

DO EARLY PERCEPTIONS OF STRATEGIC DECISIONS INFLUENCE STRATEGIC PROCESSES?: AN EMPIRICAL INVESTIGATION¹

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ABSTRACT

This paper investigates the impact of perceived decision-specific characteristics on the processes followed in making Strategic Decisions (SDs). It empirically derives generic decision-specific characteristics (e.g. magnitude of impact, crisis, pressure, familiarity, emergence) and decision-process dimensions (e.g. comprehensiveness, politicization, decentralization). Results support that SDs with different characteristics are handled through different processes.

INTRODUCTION

This study identifies and measures a number of significant decision-specific characteristics of SD, as they were perceived by managers during the very early stages of the Decision-Making Process (DMP). It then examines how these characteristics were related to the processes followed. Our understanding of the impact of decision-specific characteristics on organizational DMPs is still quite limited (Rajagopalan et al. 1993). With few exceptions (e.g. Dean and Sharfman, 1993; Dutton, 1986; Dutton et al. 1989; Fredrickson, 1985), existing research has not yet shown in much detail how early perceptions of decisions (what we call decision-specific characteristics) shape various dimensions of the process. The paper is organized as follows: the next section discusses the theoretical framework. Then it describes the methodology, and empirically explores the impact of six decision-specific characteristics on six dimensions of the DMP. The final two sections discuss the results and draw implications for theory and practice.

THEORETICAL FRAMEWORK

Decision-Specific Characteristics and Dimensions of Strategic Decision Processes

The literature shows that managers, in trying to make sense of the world around them tend to classify issues into a limited number of categories and attach such labels as crisis, opportunity, uncertainty, pressure (Dutton and Jackson, 1987; Mintzberg et al. 1976). Furthermore, there exists evidence that the perceived nature of a decision can itself influence the DMP (Dean and Sharfman, 1993; Dutton et al. 1989; Fredrickson, 1985; Hickson et al. 1986). This is a significant line of research that adds to the body of knowledge in strategic decision-making. This research includes the following three strands: (i) identification of decision-specific characteristics (e.g. Dutton and Jackson, 1987; Herman, 1963; Hickson et al. 1986; Lyles, 1987), (ii) understanding how decision-makers diagnose, interpret and label strategic issues (e.g. Dutton, 1993; Schneider and

DeMeyer, 1991). (iii) investigation of the impact of decision-specific characteristics on the DMP (Dean and Sharfman, 1993; Schneider and De Meyer, 1991).

Many efforts in the field of strategic decision-making attempt to describe the process as a sequence of steps, phases or routes (e.g. Fredrickson, 1985; Mintzberg et al. 1976). Others focus on sets of decision dimensions or aspects instead (e.g. Hickson et al. 1986; Stein, 1981). Such process dimensions include: (i) *rationality dimension* (Cray, 1988; Dean and Sharfman, 1993; Fredrickson, 1985), (ii) *political/dynamics dimension* (Lyles 1987; Hickson et al. 1986), (iii) *centralization* (Cray et al. 1988; Lyles, 1987), (iv) *formalization/ standardization* (e.g. Stein, 1981).

There is now a need for further theory testing and integration. In the words of a recent review: ".....relationships between decision-specific factors and decision process characteristics have received very limited attention in past research. ... Further the available body of research is also fragmented " (Rajagopalan et al. 1993; p.336). The study reported here was designed to help address this need. The following sections briefly discuss the nature of these relationships (for a full discussion see Papadakis 1995a):

Magnitude of Impact: Decisions with widespread impact on the organization, tend to be taken in a more rational mode (Dean and Sharfman, 1993; Stein, 1981). Again, SDs with widespread impact are expected to follow more formalized processes (Papadakis, 1995b) and attract more collective attention since various parties would like to contribute (Dutton 1986). Decisions of this nature may also cause varying views about the proper ways in which they should be resolved. This usually leads to more political activities.

Threat/Crisis vs. Opportunity: When facing an opportunity, managers believe that they deal with positive issues, which imply possible gains, and are comparatively easy to resolve (Dutton and Jackson, 1987; Mintzberg et al. 1976; Stein, 1981). This may result in higher participation. On the contrary, centralization of authority is the expected outcome of crises (e.g. Dutton, 1986; Herman, 1963). Furthermore, in crisis situations multiple explanations and argumentation about the issue and the alternative ways of action are produced, and thus, may lead to more rational decision-making (Dutton, 1986). In its attempt to become rational, management may demand full financial reporting (as crises usually involve the possibility of a significant financial loss). However, this may be done at the expense of procedural formality, since during crises we expect formal rules to get relaxed. Finally, crisis situations usually

intensify conflicts among participants and foster political behavior (Hermann, 1963).

