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MANAGING THE DYNAMICS OF STRATEGIC DECISION MAKING

SUNDAY EWAH, PH.D

Cross River University of Technology
Faculty of Management Sciences
Ogoja Campus, Cross River State, Nigeria

ABSTRACT

The study examine a theoretical model of strategic decision making effectiveness using five construct; procedural rationality, political behavior, environmental favorability, environmental instability and quality of implementation. These constructs clearly showed that each has an effect on the strategic choice of decision whether positive or negative depending on the implementation process. In conclusion strategic decision-making is necessary in organizations and companies; hence managers have to be proactive in decision-making and processing for the success of the firm or organization.

Keywords: SDM, Organization, Managers, Implementation and Decision-Making.

1. INTRODUCTION

The dynamic requirement of Strategic decision-making is theoretically simple, but practically confounding if not intractable. The difficulties associated with decision –making arise from the fact that the process involves relating environmental factors, some of which are of course dynamic and uncontrollable to the response of the enterprise or company. The increasingly integrated global economy presents enormous opportunities and challenges for decision makers in most firms in developing countries. First with the significant rise in international competition and local rivalry, the global market has become not only difficult to penetrate but it is even more difficult to retain existing market share. Second; rapid technological changes had become the order of the day, that requires managers with strategic decision-making focus to propel the fortune of both domestic and multinational firms towards achieving competitive advantage. Hence contemporary organizations, firms and corporate bodies need to make strategic decision relating to both internal and external environment affecting the performance of their businesses. Such strategic decision-making (SDM) must address issues such as the firm's customers, competitors, market trends, opportunities and threats, that the company is expose to.

It is a truism that strategic decision-making defines and stipulate core competencies and integrated activities that can lead to the effectiveness of firms or corporate organizations. Therefore managers of companies and organizations have to be proactive as opposed to simply reacting to issues that bothered on the firm present or future business decisions. Above all they have to understand the business and the plight of their company well enough to determine what kind of strategic decisions to initiate.

For example D'Aveni (1994) correctly observed, that chief executive officers in industries ranging from telecommunications to auto part described the competition they face as brutal, intense, bitter and savage, and only the paranoid survive. The type of strategic decision a particular firm would choose depends in part on the firm's competitive strategy or position and its preferred adaptive style. Most firms are exposed to different market vulnerability, hence strategic decision-making is necessary for firms that can look beyond their immediate domain, and capture or create market for their products. The essence of a firm being in business or into production is to create a niche for itself, and this level can only be attain when vital decisions are taken promptly. The necessity to take strategic decision is the preoccupation of managers in all types of organizations whether multinational companies or local infant industries. Some decision needed to be taken might be more complex than others.

A decision to increase the number of sales outlets or a particular firm's market share may require the employment of more sales forces, more funds will be needed and logistic properly taken care of. This decision could affect the entire business climate; such as resulting in full employment of labour, interest rate for loans obtained, cost of promoting the products, etc. What is most important is that a decision has been taken. In business there is absolutely no right or wrong decisions, because of variation in time series and situations. Moreover, the business environment is quite dynamic and what managers consider a correct strategic decision today may turn out to be a wrong strategic decision tomorrow, because of time series and the vulnerability of business.

Many scholars have argued that even in the context of constraints, managers retain substantial degree of control over strategic choices (Child, 1972) and (Miles, 1982). One argument made in favor of this position is that some managers make very poor strategic choices, with devastating consequences for their firms, while others in very similar circumstances make much better decision. Such variation could not exist if constraints alone were driving strategic decision. Indeed, the likelihood that managers will make viable choice may well be a function of the decision process followed. But, it is important to note that today's managers have the power to influence the success of strategic decisions, depending on their expertise and skills.

Strategic decision makers in some organizations and companies in Nigeria loose their jobs because of failure to adopt their organizations to changes in the environment that affects their businesses adversely. Some of the deficiencies emanated from inability to forecast future demands and sales, increase distribution outlets, remain in the growth stage of a product life cycle, and many other related cases. According to Aluko, et. al, (1998) several companies in Europe and USA have also lost a significant market share to Japanese firms as a result of their inability to appreciate customers' requirements of higher quality for lower price, which is a strategic decision they took and are now capitalizing and reaping the benefits.

