Strategic Decision Making

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What is strategic decision making?

Strategic decision making is a critical skill for effective leadership. Making strategic decisions in a business setting can be complex and developing these skills requires knowledge, experience and intuition.

Managers are regularly required to make administrative and operational business decisions to achieve short-term KPIs. By contrast, strategic decisions made by business leaders focus on the medium- to long-term future direction of the business and are shaped by the company's mission, vision and objectives.

Strategic decision making has a significant impact on key stakeholders and is used to achieve a competitive advantage in the market.

Why is strategic decision making important?

Strategic decision making plays a critical role in the management of a company and therefore its success.

A crucial part of the strategic planning process, strategic decisions are used to establish company goals and the allocation of sufficient resources needed to achieve them. Strategic decision making gives companies a competitive advantage and ensures the knowledge and skills necessary for a company's future are front and center. This helps in resolving problems, thereby helping to achieve goals and improve company performance.

The main objective of strategic decision making is to align both long-term and short-term goals with the mission and vision of a company.

Benefits of strategic decision making

The benefits of using an effective strategic decision-making process include:

- A clear process and structure to define problems, guide the evaluation process, alleviate stress and enable team collaboration to work towards a common goal.
- Connects short- and medium-term decisions with the longer-term consequences, enabling more accurate predictions of the outcomes of some business decisions – useful to forecast an organization’s progress, financial performance and growth.
- Can help to evolve short-term decisions in a timely fashion to support long-term objectives.
- Collaborative decision making encourages more diverse, innovative thinking and promotes a culture of co-operation and shared ownership of the agreed solution.

Who should be involved in strategic decision making?

Good decisions are shaped by consideration of many different viewpoints. Successful strategic decision making is usually informed through a meaningful, collaborative process involving all stakeholders, from the CEO and leadership team, senior managers and company employees, to subject-matter experts and external advisers.

Employees may well have the most extensive knowledge, experience and perspective on the issues at hand, while managers will focus on how to achieve operational short-term KPIs. The board of directors’ role is to focus on the medium-long term goals, along with the mission and vision of the company.

Broadening your perspective with input and guidance from team members enables an informed strategic decision shaped by views from people with relevant expertise.

This doesn’t mean you should seek out every opinion and give it the same validity, but gaining a broad range of inputs will enable you to have a more rounded understanding of the problem and devise a more effective and workable solution.

Why do organizations find strategic decision making difficult and how can they improve it?

According to a McKinsey survey of more than 1,200 global business leaders, inefficient decision making costs a typical Fortune 500 company 530,000 days of managers’ time each year, equivalent to about $250 million in annual wages.

Poor decision making has profound implications. According to Harvard Business School, more than 30,000 new products are launched annually, but 80% of these fail as a direct result of poor decision making.

Businesses face many opposing pressures which make effective strategic decision making difficult. Bad decisions are made for a variety of reasons – from the lack of business vision or purpose, the complexity of the process and short-term time constraints to lack of (or too much) information, poor situational awareness, poor comprehension of risk and strategy, organizational complexity, group dynamics and inherent bias which can mean decisions are made that are not based on critical thinking and reason but rather on ‘gut’ instinct.

Some of the reasons that businesses find strategic decision making difficult include:

1. Lack of vision/purpose
Having strong vision and mission statements are essential elements of a successful business, providing direction and focus, while guiding strategic decision making based on long-term goals and objectives and motivating employees to work towards a common goal.

Without vision and mission statements, there can be no clear business focus or shared understanding of what a business aims to achieve. Decisions may be made that are not aligned with the business's goals and values.

2. Poor situational awareness
Much business success is based on the ability to handle the inevitable challenges faced over the course of a business's growth and development. While policies and procedures provide guidance, the skill of the practitioner lies in their application. Given the fast-paced nature of business, decisions need to be based on knowledge and experience, and be flexible enough to be able to adapt to new insights and risk management in circumstances.

3. Wrong people involved in making decisions
Where the wrong people are involved in decision making, decisions are either made poorly or not at all. It is a problem that can be seen at all levels of organizations but is particularly incapacitating at leadership level.

It can be costly in terms of customer acquisition and retention, cost of operations and employee engagement, as well as from a potential failed company strategy perspective.

Organizations looking to make decision making simpler aim for a flatter, more agile structure, with authority and accountability. Agile organization models get decision making into the right hands, are faster in reacting to (or anticipating) shifts in the business environment and are attractive environments for high performers.

4. Willful blindness – unwilling to accept implications
Willful blindness is where individuals or organizations deliberately ignore or 'turn a blind eye' to a troubling fact or circumstance that has implications for the conduct of organizational leadership,
There are many reasons – psychological, social and structural – why this occurs. Leaders must be careful not to fall into a willful blindness trap by making sure that they are fully aware of potential 'red flags' until they are resolved.

