model is designed to accommodate the innovative qualities that so often characterize strategic decisions. The process model is interdisciplinary in that it embodies some of the techniques of the quantitative disciplines as well as the behavioural themes of the social sciences. And, finally, the process model takes cognizance of the formidable human, institutional, and environmental constraints which bound the rational choice of strategic decision makers. Clearly, the process model is the vehicle of choice for most strategic decisions.

A paradigm for strategic decision success

Table I reflects the paradigm for strategic decision success that is advanced in this article. As shown in the table, strategic decision success is a function of the interaction of two primary managerial attitudes:

(1) the attitude towards the decision-making process; and

(2) the attitude towards the decision itself.

Managerial attitudes towards decision-making process

For its part, managerial attitudes towards the decision-making process focus on two critical factors[26,27]:

(1) the attainability of the managerial objectives that give rise to the use of the process;

(2) and the openness of the process to the external environment as well as an unqualified acceptance of the numerous constraints that bound the behaviour of the strategic decision makers.

Attainability of the objectives

The foundation of the decision-making process lies in the managerial objectives that give it purpose, direction, and continuity. A given objective represents an end point towards which management directs its decision making. Several recent studies place well-defined objectives at the top of the list of chief executive responsibilities[28]. Most of these agree that objectives define the tasks that are essential for successful strategic decisions[29]. Objectives may be perfectly clear to management; but it is essential that they be attainable. Objectives that are beyond the capability of the organization, or those which management, by its action, places above the reach of the organization provide a flawed foundation for successful strategic outcomes.

Openness of the process

Many of the widely accepted guides in economics and statistics are based on closed decision models. Such models are considered closed because of the minimal weight given to the environment of the decision maker and the underestimation of the act of making a strategic decision[30]. Conversely, the process model of managerial decision making is completely accessible to the environment; and the decision maker is unlikely to minimize the complexity of strategic choice. Openness in the use of the process model for strategic decision making is reflected in the observance of the characteristics that are inherent in this model:

- Objectives are dynamic and aspiration levels respond to changes in objectives.
- Relationships between alternatives and strategic outcomes are not predetermined.
- The strategic decision maker searches for alternatives and compares and evaluates these alternatives in a context of bounded rationality which acknowledges unavoidable time and cost constraints as well as the omnipresent cognitive limitations of the decision maker[3,31].
- A successful decision is assumed to be one that meets the objective that gave rise to its being made within the aforesaid constraints.
- There is continuous interaction between the strategic decision makers and those stakeholder groups in the external environment whose support is necessary for a successful strategic outcome.

All things considered, openness in the process model along with a set of attainable strategic objectives constitutes the optimal managerial attitude towards the strategic decision-making process. But the strategic decision maker's attitude towards the process of arriving at a strategic choice is only half the equation. The other half relates to the manager's attitude towards the outcome of the strategic choice itself.

Managerial attitudes towards the decision

Managerial attitudes towards a given strategic choice are also centred on two primary factors:

(1) the judgemental or computational qualities of the strategy used to arrive at a decision; and

Table I. *Strategic decision paradigms*

Attitude towards the decision	Attitude towards the decision-making process: Attainable objectives/ open decision-making process	Unattainable objectives/ closed decision-making process
Judgemental decision-making strategy/satisfactory outcome	Type A	Type B
Computational decision-making strategy/maximizing outcome	Type C	Type D

(2) the maximizing or satisficing nature of the outcome that management seeks from the decision.

The strategies of strategic choice

The basic variables of the choice itself are: preferences regarding possible outcomes, and presumed knowledge regarding a given outcome[32,33]. Managers making strategic choices acknowledge little uncertainty regarding their preferences for a given outcome. There is a strategic objective and the manager clearly prefers a choice that will obtain the desired result. On the other hand, there is seldom perfect knowledge regarding the outcome of a given strategic choice. If there were such knowledge, the choice would not be strategic. Consequently, a deciding manager must proceed towards a preferred strategic outcome in the presence of considerable uncertainty and choose a given alternative based on judgement applied to information that is less than perfect. This approach to strategic decision making is called a *judgemental strategy,* and it is characteristic of most strategic choices[3].

Conversely, there are times when a given manager presumes to know enough about the preferred outcome to attempt an optimal alternative, or one that will result in the highest level of attainment for the strategic objective. This approach to decision making is called a computational strategy and, because of its simplistically quantitative emphasis, it seldom results in a successful strategic choice. In essence, a computational decision-making strategy tends to underestimate the complexity of the decision-making situation and to overrate the knowledge and capacity of the decision maker. For its part, a judgemental decision-making strategy acknowledges the uncertainty attendant on most strategic choices and accepts the constraints on the human decision maker. Both strategies reflect strong preferences for desirable outcomes, as is the case with most managers. However, the computational strategy is based on a non-existent level of certainty, whereas the judgemental strategy is grounded in the reality of omnipresent uncertainty.