One of the major problem facing managers in developing countries is the dearth of information and variables required for strategic decision-making (SDM) in some of these organizations and companies. Nwachukwu (1992) confirmed that in some industries, the total production is unknown, the consumption pattern is not clear, the supply of raw materials is influenced by political consideration, and the time lead for supply of raw materials is most unpredictable. In such situation it becomes imperatively difficult for managers to make concrete decisions that would metamorphose to strategic decisions. It is therefore the objective of this study to draw the attention of users (managers, investors, business owners and the public) to the five constructs of "SDM" model as developed by Dean and Shearfman in 1996.

The remaining part of the paper include; theoretical framework, concept of strategic decision making, levels of strategic decision-making, others are conditions necessary for strategic decision-making, methodology of strategic decision-making model, synopsis of strategic decision-making model and conclusion.

2. THEORETICAL FRAMEWORK

Strategic decision-making is a key element of management-centered conception of organizations (Astley and Vande Ven, 1983). Organizations irrespective of their size must take strategic decision, whether large or small, profit making or not for profit, private or public, government or non-governmental. As long as organizations make changes in their activities, to continue or not to continue business dealings, it becomes part of their strategic decision-making (Aluko, et. al, 1998). Strategic decisions have been described as committing substantial resources, setting precedents and creating waves of lesser decision (Mintzberg, et. al, 1976), and Stahl and Grigsby (1997) noted that three facts distinguish strategic decision-making from other business considerations. Which include?

1) Strategic decision deals with concern that are central to the livelihood and survival of the entire organization and usually involve a large portion of the organization's resources, at least across two different functions.
2) It represents new activities or areas of concern and typically addresses issues that are unusual to the organization rather than issues that lend themselves to routine decision-making.
3) It has repercussions based on the way other lower-level decisions in the organization are made.

Cravens, (1987) stressed that market changes and new forms of competition have led to impressive growth and performance for those firms where management have incorporate strategic decision-making concepts and analysis into business strategy development and implementation. It should be noted particularly that strategic decision-making (SDM) is essential to companies' survival and growth in the rapidly changing Nigerian business environment. Thus, it is increasingly assuming the place of a "beautiful pride" in the management parlance. Research findings in Europe and America as reported by Ansoff, et. al in Ezeh (1995) showed that firms who make strategic decision were more accurate in predicting future outcome of their financial position. Such organizations equally remain focused and directional amidst changes and distractions. The benefits of strategic decision-making can also manifest if a business firm continues to be relevant to its target market. This it does by taking vital decisions in the form of technology up-grade, service trend, and market strategy development (Ezeh and Onodugo, 2002). Other examples are stated in the table below.

