EFFECTIVE STRATEGIC DECISION MAKING

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Abstract: The importance of taking effective strategic decisions is very easy to understand, but in the same time it is difficult to be achieved, because it requires reforms that modify both senior leader decision-making styles and organizational structure. The decision-making process is familiar to everybody, being applied in almost all aspects of our public or private lives, at an individual or aggregate (organizational) level.

This paper presents many interesting issues related with strategic decision-making process, like a discussion about the decision-making process in the military. Also presents ways to increase the efficiency of strategic management, by debating whether the rational analytical approach or the intuitive way of thinking is preferable and if finding a satisfactory solution is suitable than searching for the best possible alternative.

Keywords: decision-making process, strategic decisions, organizations.

1. INTRODUCTION

The importance of taking effective strategic decisions is very easy to understand, but in the same time it is difficult to be achieved, because it requires reforms that modify both senior leader decision-making styles and organizational structure.

A decision could be defined as *"the act of reaching a conclusion or making up one's mind"* [1]. Another definition said that it is *"a position or opinion or judgment reached after consideration"* [2]. In comparison with tactical decisions, that affects the day-to-day implementation of steps required to reach the goals, strategic decisions are *"chosen alternatives that affects key factors which determine the success of an organization's strategy"* [3].

The decision-making process is familiar to everybody, being applied in almost all aspects of our public or private lives, at an individual or aggregate (organizational) level. It is commonly assumed that all decisions lead to some results that at least diminish current issues. At a closer look it seems that sometimes it is preferable not to act, instead of doing things in a wrong way, with unexpected consequences.

Effective decisions need a solid understanding of realities and social environment. All of us are confronted with various decisions to make on a

daily basis. Some are small and have minor consequence, while others are huge and with a great influence on our existence.

Let's identify some prerequisites for making a good decision:

- clearly identify the objectives or outcome you want to achieve;
- gather as many information you can to assess your options;
- elaborate several possible choices in accordance with your values, interests and abilities;
- reflect on the possible outcomes of each course of actions and estimate if it's acceptable;
- make a brief list of pros and cons, along with what you consider to be very important / important / less important;
- learn from previous experience and ask for opinions from those who had a similar situation to contend with.

It is preferably that only after all those steps were completed, people make the decision and monitor the results, to make sure they obtain the desired outcome. For simple and obvious choices we can rely on intuition, but for those that are complex and difficult to make a closer look is needed.

2. STRATEGIC DECISION MAKING IN THE MILITARY

One myth of strategic decision making is the assumption that people can and should make decisions as rationally as possible. Ideally, people make decisions by identifying and comparing options to determine which one produces the optimal outcome for a given set of circumstances.

In practice, the erratic behavior of human beings clearly demonstrates that people rarely act in a purely rational manner. Instead, people use so called "mental shortcuts" to simplify and speed up their decision-making process, based on previous experience, intuition or empiric common sense.

Senior leader's decision-making process, in most cases, is a combination of rationality and intuition. On one hand, they use intuition to bind the range of possible solutions for a problem that will be later analyzed with a rational approach. Similarly, they frequently follow steps from the rational model to verify their initial intuitive judgments.

In today's military fluid environment, with lots of unfamiliar operational circumstances, experience becomes less relevant and intuition less reliable. At the same time, reasoning is also underused, because it is time consuming and needs ample information to be available.

The question here is how to reconcile those two approaches that seems to be opposed in terms of strategic decision-making. For real battle situations intuition inevitably remains essential, due to the increasing tempo of military

operations. Improving reasoning also remains important, using the information processed and shared by networks.

In conclusion, to enhance military operational problem-solving we have to merge those two ideas, to such an extent that make intuition more reliable and reasoning more time-efficient.

People generally rely on their intuition when [4]:

- *They are facing a time-urgent situation.* In extreme situations, such as firefights and battlefield triage, even short delays caused by reasoning through a formal decision-making process can result in disastrous outcomes.
- *Conditions are dynamic or goals are ambiguous.* If a situation is changing rapidly, then it makes sense to focus on a satisfying solution that can be quickly found. One can reevaluate the situation when it changes and identify a new solution if needed.
- *They have a great deal of relevant experience.* Because intuitive decision-making relies on a person's ability to match a given situation to previous situations one has seen, the more relevant experience one has, the more likely one is to use intuition and use it effectively.
- *The problem can be modeled in mental simulations.* Intuitive decision-making requires people

to run mental simulations on what might happen if a given option were chosen. People can do this for a wide range of problems, some of which are fairly complex.