The outcomes of strategic choice

An outcome is a state of affairs that exists as a consequence of a given alternative having been chosen by a strategic decision maker. Strategic objectives operating through the process of strategic choice give rise to strategic outcomes. There are two principal variations of strategic outcomes. The first variation is called a maximized outcome; and it presumes the capability for attending the best possible result in pursuit of a given strategic objective. Maximizers tend to seek optimal outcomes through a computational decision-making strategy which presumes that the decision maker has a high level of knowledge regarding the outcome. Regrettably, this presumption is untenable in the case of strategic choices which normally have highly uncertain outcomes. On balance, maximizing involves a futile quest for unattainable objectives sought through a closed decision-making process. In point of fact, the outcome that a strategic decision maker should seek is one that simply meets the strategic objective. There is no requirement to exceed a given objective. If a higher level of attainment is sought, simply escalate the objective, but not beyond the point of attainability. This variation is called a satisficing outcome, and it is recommended for most strategic choices. Satisficing outcomes normally result from a judgemental decision-making strategy in which the decision maker accepts the reality of imperfect information regarding the outcome of a given choice. Strategic decisions are more likely to be successful if they are geared to the attainment of realistic strategic objectives pursued through an open decision-making process. This is the principle of satisficing in strategic decision making.

A typology of strategic choices

The paradigm for strategic decision success set forth in Table I is best explained in the context of the typology that results from the confluence of its two primary sets of managerial attitudes.

Type A attitudes and applications

Type A strategic choices exemplify the best set of attitudes for a successful strategic choice. Decision making is characterized by attainable objectives pursued within an open decision-making process, and the decision results in a satisficing outcome obtained through a judgemental decision-making strategy. Success for a type A strategic choice is never a sure thing; but the likelihood of success is much higher than for the other types of strategic choice set forth in Table I.

There are numerous applications of type A decisions made by corporate executives in recent years. The strategic choice made by Philip Morris in 1984 to reduce its dependence on profits from the sale of cigarettes by diversifying into food products had an eminently successful outcome. The earlier decision made by the Carter administration in 1979 to bail out the financially-beleaguered Chrysler Corporation was largely responsible for the present-day success of America's third largest automobile company. Furthermore, the strategic decision of Merck to acquire Medco in 1993 harbours appreciable synergistic benefits for both companies and their respective constituencies. And, finally, the strategic choice of Microsoft to produce and market Windows, NT in 1991 seems certain to solidify the industry leadership of that corporation.

Type B attitudes and applications

As shown in Table I, the decision maker's attitude towards a type B choice is characterized by a judgemental decision-making strategy in quest of a satisficing outcome. However, this positive attitude towards the decision is negated by the decision maker's orientation towards an unattainable objective pursued within the closed decision-making process. The wrong process is unlikely to yield the right decision, and a type B choice epitomizes this negative relationship. Unattainable strategic objectives pursued within a closed decision-making process will not yield satisficing strategic outcomes. Therein, of course, lies the principal deficiency inherent in a type B strategic choice.

Type B strategic choices are not as uncommon as one might suppose. For example, General Motors' decision to produce the Saturn in 1982 was not successful, largely because management disregarded both time and cost constraints in delaying the roll-out of the first vehicle until 1990. By then the break-even point was beyond reach and the competition was ready for Saturn. Another example of a type B decision involved the strategic decision of General Motors to purchase Hughes aircraft in 1985. The objective was to obtain a transfer of aerospace technology to the production of automobiles. In the case of Saturn, GM's management took an attainable objective and made it unattainable by immersing it in the closed decision-making process during its implementation. In the case of Hughes Aircraft, GM's management started out with an unattainable objective that failed in the breach. Other examples of type B choices include Eastern Airlines' decision to be acquired by Texas Air in 1985, and American Express's decision in 1987 to enter the revolving credit market with the Optima card.

Type C attitudes and applications

Type C strategic choices begin with attainable strategic objectives pursued through an open decision-making process. This category of strategic choice tends to fail because management presumes a high level of knowledge regarding the outcome and uses a computational decision-making strategy in quest of a maximized outcome. The common tendency of management to underestimate or ignore the uncertainty inherent in the outcome of a given strategic choice and to proceed computationally, oblivious to the risk attendant on a given strategic objective, is almost certain to produce a failure.

