Strategic Decision Making Processes: Extending Theory to an English University

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Abstract

A wide variety of factors influence the quality of strategic decisions. This research considers one such influence, the Strategic Decision Making process. It explores whether previous theoretical propositions hold in quite different organisations in a very different business environment, namely a University in England.

The research examines how a strategic problem was addressed. Interviews with the Top Management Team, supported by documentary evidence, are content analysed for the relevance of the propositions in this new environment.

Two cases of decision making, relating to the same problem, in a single university suggest that the propositions are indeed relevant.

Key Words: Strategic Decision Making; Universities; Case Study
1. Introduction

Researchers have identified a large number of factors influencing the quality of strategic decisions. Environment, organisational structures and culture, team and individual characteristics, and the characteristics of strategic problems themselves have all been identified as influences on quality. There is a growing recognition among researchers that process – the way in which decision making is approached by management teams – is also an important factor. This research addresses this latter area.

2. Relevant Literature

2.1 Definitions of Strategic Decisions

A strategic decision is defined as being “important, in terms of the actions taken, the resources committed, or the precedents set” (Mintzberg, Raisinghani and Theoret 1976 p.246). Eisenhardt (1989) suggests they “(1) involve strategic positioning, (2) have high stakes, (3) involve many of the firm’s functions, and (4) [are] considered representative of the process by which major decisions are made at the firm”(p546). Eisenhardt & Zbaracki (1992) add that strategic decisions are “those infrequent decisions made by the top leaders of an organization that critically affect organizational health and survival” (p.17).

Complexity theorists (e.g. Stacey 1995) have argued that organisations are systems in which long term outcomes are the result of the entire history of an organisation, not of a single action or decision. This view is echoed by Hamel and Prahalad’s (1989) suggestion that firms should establish “strategic intent”, and Eisenhardt’s (1997) that “improvisation”, as in jazz or drama, is a relevant metaphor to describe strategic management. Despite this, Dean and Sharfman (1996) note that in their research, managers had no trouble in identifying strategic decisions, and a key objective of Strategic Decision Making research remains to establish generalisable rules of how to make successful decisions.
2.2 Characteristics of Successful Strategic Decision Making Processes

Given the importance of these types of decisions, researchers have examined the nature of decision making in successful and unsuccessful firms. Comprehensiveness measures, how thoroughly options have been sought and evaluated. Significant positive links between comprehensiveness and firm performance are established in meta-analyses of the planning – performance literature by Miller & Cardinal (1994) and Schwenk and Schrader (1993).

Similarly, extensiveness measures the extent to which the process considers long-term opportunities and threats in the environment. This is also associated with successful decision making, at least in turbulent industries (Miller & Cardinal 1994).

Both comprehensiveness and extensiveness are examples of rationality. Table 1 summarises the characteristics of good decision processes identified in the literature, and outlines results from empirical studies. It indicates the level of debate and uncertainty regarding whether such rationality might be appropriate in all contexts.

Table 1: Characteristics of Decision Making Processes

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Key Points</th>
<th>Key References</th>
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<tbody>
<tr>
<td>Comprehensiveness</td>
<td>A measure of rationality which refers to the extent to which organisations</td>
<td>Fredrickson &amp; Mitchell (1984)</td>
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<tr>
<td></td>
<td>attempt to be exhaustive or inclusive in the making or integrating of</td>
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<td>decisions</td>
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<td>Defined as</td>
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<td>Positive for firms</td>
<td>Positive effects for firms in turbulent industries</td>
<td>Bourgeois &amp; Eisenhardt (1988)</td>
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<td>Miller &amp; Toulouse (1986)</td>
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<td>Priem, Rasheed &amp; Kotulic (1995)</td>
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<td>Positive for firms</td>
<td>Positive effects for firms in stable industries</td>
<td>Dean &amp; Sharfman (1996)</td>
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<td>in stable industries</td>
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</tbody>
</table>
Extensiveness | Defined as extensiveness of decision process relating to long-term opportunities and threats | Miller, Burke & Glick (1998)
---|---|---
Long term planning has positive effects, particularly in turbulent industries | Boyd (1991) | Miller & Cardinal (1994)
Speed | Fast decision making leads to better performance in high velocity environments | Eisenhardt (1989)

