Strategic Decision Making: A Review of Literature

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Abstract: This research deals with the review of researches on strategic decision making and the factors that has contributed to its growth and how it has affected the organisational performance. This study is focused on five major themes; decision making environment; comprehensiveness and speed/timing; Top Management Team (TMT), Chief Executive Officers (CEO's) and Board of Directors (BOD's); communication, information system and decentralised strategy and culture, hierarchical decentralisation and power distance, lateral communication and individualism, formalisation and uncertainty avoidance. It has been established that all these factors will lead to high organisational performance even in a turbulent business environment. The methodological approach of the reviewed researches is based on survey method with the use of questionnaire that makes the studies to be empirical in nature.

Key words: Decision making environment, top management team, Chief Executive Officers, Board of Directors, communication, South Africa

INTRODUCTION

Decision making is a vital factor in organisations to determine the performance of its position either negative or positive way. The issue of decision making is an important one in the body of strategic management literatures for almost 5 decades (Rahman and de Feis, 2009). Decision making has been defined differently by various researchers and such definitions include: the degree at which a choice is made among alternatives based on a problem analysed thoroughly which will enhance the performance outcome of the organisation which involves comprehensiveness and speed through debate and trust (Talaulicar *et al.*, 2005). For organisations to continually survive and to achieve retention, the strategic decision making process of that organisation must be aligned with external environments and any hesitation to do this may result in strategic drift (O'Keefe and Wright, 2010).

Decision making is also viewed as one of the fundamental job of a manager and it is also synonymous with managing. The efficiency of decision making process is enhanced through computer based Information Systems (IS) which is developed to aid the process of making quick decision and this include the Decision Support Systems (DSS), Group Support Systems (GSS) and Executive Information Systems (EIS) (Martinsons and Davison, 2007). Dimitratos *et al.* (2011) argued that strategic decision making is a process that is made up of series of characters of iterative behavioural stages that has occurred over time. Nutt (2002) was of the opinion

that tactics was involved in the stages of strategic decision making process. Research findings informed that the upper-echelon theory in strategic decision making processes has been applied to firms and evidences has shown that there is a high level of relationship between the characteristics of top managements and the growth of organisation (Tihanyi *et al.*, 2000; Carpenter, 2002; Jaw and Lin, 2009).

The importance of Strategic Decision Making Processes (SDMP) as viewed by different writers is imperative to the success, survival, growth and continued existence of business organisations by making rational decisions through debate and trust cum the decisions made by the Top Management Team (TMT), Chief Executive Officers (CEO's), Board of Directors (BOD) (Hambrick *et al.*, 2005; Talaulicar *et al.*, 2005; Brunninge *et al.*, 2007).

Ruigrok *et al.* (2006) contended that BOD are involve in monitoring senior executives by selecting and dismissing top management, appraising their performance, developing the executive compensational packages as well as playing supervisory role in internal and external auditing. The board is also actively involve in forming, selecting and the implementation of the corporate strategy of the organisation and also linking the organisation to its external environment as well as carrying out ceremonial functions to enhance and substantiate the legitimacy of the organisation (Ruigrok *et al.*, 2006; Stiles and Taylor, 2001). Another argument put up by Arendt *et al.* (2005) and Priem and Rosenstein (2000) is that of CEO-Adviser Model seeing the CEO as the organisations primary

leader and major decision maker. In most literature, the CEO Model is virtually seen as CEO environmental scanning, CEO cognition and CEO reward, among others. Despite the rich contributions of strategic decision making researchers, the varieties of decision making factors submitted have left many of the practitioners confused rather than helping them to be more composed about analysing and enacting their strategic decisions.

DECISION MAKING ENVIRONMENT

The environment in which decision is to be taking is important. The decision makers need to have a perfect understanding, acquire and equally interpret or sieve information from their environment in order for them to make and implement strategic decisions and when there is the presence of too many issues with uncertain and unstable potential results, the decision outcome are uncertain conclusions (Arendt *et al.*, 2005; Siggelkow and Rivkin, 2005; Rahman and de Feis, 2009).

Most decision makers or managers made a choice of strategies based on their organisational internal and external environment and specifically, managers made an evaluation of their external environmental circumstances first before examining their internal resources (Brouthers *et al.*, 2000). Elbanna and Child (2007) argued that environmental characteristics is having a prominent influence on the degree of the rational behaviour of managers in making decisions and that actions behind making strategic decisions that are either motivated or encouraged by environmental threats will be more rational than those that are made in response to environmental opportunities.