In contrast, people generally use a rational process when [4]:

- *They are not under heavy time pressure.* Stepping through a rational decision-making process takes more time than simply following a flash of insight. With more time, people are more likely to follow the rational approach, if only to verify an initial gut feeling.
- *Conditions are relatively stable and goals are clear.* If a situation is not changing rapidly relative to the time needed to make a decision, then a rational approach to find an optimal solution to the problem can be used.
- *They do not have a great deal of relevant experience.* If decision makers' experiences are not applicable to a given situation or insufficient to provide a basis for pattern matching, they should resort to a more rational model to guide them through problem formulation, option identification, analysis, and selection of a solution.
- *The problem is computationally complex.* Although human beings have a remarkable ability to use intuition in complex circumstances, at some point

complexity overwhelms the ability to grasp a given situation. At that point, the quality of decisions erodes along with the ability to recognize situations or run mental simulations.

For making effective strategic decisions it's not enough to have good rational planning and resource allocation processes. The decisions account for a broader range of factors than those found in the analyses conducted at tactical level. Even if the results of the rational analyses offer valuable insights, senior leaders must still compare possible options across operational, political, and economic value sets.

It is difficult to compare rationally the weights and prevalence of those conflicting value sets and to do so successfully require heavy reliance on intuition, judgment, and other non rational factors.

Even so, the rational decision has a vantage point. Senior leaders must rely in part on their intuitive understanding of the net effect of their decisions across multiple objectives, but they ought to do so while taking advantage of decision support that can better inform their intuition [4].

In practice there are two critical elements required for effective military strategic decision-making:

- clear, transparent, and well-coordinated rational analyses of alternatives from the decision support system; and

- sharp personal intuition and judgment.

The decisions must be consistent with the organization's broader interests. If there are situations when a rational decision is preferable (especially when the decision is not final and should be endorsed by some high level committee) the organization must encourage such behavior among its members, by:

- providing standard operating procedures;
- creating an organizational culture that promotes a rational set of values and norms;
- establishing a formal chain of command for promulgation of authority and communications;
- establishing programs for training and indoctrinating new members;
- controlling access to information;
- dividing work among members and/or subunits.

3. DECISION MAKING AS A FOUNDATION FOR STRATEGY

Managers in charge of strategic decision-making are capable of providing only satisfactory solutions to problems. Most human decision makers *"whether individual or organizational, are concerned with the discovery and selection of satisfactory alternatives; only in exceptional cases are concerned with the discovery and selection of*

optimal alternatives" [5]. As a result, it appears that strategy must deal with the notion of choosing the first option that appears to satisfy a basic set of criteria.

Decision-making under uncertainty is the central idea in strategy and it consists of lots of strategic decisions. The development of effective and successful strategies requires the development of three organizational skills:

- *anticipating the shape of the uncertain future.* This is no easy task since uncertainty involves not only uncertainty about the probabilities of the alternatives available, but also uncertainty about the probability distribution itself;
- *generating new alternatives for strategic decisions* (i.e. through the role of imagination and intuition in decision making);
- *implementing new decisions to make adaptation more effective.* Adaptation refers not only the level of the organization adapting to its environment, but also at the individual level (*"What a person wants and likes influences what he sees; what he sees influences what he wants and likes"* [5]).

It is widely recognized that effective strategic decision making is important for the evolution of organizations and for the creation and capture of value.

The decision problem is one of finding the best course of action which will fulfill the aspiration of the organization. This requires the ability to use imagination in creating new strategic possibilities.

4. DECISION-MAKING AND THE BEHAVIORAL THEORY

In practice, the fierce competition for economic, politic or social success induces a new dilemma regarding strategic decisions: how much quality is enough? In other words, is finding a satisfactory solution preferable than searching for the best possible alternative?

The behavioral theory of strategic management states that in decision making process "satisficing" (satisfactory solution) prevails optimization (best option). The reason is because *"the capacity of the human mind for formulating and solving complex problems is very small compared with the size of the problems whose solution is required for objectively rational behavior in the world – or even for a reasonable approximation to such objective rationality"*[6].

"Decision-making" in the behavioral theory is assumed to take place in response to a problem, through the use of standard operating procedures and other routines, as

also through search for an alternative that is acceptable from the point of view of current aspiration levels for evoked goals.

There are four factors that affect decision-making process: the definition of the problem, the existing rules, the order in which alternatives are considered, and by anything that affects aspirations and attention [7].

Within this framework, four concepts were developed:

- *Quasi-resolution of conflict* - organizations function with considerable latent conflict of interests but do not necessarily resolve that conflict explicitly;
- *Uncertainty avoidance* - even if organizations try to anticipate the future as good as they can, they also try to restructure their working environment in order to minimize their dependence on anticipation of the highly uncertain future;
- *Problemistic search* - search within a organization is stimulated primarily by problems and directed to solving those problems;
- *Organizational learning* - assumes that firms learn from their own experiences and the experiences of others.

In conclusion, after defining the notions of decision and strategic decision, followed by a discussion about the decision-making process for the military, we end-up by debating whether the analytical or the intuitive way of thinking is more powerful.

Even if the popular "head versus formula" controversy established the superiority of rational analytical approach over the intuitive one, the extension of this approach to strategic decision-making is problematic, because those are characterized by incomplete knowledge.

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