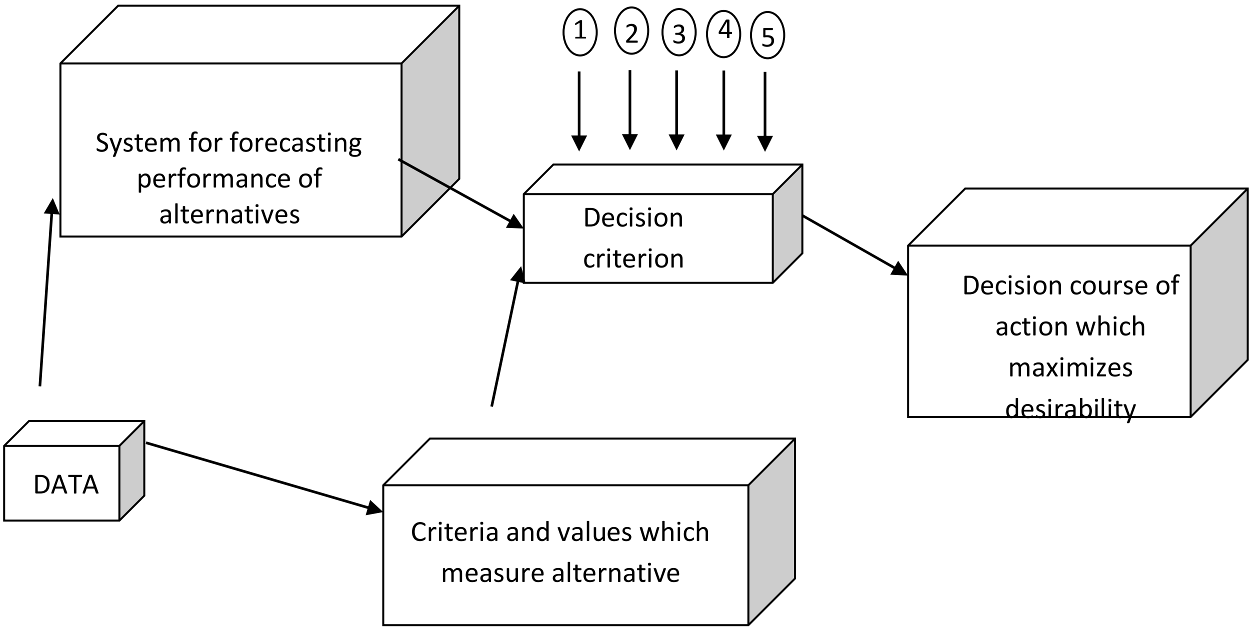
Table 1 Example of Strategic Decision

Types of Decisions	Examples
New product development	Adopt steel-toed athletic shoes in foot wear
Marketing strategy	Advertising should be intensified to create awareness for more marketing opportunities.
Human resource strategy	Enhance salary and compensation to workers in order to motivate their performance level.
Improve quality product	Develop total quality effort in the production of plastic or similar products.
New process technology	Adopt state of the art scanning equipment in publishing company.

3. CONCEPT OF STRATEGIC DECISION-MAKING (CSDM)

“SDM” is the general programme to select alternative course to achieve organizational objective. The strategic decision process is influenced by the unique environment of the decision maker, the organizational disposition, available knowledge and experience in taking fast decisions. It is a choice aimed at achieving optimum result in a given situation. Consequently a firm performance may influence as well as be influenced by decision-making processes. Buffa (1973) gave the structure of decision-making in the figure below;

Figure 1: Structure of Decision-Making



The figure above, clearly indicate that each alternative decision criterion could have good and bad aspects, therefore the one that has good and desirable aspect is selected for the strategic decision-making. If a quantitative strategy is adopted, the alternative with the highest value is selected as the rational decision. The basic process of rational decision-making involves diagnosing and defining the problem, gathering and analyzing the facts relevant to the problems, developing and evaluating alternative solutions to the problem, seeking the most satisfactory alternative, and converting it into action.

4. LEVELS OF STRATEGIC DECISION-MAKING (LSDM)

In most corporate organizations and companies in Nigeria, ‘SDM’ occur in three different levels. These levels are business, functional and corporate (Aluko, et al 1998).

1) **Business Strategic Decision-Making:** These decisions take a broad view that encompasses all the performing areas of a business and the external environment. Executives of firms rely on the functional managers for short-term operating efficiency and effectiveness, and concentrates on the mid-term reaction of the market to both the firm’s products and to competition.

2) **Functional Strategic Decision-Making:** These decisions are based on output, efficiency, quality and immediate results from a limited view of strength and weakness or distinctive competence. They are short-term measures that can easily influenced by building the firm's strengths and correcting functional weaknesses such as ineffective marketing campaign or poor production design.
3) **Corporate Strategic Decision-Making:** These include decisions such as awareness of the most important trends in the market and of qualitative budgets, forecasts, and periodic financial results. In most cases managers seek to maximize the attainment of long-term organizational goals.

Baker, (1992) in his book confirmed that major business decisions are by their nature very strategic and tend to focus on;

(a) Business Definition: A strategic fundamental is to define the firm's business. Organizations need to anticipate and adapt to changes by keeping in touch with the external competitive environment. Managers and corporate planners need to define the target of the organizations and make strategic decisions that will result to the success of the firms.

(b) Core Competencies: The organization must be competitive now and in the future. Strategic decision such as the type of skills and resources required in order to prosper within potential target market must be taken. How can these resources be used to optimum advantage?

(c) Integrative: Strategic decision process has greater impact if it is successful and the benefits manifest in all functional areas within the organization. By taking a whole organizational view of the corporation managers should be better able to channel resources and eliminate waste by taking positive decision at a very fast pace.

(d) Consistency of Approach: Strategic decisions should provide room for repeated approach, especially when the decisions are fruitful and give focus to the firm. Tactical activities in an organization may change and be adapted readily in response to the market conditions, but strategic direction should remain constant.

Conditions Necessary for Strategic Decision-Making

Strategic decision-making conditions refer to the surrounding environmental situations relating to information availability, certainty of occurrence of a desired target, etc, within which the manager makes decisions. There are essentially four conditions under which strategic decision-making can take place, such as; certainty, risk, uncertainty and conflict.