### 2.3 Decision Makers & Decision Performance

As strategic decisions are made by top management, managers themselves are the subject of study. Hambrick and Mason (1984) argued that senior managers’ behaviour is important to understanding decision process, and behaviour is partly contingent upon the characteristics of the individuals. The literature therefore explores the actions and composition of top managers and management teams, and their effects on strategic decisions.

Smith et al. (1994) studied the impact of demographic diversity on decision process, and noted that some aspects of heterogeneity had a negative impact on performance. They suggest that team building activities might have substantial pay-offs. Miller et al (1998) studied the influence of cognitive diversity, and identified its negative influence over comprehensiveness and extensiveness; they suggest that managing diversity needs further research. Papadakis & Barwise (1995) examined both demographic and cognitive characteristics of CEOs and Top Management Teams. They found that decision process was strongly influenced by the team makeup, but not by the individual CEOs. Thus it is the teams themselves that seem to be linked to performance, rather than the individuals.

Lawrence (1991) notes that demographic studies substitute input characteristics for process. They collect demographic information about management and try to establish causal relationships directly with outcomes, thus ignoring the “black box” of the interactions between managers, systems, and the environment. Pettigrew (1992) attributes the conflicting and uncertain findings of these studies to this problem.
Higgs (1997) tries to establish relationships between inputs, process and outcomes. This builds on McGrath (1964) and Hackman and Morris (1975). Higgs’ work supports the view that process is an intervening variable between individual characteristics (inputs) and outcomes.

2.4 Decision Making Process

How managers make decisions, rather than what the managers are like, has become a key area of study. Dean and Sharfman (1996) used interviews with senior managers to investigate process effectiveness. Their conclusion was that “decision processes influence the strategic choices managers make, which in turn influence the outcomes affecting a firm.” (p389).

Stacey (1995) and Eisenhardt (1989) both ask how managers maintain rationality in decision making processes in the face of uncertainty and rapid, discontinuous change. Eisenhardt (1989) examined firms in a turbulent industry, and found that managers in successful firms used various tactics: they asked experienced counsellors for advice, sought many alternatives, speeded their cognition processes by evaluating many sorts of information frequently, tied strategic decisions into operating plans. These tactics speeded decision processes and made them comprehensive.

At the same time, many negative factors have been identified. Eisenhardt and Bourgeois (1988) identify the importance of power and conflict, and propose a link between centralisation of power and the appearance of politics in an organisation. While the authors accept that “all strategic decision processes are ultimately political” (p.737), politics were negatively linked with performance in their depth studies. Dean and Sharfman (1996) similarly found that political behaviour was negatively related to effectiveness in their larger sample of 61 decisions.

Conflict in team processes is discussed by many authors (for instance, Amason 1996 and Eisenhardt 1997). Amason (1996) notes the importance of team heterogeneity, and suggests both cognitive characteristics and team processes influence decision process. He also separates (dysfunctional) affective conflict and (functional) cognitive conflict, and notes that well managed team processes are likely to result in better
decisions, with less affective conflict. Similarly, Eisenhardt, Kahwajy & Bourgeois (1997) equate “substantive”, “issue-oriented” and “cognitive” conflict, and describes the importance of conflict in extracting comprehensive and extensive decision processes.

Dean and Sharfman (1996) also note that “managers who collected information and used analytical techniques made decisions that were more effective than those who did not. Those who engaged in the use of power or pushed hidden agendas were less effective than those who did not” (p 389). They note that their study, despite using quite a different methodology, shows “that some of the findings of Eisenhardt and Bourgeois (1988) and Bourgeois and Eisenhardt (1988), extend beyond unstable environments to include stable ones as well” (p 389).