Environmental stability is one of the determinant factors of how managers or CEO can contribute to strategic decision making. Environmental stability simply refers to the extent to which an organisation's competitive environment is complex, uncertain and can easily adapt or prone to strategic changes and it is highly emphasised that such stability is a major determinant of the strategic issues confronting an organisation and its top management (Carpenter and Westphal, 2001). It was submitted that the organisation in a stable environment will compete primarily through better implementation of existing strategies (rather than locating new strategies to fit into a changing environment), related board ties should improve managers ability to contribute to strategic decision making in a stable environment through monitoring activities and their interactions through their advice (Carpenter and Westphal, 2001).

Proposition 1: The effective performance of an organisation is as a result of the environment which decisions are made.

COMPREHENSIVENESS AND SPEED

Decision making comprehensiveness simply means the degree at which a choice is based on a thorough problem analysis and regardless of the rational behind decision making, it is well known that decision makers in organisations have a cognitive limits. Comprehensiveness of decision making is only appropriate for organisations in industries that operate in a stable environment and in an environment that is not stable, comprehensiveness may be related to organisational performance in a negative way (Talaulicar *et al.*, 2005; Simons *et al.*, 1999). Therefore, debate could be referred to as the process of discussion and exchange of information among the group members at executive meetings. The issue of comprehensiveness in decision making process simply means the resulting rationality of the preparation of that decision. The high element of comprehensiveness simply connote that several alternatives have been considered, examined and has been evaluated based on series of multiple criteria before reaching a decision. Thus debate is not a requirement among TMT members before decision making can be comprehensive. Forbes (2005) argued that decision comprehensiveness represents the degree or level at which an organisation scrutinises, analyse, scan and plans systematically before making a concrete decision. The moment an organisation makes a comprehensive decision, they are searching and analysing the information at their disposal more extensively and depend basically on quantitative analysis. It was argued in other studies that strategic decision comprehensiveness boost performance in an environment that is not static but reduces performance in a stable environment and it was found that greater decision effectiveness in a volatile environment was associated with and was best accomplished by employing a rational comprehensive approach (Atuahene-Gima and Li, 2004). The decision speed in decision making process is talking of a time frame and speeding up of corporate operations is one of the basic ingredients needed in rapidly growing, high velocity businesses with increasing competitiveness and technological dynamism and the executives involve in decision making are most likely to convey the time pressure to the issues that are strategically at hand so that decisions will be made quickly and effectively (Talaulicar *et al.*, 2005; Flood *et al.*, 1997; Schoonhoven *et al.*, 1990).

Proposition 2: There is a relationship between comprehensiveness/speed of decision making process and organisational performance.

TOP MANAGEMENT TEAM (TMT), CHIEF EXECUTIVE OFFICERS (CEO's) AND BOARD OF DIRECTORS (BOD's)

Most researchers in recent times (2000 upward) focused on the role of TMT, CEO's and BOD's in Strategic Decision Making (SDM) and they have argued that the TMT, CEO's and BOD's plays a significant role in making strategic decisions for continued survival and existence of an organisation. Strategic decision making must accomplish the retention essence of the organisation which must equally be aligned with the external environment (O'Keefe and Wright, 2010; Carpenter and Westphal, 2001; Arendt *et al.*, 2005). BOD's decision can have effect on the strategy of the firms in two general ways: the first way is that the boards is having an indirect influence on their firms strategy through decision control activities that include evaluating past decisions made by TMT, performing serious reviews of strategic plans and equally monitoring the executives and organisation performance. Secondly, boards can throw their weight by influencing strategy of their firm through decision of management activities such as approving strategic proposals, probing into the important issues, formulation of strategies, assess and also deciding upon strategic alternatives that are available (Fiegener, 2005). The CEO-Adviser Model of Arendt *et al.* (2005) proposed this by using factors such as environmental dynamism, organisational strategy, CEO leadership style, CEO tenure and Adviser selection. Fiegener (2005) contend that past empirical studies about board's involvement in decision making roles only viewed board involvement from its antecedents (e.g., board composition, director demographics, ownership patterns) or the aftermath effect (e.g., specific organisational decisions or outcomes) but left the aspect of board involvement behaviour. He therefore looks at the issue via organisational context, board context and decision context. Other researchers focused on ownership, board composition and TMT, board characteristics and involvement, TMT organisation and processes (Talaulicar *et al.*, 2005; Ruigrok *et al.*, 2006; Brunninge *et al.*, 2007).