1. **Certainty Condition:** This is characterized by the following features- the manager has complete information as regards to the alternative courses of action open to him and their outcomes. In effect, the manager knows with certainty the outcomes of each of the alternatives. One major assumption of decision-making under certainty condition is that the variables of the decision will remain stable throughout the duration of the decision. Undoubtedly, this assumption can hardly stand any reality test because business environment is rarely stable.
2. **Risk Condition:** Under condition of risk, the manager is not so sure of the alternatives and their associated outcomes. That is the manager does not have complete information regarding the alternative courses of action and their outcomes. As a result, he attaches probability estimates to the decision variables. In effect, the use of probability estimates is one distinguishing features of decision-making under risk. Strategic decision-making under risk is a common feature in organizations.

3. **Uncertainty Condition:** This is marked by lack of knowledge of any or all the alternative courses of action, their potential outcomes and even the probability of the outcomes occurring. Managers often find themselves in this type of condition when they are involved in making novel decisions where past experience is irrelevant. But more importantly, uncertainty conditions are traceable to environmental dynamism which renders historical trends irrelevant in decision-making.
4. **Conflict Condition:** There is also the conflict condition where by the manager or organization is locked in competition with a rational individual. In decision-making under conflict condition, each decision maker knows what the other person can do.

5. METHODOLOGYY OF STRATEGIC DECISION-MAKING MODEL

In view of this research study it is necessary to develop a model at the decision level of analysis, rather than at the overall firm performance level. This will avoid the problem of ambiguity of causal ordering-the question of whether success is the cause or the effect of the decision process – that would accompany the choice of firm performance as a focus. The choice a decision level focus also provides for a tight link between the decision process and its outcome (Pearce, et al 1987). For the purpose of this study, strategic decision effectiveness is defined as the extent to which a decision achieves the objective established by management at the time it is made. Effectiveness as perceived by external constituencies may of course differ from management's perceptions (Friedlander and Pickle, 1968).

The three important criteria to consider when developing a model of "SDM" effectiveness include;

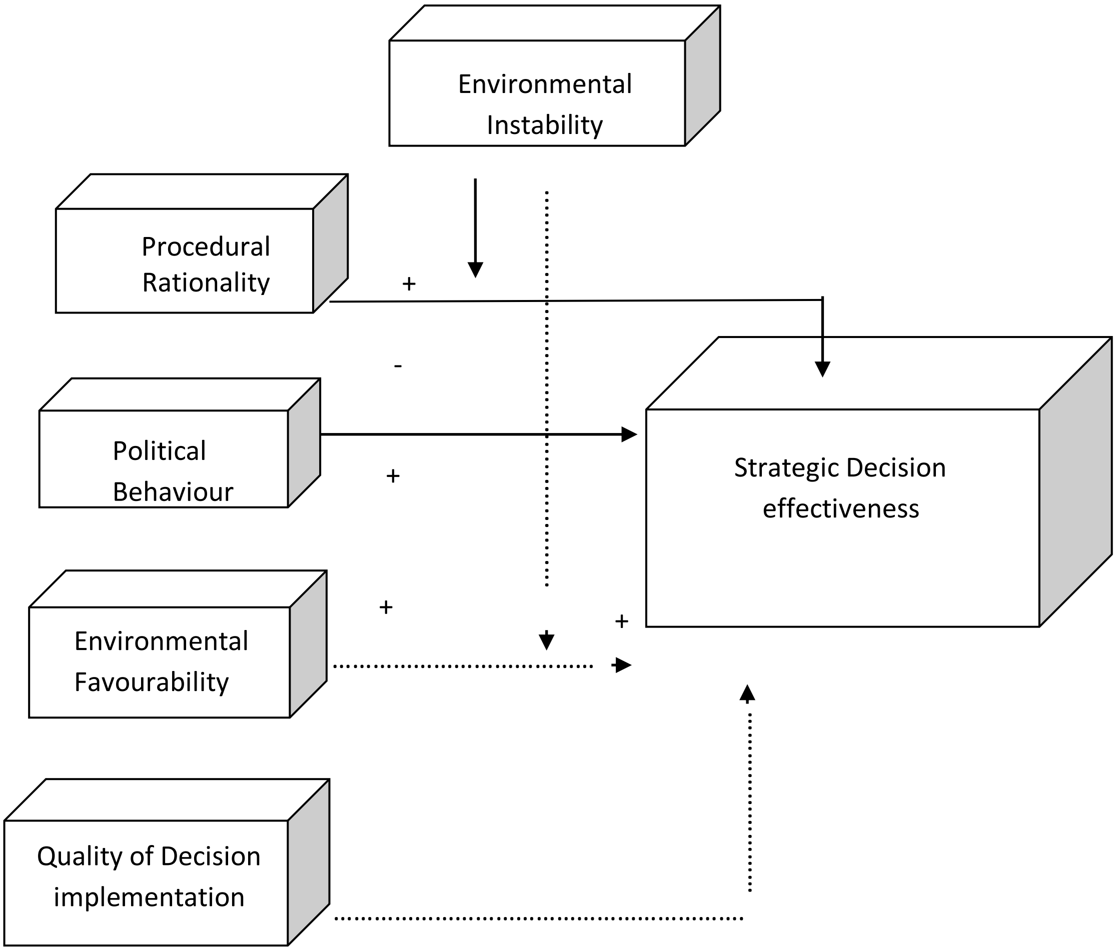
1) The constructs must be central to the decision-making literature.
2) The constructs must be logically and empirically distinct.
3) The constructs must be theoretically consistent with our concept of strategic decision processes as taking place in the content of environmental constraints and having an impact through the choices to which they lead. Two concepts, that is procedural rationality and politics rightly meet the first criteria, because these constructs have clearly played central roles in the organization decision-making literature (Allison, 1971; Carter, 1971 and Hart, 1992).