2.5 Conclusions
The literature identifies the importance Strategic Decisions, and of process in making them successfully. Rationality is seen to be important, but it is unclear whether it has positive effects in all environments, or how managers can best achieve it. The current research seeks to extend understanding by asking how managers in a particular context make strategic decisions.

3. Research Objectives & Methodology

Bourgeois & Eisenhardt (1988) developed 5 theoretical propositions with sub-hypotheses based on their case-based research in the Microcomputer Industry, which they described as High Velocity. These have not been tested in other business environments. This research asks whether these propositions can be seen to operate in quite a different environment, namely English Universities. The main objective is to examine the generalisability of the theory.

The approach to a strategic problem in an English University was studied. The Vice Chancellor (VC) and seven members of the decision making team, including functional heads and Deans were interviewed, and transcriptions were content analysed. Documentary evidence was examined for the purpose of confirming key facts and timelines. Analytic generalisation (Yin 1984) was used, with case
information analysed for the presence of concepts from Bourgeois & Eisenhardt (1988).

4. Findings & Discussion

4.1 Background to the Institution and the Decision Case

The decision studied was chosen by the Vice Chancellor (VC); it had been made in the first 3 months of his tenure.

The University’s mission had been focused largely on teaching, and the decision was to give research “a higher profile in the institution”. The VC identified the motivations for the change:

“…performance in most areas was pretty good. The one area which it is not good at is research. It did rather badly in the last RAE [Research Assessment Exercise]. …We need to address that area of under-performance.”

The strategic nature of the decision was therefore established: “it’s to do with the mission and the positioning of the university…it wasn’t just corrective action, it was also trying to do something more positive.” These motivations were linked to the problem of league table rankings and their importance in attracting students and staff.

Other respondents added financial pressure resulting from changes in government funding, and research reputation as a constraint on new product development - particularly post-graduate programmes of study - as further motivations.

This University had experienced a change of VC two years before the research was done. Because of the relative recency of the change, and because the problem being addressed had been under scrutiny for some time, most interviewees compared the styles of decision, and noted changes to process which had occurred as a result of the change in post. This provided an opportunity for the researcher to consider two contrasting decision making styles and processes.
4.2 Propositions and Analysis

This section identifies each of Bourgeois & Eisenhardt’s (1988) propositions and hypotheses, and presents case evidence for each one.

P.1  In high velocity environments, effective firms use rational decision making processes.

H.1.1 In high velocity environments, the more analytic the strategic decision making process, the better the performance of the firm

Examples were offered of how analytic processes were historically not engaged. First, as one respondent explained, there was a University wide process for gathering research bids, but it was undermined:

“we would have people from the faculties coming up with some recommendations, which said, this is how we should play things… But you then had, if you like, a level of intervention over and above that.”

On the matter of reputation and rankings, the response to changes in relative performance indicates that little had been known or sought out about competitor positioning and activity. The management group were surprised at what appeared in published rankings:

“I think the planning process did reveal even before [the new VC] arrived that we were so far down the league in terms of research…And I think that shocked a lot of people…”

A new planning process had recently been brought into operation, which improved the level of analysis:

“I don’t think that the argument was as clearly put in the past as it was then, And I think that in that planning process, there was a better presentation of the facts, there was a better understanding of where we sat vis a vis the rest of the institutions…”
H1.2 In high velocity environments, the more comprehensive the search for strategic alternatives, the better the performance of the firm

Historically the search for strategic alternatives had not been fully comprehensive. Teaching had been the primary mission until poor performance was recorded in the 97 RAE. An institutional response was required: “the governors would have been at him (the VC), something would have had to be done” according to one respondent.