COMMUNICATION, INFORMATION SYSTEM AND DECENTRALISED STRATEGY

Communication and information system are vital in decision making process. Contemporary business environments are also characterised by organisational configurations that are decentralised through the usage of intense communication technology that are new and the competitions across industries that are dynamic in nature (Andersen, 2005). Various studies have been carried out to analyse the economic contribution of investment in information technology (e.g., Dewan and Kraemer, 2000; Im *et al.*, 2001) but the studies has failed to address the relationship between computerised information systems, strategic decision processes and organisational performance. It was concluded that decentralised decision structure, emergent strategy processes and the use of computerised information systems are favourable organisational trait in an environment that is dynamic (Andersen, 2005). In decentralised strategic decision making, middle managers within the organisation are permitted to take initiatives in response to changing conditions and may determine the strategic direction of the organisation over time. One of the essential features of dynamic environments is the usage of information technology and it is agreed that dynamic environments increases the amount of information that organisational decision makers need to process to trail the environmental changes as well as the coordination of interdependent tasks between subunits in the organisation. It was suggested by Andersen (2005) that computerised information systems could accommodate the needs for both vertical and lateral communication to cope with task uncertainty. He also maintained that the vertical communication provides linkages up and down the managerial line to provide the top management with internal reports and also brings a connection between middle managers and higher level decision authority while lateral information systems involves more channels of informal communication that facilitates and encourages the exchange of soft information and elements tacit knowledge among middle managers needed in the coordination of nonroutine activities.

Martinsons and Davison (2007) discussed that the process of decision making largely depends on many factors which include the context in which decisions are made, the way the decision maker perceive and understands cues and the judgement and value of the decision maker is very important. They submitted that two of the most influential factors in decision making are values and cognitive perception. This will affect the way a decision maker will interpret and his response to certain set of conditions. They also use decision making styles as a factor which involves four forces, i.e., directives, analytic, conceptual and behavioural decision makers. Part of the contribution made is information systems that support decision making and discussing about Decision Support System (DSS) that was first developed in the 1970's and since the event of Personal Computers (PC) in the 80's DSS has been widely used. DSS is said to be a

computer based systems that aid decision makers to confront ill-structured problems through direct interaction with data and model of analysis, it is also designed to increase the speed and accuracy of data analysis through cost reduction, enabling the effective and efficient analysis of large volumes of quantitative data. Group Support Systems (GSS) are developed network systems to fasten discussion by groups of proximate or distributed individuals synchronously or asynchronously. The third phase under the information system to support decision making is Executive Information Systems (EIS) which is specifically designed for the executives. The EIS have been used for monitoring and communicating the company performance data and equally used for scanning the business environment (Martinsons and Davison, 2007).

CULTURE, HIERARCHICAL DECENTRALISATION AND POWER DISTANCE, LATERAL COMMUNICATION AND INDIVIDUALISM, FORMALISATION AND UNCERTAINTY AVOIDANCE

Strategic decision making as a process has been viewed by different researchers and they do not pay attention to the national culture of the focal firm (Dimitratos *et al.*, 2011). In their discussion about strategic decision making processes in internationalisation, they focus on cultural aspect of decision making by arguing that national culture is the collective programming of the mind that distinguishes members of one human group from another using the research of Hofstede (1994). Here, five dimensions were used to measure the effect of decision making on organisational performance. On hierarchical decentralisation and power distance, it was said that management in the countries with the presence of high power distance tends toward autocratic style and are not willing to share responsibilities in the SDMP. Hence organisational structures in these countries are highly centralised whereas managers in low power distance countries are more democratic and ready to decentralise decision making which shows that organisational structures are more decentralised (Dimitratos *et al.*, 2011; Rowley and Bae, 2002). Dimitratos *et al.* (2011) argued that decision making under lateral communication and individualism in firms located in countries under high levels of individualism may be operated by the owners or managers that are having strong personalities by limiting the decision of various departments or strategic business units in strategy formulation. Firms like this perform well when they pursue goals that cater for the needs of the individuals by neglecting the group but the case is the reverse when talking of collectivistic countries. It was confirmed that collectivistic countries enhances communication between individuals and departments and social networks is valued as a primary source of information so that organisational goals might be achieved. It is equally noted that the need for rules in organisations in nations that has a high prevalence of uncertainty avoidance assists in making individuals to feel more comfortable in structured business environments and it was submitted that organisations in high uncertainty avoidance countries uses more of training procedures that are formalised for their employees (Burke *et al.*, 2008) (Table 1-5).