The second criterion is that the construct chosen be logically and empirical distinct, with one not a subset or opposite of the other. Recent research showed that procedural rationality and politics are distinct dimensions of the strategic decision-making process (Dean and Sharfman, 1996). Thus decision processes may be rational but not political, political but not rational, both rational and political, or either.

The third criteria are that the construct should be theoretically consistent with the conception of the "SDM" process described earlier. It is argued that decision process influence decision effectiveness by influencing choices made amidst constraints. Pfeffer and Salancik, (1978) argued that, for a decision to be successful, information about the environment and possible consequences of alternative actions must be acquired and processed. It becomes imperative that for a decision process to result in an effective choice, it must be;

1) Oriented towards achieving appropriate organizational goals.
2) Based on accurate information linking various alternatives to these goals.
3) Based on an appreciated and understanding of environmental constraints.

Figure 2: Model of Strategic Decision-Making



Source: Dean and Sharfman, 1996

Note: Dotted lines indicate control variables.

Procedural Rationality: This is the extent to which the decision process involves the collection of information relevant to the decision and the reliance upon analysis of this information in making the choice (Dean and Sharfman, 1993).. It will lead to strategic decision effectiveness. This is because procedural rational decisions are generally oriented towards organizational goals (Langley, 1989). Managers who used more rational process will be more likely to develop effective plans for reconciling their organizations with environmental reality. The dearth of vital information for decision-making has really hampered strategic decision-making in some companies in developing countries.

Political Behavior: This is recognized as an aspect of organizational decision-making. It is noted that people that work in organizations have different interest as a result of their personal factor and professional expertise. In some instances they try to influence the outcome of decisions, so that their interest will prevail. They do so by using a variety of political techniques. Allen, et al (1977) saw politics as intentional acts of influence to enhance or protect the self interest of individuals or groups. Pfeffer (1981) described political behavior as activities taken to use power and other resources to obtain individual's preferred outcomes in a situation in which there is uncertainty or dissensus about choices. Political behavior decisions may emerge from the head or boss of the organization. Such as New market outlet must be located in the most enduring commercial city in Nigeria.

Based on the theoretical consideration of other scholars, political behavior tends to reduce the effectiveness of strategic decision-making. This is because they are organized around the self-interest of individual or groups. If these interests are in conflict with those of the organization, successful political activity will make it less likely that a decision will serve organizational interest. Political behavior has the potential to undermine effectiveness, because it often involves distortion and restriction of information flow. In other words, managers who are pursuing their own interest are unlikely to tell the whole truth to one another in an organization about a course of action, hence a wrong decision could be made. In organizations where political behavior prevail at the extreme attention is focused inside the organization towards the mixture of interest, power bases, and positions, rather than on what is feasible given current environmental forces (Hickson, et al, 1986). Decisions that result from such processes are thus less likely to be informed about environmental constraints. In summary political processes may rule out viable choices, further reducing the likely success of strategic decisions they produce. Moreover, they are not oriented towards organizational goals, and are unlikely to produce complete and accurate information, and do not focus on environmental constraints. A manager with political behavior that is bias will not base decisions on organizational goals, or complete and accurate information or recognition and understanding of environmental constraints.