The way in which research was supported historically was conservative, and it appears that no alternative approaches to developing the area were sought, or closely examined when proposed. Perhaps as a result, executives found it difficult to offer many options when invited:

“There weren’t many restrictions on what you could do in submitting a bid. I think probably faculties were a bit blinkered in what they tried, because not many of us had much experience in this sort of approach in research funding…”

H1.3 In high velocity environments, the clearer and more explicitly articulated the institutional goal, the better the performance of the firm

The articulation of goals related to reputation, standing in national rankings, and attracting staff and postgraduate students was only done clearly once the new VC had arrived. For the new VC, the institutional goal was tied up with the idea or mission of a University:

“…we construct, award, define our own degrees. So we are actually defining quality and standards ourselves. ..if you were to say, “that is an honours degree in economics” you need an intellectual base on which to make that judgement. Which is why I think you have to have some sort of research environment.”

One respondent suggested that the new VC,

“took much more seriously … that research was essential to the activities of the university. Not just a cosmetic thing, or something that improved your teaching.”
Other versions of the problem of goal articulation were available, for instance,

“When we became a University, we were not one of the Polytechnics that was really, totally desperate to take the University title and become a university, because we felt very comfortable with what we were, but everyone was doing it, so we had to do it. And then after that, I don’t think we were sure what we were.”

**P2**  *In high velocity environments, effective firms try new things.*

**H2.1**  *In high velocity environments, the more innovative and risky the set of strategic alternatives examined and chosen, the better the performance of the firm.*

Risk taking capability was addressed by various respondents. A similar contrast between past and present emerged. Considerable weight was put by these respondents on institutional factors either constraining or enabling innovation and risk taking.

A lack of initiative in doing new things on the research front was identified, even though funds were available:

“So in many respects, you can say that our low level of funding – sorry, of research achievement – is because we didn’t really latch onto those kinds of initiatives that could have stimulated research.”

The same respondent noted that historically, money which had been ear-marked for research projects had never been spent. This was cited as a factor which reduced performance in the research area. Thus,

“People had the allocations, but they were falling behind, they were not spending in the year of the allocation, we had unspent balances which means we were not making the progress on research that we should be.”

Another respondent identified that the financial framework provided by the government created a heightened sense of risk, which reduced innovation:
“We’ve not had long-term budgetary planning [here] on a number of key strategic issues. Where we’ve had money we haven’t been able to depend on it for more than one or two years maximum…We’ve been very timid about a number of our decisions in that sort of area.”

The internal budgeting process was also cited as a constraint:

“[the finance director’s] pretty cautious. Over time, we’ve never come anywhere near to a breakeven budget. Even when we’ve planned it…..”

The historically cautious approach was also being addressed through a new budgeting system. Under this new system, the institution would not budget for a surplus, but for breakeven:

“[the VC’s] perception is that [the institution] had been overly cautious in its financial management. …we needed to relax some of that, encourage more risk-taking, encourage more activity in strategic areas, and that we wouldn’t end up with a deficit.”

P3: In high velocity environments, effective firms make strategic decisions quickly.

H3.1 In high velocity environments, the shorter the time frame in which strategic decisions are made, the better the performance of the firm.

Historically, decision processes had exceeded expected time-frames. For instance, the annual decision on how to allocate the year’s research monies between research groups and faculties was cited by one individual:

“There used to be a fair delay factor. So, I can remember on a number of occasions … we did not actually have details of what research allocations were until way into the next year…..”

In contrast, the decision under study was done quite speedily. The VC arrived in post on January 1, his paper for the Executive group, “Research Strategy” was dated 24 February, and agreed on 11 March. The first bids for the new investment fund were required in April, and decisions were announced in June. A new post spearheading research was implemented in September.
It was noted, however, that the decision had been made in the context of prepared ground. The fact that a Research Advisory Committee had been established in the wake of the poor RAE result in 1997 meant “it made it very easy for him [the new VC] to build very quickly on what was there before, and to give it a new direction.” The fact that decisions had been discussed, but never enacted, underlines the point that historically, decision making was slow.

**P.4:** In High Velocity environments, effective firms build in decision execution triggers.

**H4.1** In high velocity environments, the greater the articulation of implementation triggers at the time a strategic decision is taken, the better the performance of the firm.