5. Unsound decision-making process
Good decision making requires more than speed and an intuitive ‘gut feeling’. To improve strategic decision making, organizations should prioritize decisions and debate the ones that will create the most value and serve the organization’s purpose.

A robust decision-making structure will guide you through the complexities of the process and help avoid ill thought-out decisions by ensuring that all perspectives are considered; reducing bias, improving collaboration, increasing transparency and accountability and promoting proper evaluation of alternative options.

6. Poor comprehension of risk and strategy
Identification and definition of the business challenges ahead creates a comprehensive strategy rather than a wish list.

A good strategy does more than encourage achievement of a goal or vision. It acknowledges the challenges a business faces and provides an approach (resources and competencies) to overcoming them. It focuses energy and resources on key objectives to achieve favorable outcomes and builds a bridge between the challenge at the heart of the strategy and action.

7. Short-term pressures obstruct strategic thinking
Research conducted by McKinsey shows that companies that think long-term significantly outperform those focused on the short term.

Among the firms focusing on the long term, average revenue and earnings growth were 47% and 36% higher respectively, and total return to shareholders was higher too. Companies that were managed for the long term added nearly 12,000 more jobs on average than their peers from 2001 to 2015.

By using a decision-making framework, determining your organization’s purpose, setting SMART (specific, measurable, attainable, relevant and time-based) yet challenging long-term goals, establishing short-term goals that

support them and regularly reviewing goals, you can improve your organization's strategic decision making.
To improve strategic decision making, organizations can employ a variety of strategies. They should prioritize decisions and debate the ones that will create most value and serve the organization's purpose. The roles of decision makers should be clarified and make them open to accepting advice, seek out wider opinions and create a culture which empowers employees to speak up when they see something wrong or that could be changed.

Different types of decision making and strategy frameworks

Given that executives spend around 40 percent of their time making decisions, how can business leaders strengthen their strategic decision-making ability?

A robust decision-making framework will help to define the issue and consider alternatives, and guide you through the complexities of the process, helping to avoid hasty decisions. It ensures that all perspectives are considered and enables effective decision making by reducing bias, improving collaboration, increasing transparency and accountability, and promoting proper evaluation of alternative options.

By outlining the criteria against which options will be evaluated, these frameworks help identify the best course of action, reducing the risk of overlooking vital factors or information and supporting growth strategy.
Every business is unique and the decision making and strategy framework you choose will depend upon your particular situation and requirements, whether you want to focus on inclusivity and consensus-building or efficiency and speed.

Popular decision making and strategy frameworks include:

1. SWOT Analysis
SWOT (Strengths, Weaknesses, Opportunities, and Threats) is often used as part of a strategic or planning process but can also be applied to help understand an organization or a situation in different scenarios.

The fact-based data-driven framework evaluates a company's competitive position by looking at its objective and evaluating likely success or failure by identifying the internal and external factors that affect it.

The 'SWOT' is a data capture exercise to be followed by analysis. It encourages strategic thinking and can enable organizations to spot business opportunities, as well as threats. Its value lies in its ability to provide self-assessment rapidly and its flexibility. However, a SWOT analysis can appear deceptively simple. Conducting an effective and meaningful analysis requires time and a significant resource, as well as a team effort. Capturing too much data may lead to procrastination. To be effective, the process needs to be repeated regularly.

When used for strategic planning, SWOT analysis can be used in conjunction with other frameworks such as PESTLE analysis to look at opportunities and threats (external) elements, and with Porter's five forces to analysis competitor evaluation.

2. PESTLE analysis

A PESTLE analysis is a broad fact-finding management framework and diagnostic tool designed to help understand external factors (political, economic, sociological, technological, legal and environmental) which impact business strategy and influence decisions.

A PESTLE analysis helps to detect and understand broad, long-term trends and supports a range of business planning including strategic business planning.

A PESTLE analysis provides broader contextual information about the business direction, its brand positioning, growth targets and potential risks to productivity. It can help determine the validity of existing products and services and define new product development. PESTLE encourages the development of external and strategic thinking, but it is easy to use either insufficient data or to collect too much leading to procrastination. Speedy

market change may make it difficult to predict market developments and to be fully effective, the process needs to be repeated regularly.

3. Porter’s Five Forces

Created by Harvard Business School professor Michael E. Porter, the Porter’s Five Forces framework is used to analyze and evaluate an industry sector’s competitive environment.

The model identifies and analyses five forces that shape every industry including competitive rivals, potential new market entrants, suppliers, customers and substitute products that influence a company’s profitability. It can be used to guide business strategy to increase competitive advantage. Porter’s model is widely used to analyze the industry structure of a company as well as its corporate strategy, competition intensity, attractiveness and profitability of an industry or market.
The model helps analysts understand the competitive landscape within which a company operates and the challenges that a company faces.