The institution of inheritance structure in most companies, especially in the private sector most often than not breed mangers with such tendencies and qualities. This is because some of them lack the expertise to set the wheel of strategic decisions moving in their organizations and companies. A case to not is Liz-Olufin group of companies' producers of biscuits and other spices in the early 80s in Nigeria suffered dearly in the hands of managers with political behavior. The decisions they took never resulted to the benefit of the firm, rather to satisfy their self-interest; this resulted to the folding up of the company in late 90s. many others equally experience same.

Environmental Instability: This is the extent to which market demand and technology is rapidly changing in a given industry (Dess and Beard, 1984) when instability is high, demand fluctuates overtime, and new technologies are introduced at a rapid pace, while in stable industries neither demand nor changes frequently occur. Therefore environmental instability moderates the relationship between process rationality and decision effectiveness.

Procedural rationality will be most important in unstable environment (Aguilar, 1967). Managers have to contact their research and development department to reach out for vital information that leads or result to positive decision-making. Within this environment managers who fail to systematically collect and analyze information about environmental trends and constraints will be much more likely to lead their organizations in non-viable strategic directions. Such as making purchases for inputs needed for production processes in unviable marketing segments and regions.

Managers in stable environment already have experience based understanding of their business environment and hence would have less need to engage in information collection and analysis in order to make effective choices. Therefore, environmental instability plays an important role in moderating the effects of environmental favourability on decision effectiveness.

Environmental Favourability: It is defined as the extent to which environmental conditions subsequent to a decision favour the choice that is made. This is because it functions as a control model. It is included in the model to assess the effect of “SDM” processes on decision outcomes and build a more complete model of forces that influence success.

The relationship between environmental favourability and effectiveness is likely to be moderated by the instability of the environment. In stable environments, conditions are well understood and can easily be factored into decision. While in unstable industries, the potentials for environmental conditions to influence the success of strategic decision is much greater.

Quality of Decision Implementation: It is defined as the competence with which steps are taken to execute the strategic decision. If decision implementation is not controlled for in an empirical study of decision effectiveness, it is impossible to know whether an unsuccessful decision was poorly conceived, (indicating a faulty decision process) or just poorly implemented. It is true that strategic decisions create waves of sub-decision and task that must be performed effectively for a decision to be successful. For instance a company that decides to introduce a new brand of handset need to select the hand set configurations and prices and to effectively manufacture and promote the product. Based on the type of decision, successful implementation may involve communicating with the target market or customers about the new handset or product. The requirements of implementation vary widely from decision to decision, but virtually all decisions require effective implementation to be successful. What most contemporary firms are suffering today is the implementation of strategic decision aspect. Sometimes the decisions are well conceived, but getting to the implementation stage, the decisions fail. That is one of the basic problem some companies in Nigeria are passing through and even the government.

6. SYPNOSIS OF STRATEGIC DECISION-MAKING MODEL

Based on the study of the model, the following observations were made that;

1) Procedural rationality is positively related to decision effectiveness and political behavior.
2) Environmental instability will not moderate the relationship between procedural rationality and decision effectiveness.
3) Environmental favourability and quality of implementation are both positively related to strategic decision effectiveness.
4) Procedural rationality will have a greater influence in unstable than in stable environments.
5) Environmental favourability would have a greater influence on decision effectiveness in unstable than in stable environments.
6) Managers who engaged in the use of power or power hidden agenda are less effective than those who do not.
7) Managers who collect information and use analytical techniques are more likely to make decisions that are more effective than those who do not bother to collect information.

6. CONCLUSION

Strategic decision-making is all about taking fast decision or position in the midst of other available alternatives. The nature of intense competition today amongst different companies and organizations competing for customers’ Naira notes, have resulted to different firms strategizing and modifying their decision variables to remain relevant and competitive in the most challenging and vulnerable environment. Therefore, this study generally requires managers to be proactive and decisive when following a course of action in an organization. The only constraint posed on this study was the variables used in assessing strategic decision-making model.

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