Evidence of decision triggers was presented. The RAE, first in 1996, then in 2001, was important. Poor performance in the earlier one triggered a discussion. The later one became a key milestone towards which activity was directed, as well as being the trigger for the decision. Improving the submissions to the RAE was a target of the new fund, and additional funds would be made available if it was clear that it would lift the quality of the submissions. Review points were integrated into the process.

**P.5:** In high velocity environments, effective firms vest power to implement strategy in the top management team.

**H5.1:** In high velocity environments, the greater the delegation of execution triggers to the top management team, the better the performance of the firm.

The delegation of activity to senior staff was mentioned by several respondents. One respondent noted that the executive responsible for research historically had had difficulty getting agreement to spending plans. The consequences of this was noted:
“…So that whole process from a good start, with the research Advisory Group, they got totally diluted, and delayed, in terms of distributing funds and people getting on with it. And by the time the funds were distributed, I would imagine that those that were really keen had lost a bit of heart in it, and they hadn’t got the money they should have.”

A contrast with the newer system was again made:

“ The difference in the style …is that by and large, if the Research Advisory Group make recommendations, he’s not going to sit there and say, I want to do this differently….If they can come to an agreement, why change it?”

This new approach was cited as applying to any area, not just the allocation of funds to research.

**H.5.2** In high velocity environments, the more the power to make functional strategy decisions is delegated to the functional executives, the better the performance of the firm.

Governance and decision making was largely centralised on the previous VC:

“the terms of reference of any group was to make recommendations to the VC for him to decide on.”

The institution had a strong faculty based structure, akin to an SBU or divisional structure in a commercial organisation. The VC commented:

“in theory this kind of matter should fundamentally be decided in the Academic Board, but as the culmination of lots of vigorous line discussion in Faculty Boards etc. But you and I know that that doesn’t always happen. So maybe the Executive, which should ..really have a rather narrower management function, has to take over some of this decision making because the thinking wasn’t being done elsewhere.”

**H 5.3** In high velocity environments, the greater the power centralisation in the chief executive, the greater the level of political behaviour among the top management team.
In addition, the new VC inherited a culture of centralisation: “I sensed a feeling that people came to this meeting to be given their orders…”. The new VC was described however, in sharp contrast: “democratic and participative”.

**H 5.4. In high velocity environments, the greater the political behaviour among the top management team, the poorer the performance of the firm.**

Politics were historically common, as one respondent explained,

> “it’s all very political with a small p. And the way that we’re structured, the Deans are always jostling for position. And trying to make sure that they get their slice of the cake, and that somebody else doesn’t get more than them.”

Another respondent noted,

> “As to what extent lobbying goes on in the back corridor…it used to go on … but it’s not something I choose to get involved in – it probably disadvantages the faculty, but…I don’t particularly like it.”

A new approach to communications generally reflected a less tolerant approach to hidden political behaviour:

> “I don’t want to say there was a huge change of management style when he came in, but everything was out on the table, it was much more public and transparent. So I should think there would be a lot of fora where you would find that…”
<table>
<thead>
<tr>
<th>Propositions</th>
<th>Previous Process</th>
<th>New Process</th>
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<tr>
<td></td>
<td>(Poor Research Performance)</td>
<td>(Performance Results Awaited)</td>
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<tr>
<td>Analytic process</td>
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<td>Political behaviour observed</td>
<td>Political behaviour less evident</td>
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5. Conclusions
The case evidence suggests that poor performance in the decision area under investigation – research – is linked to non-rational processes. As suggested in earlier studies, power and politics appear to have been negative influences on decision process. Performance outcomes based on the newer process are awaited.

The case of this English University offers further support to the idea that Bourgeois & Eisenhardt’s (1988) propositions and hypotheses may be relevant in quite different contexts. Studies of further cases in similar institutions are needed to confirm their generalisability. Managers in these institutions could then have the confidence to
approach their institutions in what has often been considered a “more business-like manner” – one that considers and manages process factors more actively.

5. References