Frequency of Occurrence/Familiarity: By one line of reasoning, familiarity may be related to less rational DMPs. According to this reasoning, in cases of familiar SDs the search for alternative ways of action is likely to be more narrow and specific. But by another line of reasoning, familiarity may facilitate the identification, the gathering of information, the search for alternatives and the choice of the best solution, thus contributing to more rational processes. By contrast, consensus appears to emerge on the impact of frequency-familiarity on standardization, and formalization of the process. Decisions occurring frequently are expected to set up standard and routine procedures (Astley et al. 1982). Additionally, we may assume that familiarity may facilitate the problem-formulation process and may help in eliminating problem-solving dissension and political activities.

Uncertainty: Hickson et al. (1986) argue that in uncertain situations, managers act in an 'inspirational' manner, by making obsolete any formal reporting systems usually followed. One can contend that high uncertainty about the decision may, contrary to rational expectations, result in more intuitive processes (Dean and Sharfman, 1993), together with use of less reporting activities and less formalized rules. In line with this view, Astley et al. (1982), argue that in situations where existing structures cannot cope with an issue, the routine is bypassed and the decision is directed to the top layers of the organization. This results in less formality, less reporting and presumably higher centralization. Others, however, contend that uncertainty will increase the rationality, as more in-depth analysis and information processing will take place (e.g. Bourgeois and Eisenhardt, 1988). Finally, uncertainty about certain aspects of a SD may raise politicality in the problem formulation process.

"Planned" or "Ad hoc": Another decision-specific characteristic is to the extent to which a SD has emerged through the discipline and structure of the formal planning system (FPS). A number of researchers, have argued that much of the strategic decision-making may originate and proceed outside FPSs (Marsh et al. 1988). Conventional wisdom posits that SDs emerging from FPSs may be seen as mission related (Dutton et al. 1989) and will be able to utilize the integrative mechanisms of the FPS. Thus, they are likely to attain more broader participation. Following this reasoning we may also hypothesize that SDs emerging through the FPS will follow more rational processes, also characterized by higher formalization. Again we may argue that the relationship with internal politicization and problem-solving dissension could be negative, as more contentious

issues may be left to be handled outside the formal structures given the stakes involved and stakeholders' potential differences.

METHODS

The study focuses on individual SDs as the unit of analysis. It can be characterized as "multi-method, in-depth field research. The data were collected as follows: (i) initial CEO interview, (ii) semi-structured interviews with key participants, (iii) completion of two questionnaires: one general for the CEO and one decision-specific, and (iv) supplementary data from archival sources (eg internal documents, reports, minutes of meetings). The research covers 70 SDs in 38 manufacturing firms in Greece. The SDs were identified at the initial CEO interview. The CEO was asked to give a brief description of each SD and to complete the first, general, questionnaire providing information about the company, its environment, and its organization. Additional semi-structured interviews were conducted with the manager with the most intimate knowledge of the process, eg the project champion. Before interviewing this manager we were given access to the paper trail documenting the decision and its process. The manager also completed a second, decision-specific questionnaire. His/her responses were always checked against the initial CEO interview and the paper trail. The sampling frame comprised all manufacturing enterprises with more than 300 employees, drawn from three industrial sectors (food, chemicals and textiles), a total population of 89 companies of which 38 participated in the survey. In most cases, two SDs were studied in each firm. The response rate achieved (approximately 43%) is extremely high considering that top management was asked to devote several hours of its time. Comparison between respondent and non-respondent firms verified the representativeness of the final sample.

MEASUREMENT OF DECISION-SPECIFIC CHARACTERISTICS AND PROCESS DIMENSIONS

In the course of this study, perceptual measures of decision-specific characteristics are used. Sixteen of the most commonly used characteristics were measured. These were factor analyzed and the following six factors were produced: *magnitude of impact, uncertainty, threat/crisis, pressure, frequency/familiarity and planned vs. ad hoc*. All the factors reflect distinct, internally consistent patterns underlying decision-specific characteristics. The dimensions along which SD processes were measured are: *comprehensiveness/rationality, existence of a set of formalized rules guiding the process, hierarchical decentralization, lateral communication (communication among departments), politicization, problem-solving dissension* (during the early stages of the process). Details on the measurement of both decision-specific characteristics and process dimensions can be found in (Papadakis, 1995a).