One excellent example of a strategic decision that failed because the decision makers sought to maximize the outcome of a perfectly attainable objective pursued through the open decision-making process was the decision of the Walt Disney Company in 1991 to locate Euro Disney in France. The financial arrangements surrounding this decision provide almost irrefutable evidence of a computational decision-making strategy in quest of an optional result.

Another example of a type C choice was the decision in 1991 of the General Dynamics Corporation to reduce its operations from 11 to four divisions through a strategy of deliberate divestiture. Additional examples of type C strategic choices include the decision of Bank of America in 1992 to become one of the world's largest banks with the acquisition of Security Pacific Book and the decision in 1992 of the General Motors Corporation to enter the credit card industry with its GM Mastercard. Finally, it is important to note that, with a major adjustment in managerial attitude towards the decision itself and the acceptance of a satisficing outcome obtained through a judgemental decision-making strategy, a type C choice may be transformed into a successful type A choice.

Type D attitudes and applications

Type D has the worst set of managerial attitudes for strategic decision making. Here the approach is characterized by a set of unattainable objectives developed within a closed decision-making process, and the decision maker uses a computational decision-making strategy in quest of a maximized outcome. Essentially a type D strategic decision epitomizes the wrong means directed towards the wrong ends. As such, this category is marked for failure from the outset.

Most students and practitioners of management have their own list of type D decisions. The applications of this category enumerated below are clearly representative, but they are far from being exhaustive:

(1) General Motors' decision in 1978 to "reinvent" itself.

(2) Northrop's decision in 1980 to design and produce the Tigershark F-20 fighter.

(3) Coca-Cola's decision in 1985 to substitute new Coke for old Coke.

(4) Sears' decision in the early 1990s to eliminate catalogue sales.

(5) The decision of First Executive in the 1980s to become one of the top ten insurers in the USA.

(6) The decision of R.H. Macy in the 1980s to become America's largest department store chain.

Summary

In this article a successful strategic decision was defined as one that results in the attainment of the objective that gave rise to the decision within the constraints that must be observed to bring about such attainment. It was noted at an early point that the paradigm for strategic decision success is based on the process model of managerial decision making. More precisely, a formal decision-making process is conducive to successful strategic decision outcomes. Table I introduced a paradigm for strategic decision success that constitutes the conceptual foundation of this article. This paradigm is composed of two primary managerial attitudes: the attitude towards the decision-making process; and the attitude towards the decision itself. In turn each of these managerial attitudes is subdivided in two sets of critical factors. The managerial attitude towards the managerial process is based on: the attainability of the managerial objectives that undergird the process, and the openness of the process to the external environment as well as the numerous constraints that bound the decision maker. Managerial attitudes towards a given strategic choice are also centred on two primary factors: the judgemental or computational qualities of the strategy used to arrive at a decision; and the maximizing or satisficing nature of the outcome resulting from the decision.

The paradigm set forth in Table I constitutes a typology of strategic choices with varying possibilities for strategic decision success. In this typology, four types of strategic choices were identified and set forth as type A, type B, type C, and type D. Type A has the best set of managerial attitudes for successful strategic decisions. Attainable objectives developed in and pursued through an open decision-making process using a judgemental strategy in quest of a satisficing outcome provide the best chance for successful strategic choices. Type D has virtually no chance for success because its decision makers use a computational decision-making strategy in quest of maximized outcomes for unattainable objectives conceived within a closed decision-making process. Types B and C are classifications with mixed prospects for success largely because of incompatible attitudes on the part of the managerial decision makers. For example, decision makers using a type B approach have a positive attitude towards the decision itself which is negated in pursuit of unattainable objectives set within a closed decision-making process. Conversely, decision makers employing a type C approach tend to seek attainable objectives that defy realization because of a computational decision-making strategy oriented towards a maximized outcome.

Each type of strategic choice conceptualized in Table I was validated by several examples of real-world decisions. These applications of strategic decision types clearly indicate that the open decision-making process is the ideal framework within which to satisfice attainable objectives judgementally. Type A is the preferred choice for strategic decision success. Finally, subject to the understanding that it requires much additional research, the hypothesis that a formal decision-making process is conducive to strategic decision success is provisionally accepted.

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Application questions

(1) Which one of the four types of strategic decisions is most characteristic of your organization? Which one is least characteristic?

(2) Do you regularly seek maximizing or satisficing outcomes from your strategic decisions?

(3) Is your orientation towards strategic decisions judgemental or computational?

(4) Do you make attainable objectives somewhat unattainable by your attitude or actions in decision making?