Table 1: Decision making environment

Researchers	Methods	Sample	Findings
Arendt *et al.* (2005)	Exploratory	-	Enhances strategic decision making
Rahman and de Feis (2009)	Case study	8 case vignettes	Environmental scanning more appropriate for strategic decision making
Siggelkow and Rivkin (2005)	Model and design	-	There is a relationship between organisational performance and the environment through communication in decision making process
Brouthers *et al.* (2000)	Survey using questionnaire	180	Young managers based strategic decision on entrepreneurial style and managers with experience in accounting/finance rely on organisation structure as a determinant of strategic aggressiveness
Elbanna and Child (2007)	Questionnaire and interview	128	Environment uncertainty and hostile
Carpenter and Westphal (2001)	Questionnaire survey	600 large and medium companies	Monitoring and advising behaviour of directors on the strategic perspective depends largely on the environment

Table 2: Comprehensiveness and speed/timing

Researchers	Methods	Sample	Findings
Talaulicar *et al.* (2005)	Questionnaire	71	Faster decisions are taken more decisively and comprehensively
Fredrickson (1984)	Questionnaire and interview	152 executives	Comprehensiveness is a characteristic of decision making process in a stable environment
Simons *et al.* (1999)	Questionnaire	925	Debate and the decision comprehensiveness accounts for the firms performance and consequences of diversity
Flood *et al.* (1997)	Questionnaire, interview and annual reports	196	Older managers predominate in pioneering firms, top managers in pioneering firms are less educated
Atuahene-Gima and Li (2004)	Questionnaire	1000 new ventures	Strategic decision comprehensiveness and new product quality performance were differently moderated by technology and demand uncertainties

Table 3: TMT, CEO's and BOD's

Researchers	Methods	Sample	Findings
O'Keefe and Wright (2010)	Case study and interview	Alpha-a, a subsidiary of alpha	Short-term strategy should be operated
Carpenter and Westphal (2001)	Questionnaire	600 large and medium sized companies	Monitoring and advising behaviour of directors on the strategic perspectives depend largely on the environment
Arendt *et al.* (2005)	Exploratory	-	Enhances strategic decision making
Fiegener (2005)	Mailed questionnaire	8000 firms	Boards of small-firm tends to be passive and uninvolved in strategic decisions
Brunninge *et al.* (2007)	Survey through telephones and mails	2455 firms	Governance affects change strategically through the presence of directors, TMT and CEO
Ruigrok *et al.* (2006)	Primary and secondary data used	217 companies	The board of directors considers reasonable alternatives and reach informed decisions
Talaulicar *et al.* (2005)	Questionnaire	71	TMT members in a departmental organisationfirm are more concerned that strategic decisions are made sufficiently, comprehensively and in good time

Table 4: Communications, information system and decentralised strategy

Researchers	Methods	Sample	Findings
Andersen (2005)	Questionnaire	234 firms	Communication-enhancing information technology is associated with higher organisational performance
Martinsons and Davison (2007)	Quantitative data and interview	309 executives	Differences in decision making tendencies continue to hinder the global transfer of management knowledge.

Table 5: Culture, hierarchical decentralisation and power distance, lateral communication and individualism, formalisation and uncertainty avoidance

Researchers	Methods	Sample	Findings
Dimitratos *et al.* (2011)	Questionnaire	About 600 firms	International performance is high where managers from different levels and functional areas of the firm communicate with one another
Burke *et al.* (2008)	Questionnaire	95	National culture and organisational climate have a meaningful impact on transfer of safety interventions

CONCLUSION

Researches conducted on strategic decision making and all the factors that are imperative to the formulation and execution of decisions made by decision makers have given a better understanding on how to improve the processes. This has enhanced the strategists the opportunity to have a perfect understanding of the businesses and the environments in which they carry out their businesses and as this environment is changing periodically. The progress made in information technology has also aided the growth of strategic decision making. As the business environment is becoming more competitive, competitive decision making is also becoming more relevant and strategic decision making is also becoming more internationalised.

It could also be suggested that more attention should be paid to other environmental factors such as globalisation, technology advancement, legal frameworks and even religion.

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