STRATEGIC DECISION PROCESSES AND OUTCOMES: EFFECTS OF CONTEXT

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ABSTRACT

This paper investigates the relationship between strategic decision processes and outcomes, taking into account the context in which decisions are made. Results suggest that context *shapes*, but does *not attenuate*, the relationship between strategic decision processes and outcomes. The paper concludes with theoretical implications, particularly with respect to the dynamic capabilities view as applied in the use of multiple decision process modes.

INTRODUCTION

It is widely recognized that our understanding of the relationship between strategic decision-making processes (DMPs) and outcomes is limited. This is also true for the effects of context on the relationship between strategic decision processes and outcomes (e.g., Rajagopalan, Rasheed, Datta, & Spreitzer, 1998; Papadakis, Lioukas, & Chambers, 1998). It seems that we need integrative research that examines how context shapes the relationship between strategic decision processes and outcomes. The present paper attempts to fill the above gaps drawing on a sample of 145 strategic decisions (SDs).

THEORETICAL FRAMEWORK

Influence of Process on Outcomes

Rationality. Numerous studies have established a positive link between rationality and outcomes and several researchers have pinpointed the advantages of rational decision making (e.g., Dean & Sharfman, 1996). Their basic argument is that rational DMPs lead to more elaborate strategies. However, the benefits of rationality may become weaker under certain contexts. For example, Fredrickson and his colleagues (e.g., Fredrickson & Iaquinto, 1989) suggested that comprehensive decision processes are associated with inferior performance in unstable environments.

In order to develop a more comprehensive understanding of how context shapes the relationship between rationality and outcomes, and in particular, how rationality may be less effective under certain contexts, it is necessary to also examine other moderating effects. Such effects might be related to the organizational context. As Glazer and Weiss (1993) showed, formal planning makes decision makers underestimate the time-sensitivity of information (the extent to which information loses its value in the future), therefore leading to the utilization of obsolete information. Rationality involves extensive information seeking and reviewing of

historical data, and therefore it will be less effective when the information used becomes obsolete. As a result, decisions that are made rationally may produce less satisfactory outcomes when planning formality within the organization is high.

Formalization. Formalized DMPs appear to contribute to superior outcomes by creating a perception of procedural justice (Kim & Mauborgne, 1998). Nonetheless, there are limitations to formalization. In addition, we have only limited understanding of how context shapes the relationship between formalization and outcomes. Various contextual elements that may moderate this relationship remain unexplored. For example, formalization may be more useful under complex environments. The effect of formalization on outcomes may also depend on the aggressiveness of the top management team. To the extent that formalized DMPs speed up decision-making, they could be used to serve aggressive strategies. Finally, decisions with different magnitude of impact may produce different outcomes if formalized. Decisions with high impact are handled better outside routine rules and channels.

Politicization. It is commonly accepted that politicization has a negative impact on decision outcomes (e.g., Eisenhardt & Bourgeois, 1988). Nevertheless, these arguments assume a context-free relationship between politicization and outcome. This may lead to the neglect of positive aspects of politicization that come into play under certain contexts. Consider, for example, the case when the decision is perceived as a crisis situation. Politicization in this case could be considered a natural psychological reaction to threats. Since it involves frequent interaction and exchange of views, it may give the organization's members the feeling that they are fighting against the crisis situation collectively, in a unified manner. Under these conditions managers might make better choices, which in turn could lead to more satisfactory outcomes.

Decentralization. It has been argued that greater participation leads to better outcomes (Wooldridge & Floyd, 1990). It seems, however, that the existing literature has not taken into account any interactive effects caused by context. For example, in dynamic environments decentralization may lead to less satisfactory outcomes by slowing down decision-making pace.

In summary, the relationship between strategic decision process and outcomes is not well explored, for at least two reasons. First, the effect of certain decision process dimensions, such as formalization, on outcomes has not been empirically investigated. Second, existing SDM research has assumed a context-free relationship between process and outcome.

Controls

So far we have been concerned with interactive effects of context on the process – outcome relationship, i.e. how context might *shape* the relationship between strategic decision processes and outcomes. We have to also consider attenuating effects of context, i.e. how context might *attenuate* the process – outcome relationship. More specifically, there is the possibility that the observed relationship between process and outcome is in fact spurious, i.e. it is caused by context, which has an effect on both process and outcome. For this reason, it is clearly necessary to control for context. To complete our model we need to also control for the support that the decision received in the company and for decision implementation.

METHODS

Unit of Analysis and Data