The Five Forces Model has been criticized as it is retrospective and therefore most applicable in the short term. It is a framework for analyzing an industry sector rather than an individual company. Another shortcoming is where companies straddle several industry sectors and may not be as affected by some of the five forces as others.

While Porter’s Five Forces and SWOT analysis are both analytical tools to inform strategic decisions, Porter’s Five Forces is used to analyze the competitive landscape within an industry, while SWOT analysis puts a company’s internal potential under scrutiny.

4. McKinsey 7S Model

The McKinsey 7S Model is a tool that analyses organizational design to illustrate how effectiveness can be achieved through seven interconnected elements – structure, strategy, skill, system, shared values, style and staff.

This approach puts shared values at its center, reflecting the potential impact of structural changes on company values. Application of the model includes

identifying any inconsistency in values, strategy, structure and systems, research into creating an optimal organizational design to enable realistic goals and achievable objectives, creating an action plan incorporating changes to hierarchy, communication and relationships and making necessary changes.

The advantage of this model is that it enables all parts of the business to align and allows for effective tracking of the impact of changes in the seven key elements. However, the model is considered long-term which may not be as effective in a rapidly changing business world. It is an introspective process relying on internal factors and processes rather than external conditions.

5. OODA Loop

The OODA Loop model is a four-point decision loop cycle that supports quick, nimble and proactive decision making.

Originally developed to help pilots make quick decisions when engaging in air combat, it was based on the observation that a clear field of vision gave a pilot a competitive advantage as it meant that he could assess the situation better and faster than his opponent. In the same way, success in business relies on being one step ahead of the competition and, at the same time, being prepared to react to what they do.

The four stages comprise:

- Observe – collect current information from as many sources as possible.
- Orient – analyze information and use it to inform your current reality.
- Decide – determine action.
- Act – follow through on your decision.

The OODA Loop is not linear. You continue to cycle through the loop by observing the results of your actions, assessing whether you’ve achieved your goal, reviewing and revising your initial decision, only then moving to your next action.

While the goal of the model is to increase the speed with which you orient and re-orient based on new information, improving your analytical and observational skills remains key to a successful decision.

A smooth and rapid transition between what you observe, how you interpret and action it, means you can be proactive and take advantage of opportunities of which your competition is unaware, enabling you to stay one step ahead and forcing them to react to you.

6. The Ladder of Inference

The ladder of inference is a tool that explains how we make choices through the decision-making process. It outlines how we naturally make judgments based on our individual assumptions and how we are influenced by unconscious cognitive bias (assumptions, beliefs, or attitudes) that make us misinterpret information.

The ladder of inference framework uses seven steps to understand how assumptions lead to specific conclusions can help avoid cognitive bias, stop treating beliefs as truth and make better decisions.

It is a useful tool to understand decision-making processes, check your thought processes, actively reject unconscious bias and evaluate whether your choices are based on reality or assumptions.

The ladder can be useful in helping teams reach consensus, explore different perspectives and make evidence-based conclusions. It has a wide range of applications from interviewing job candidates, making recommendations for business strategy, structuring and resourcing projects to giving feedback or writing performance reviews.

7. Decision Trees

The decision tree is an analytical tool that clarifies the choices, risks, objectives, financial gains and information needs involved in an investment. Decisions are not isolated so the decision tree is a series of branches showing the routes by which the various possible outcomes are achieved. A decision tree will always combine choices of action with different possible events or

results of action which are partially affected by chance or other outside factors.

Decision trees are a way of clearly setting out knowledge in a way that enables systematic analysis and leads to better decisions. Using the decision tree, management can consider various courses of action with greater ease and clarity. The interactions between present decision alternatives, uncertain events, and future choices and their results become more visible.

The decision tree concept does not offer final answers to companies making investment decisions in the face of uncertainty. However, the concept is valuable for illustrating the structure of investment decisions and can help in the evaluation of capital investment opportunities.

8. Multi-vote and multi-veto framework

Multi-vote and multi-veto are decision-making frameworks that aim to provide efficient and effective decision making within a group setting. However, they differ in the way they approach and prioritize decision making criteria.

Multi-vote is a decision-making framework that allows participants to distribute a fixed number of votes among different options. This framework is particularly useful when there are multiple viable alternatives and decision needs to be made collectively. The final decision is the option with the highest number of votes.

This approach acknowledges diverse views, encourages active participation, and ensures that the decision reflects the collective preferences of the group. It can lead to more well-rounded and informed decisions, as well as a sense of ownership among individuals, commitment, and engagement from participants. It is not, however, always appropriate for reaching consensus as participants whose view did not carry the day may feel alienated.

By contrast, multi-veto is a decision-making framework that enables participants to veto options they oppose for whatever reason. This framework is beneficial when there is a need to avoid decisions that could lead to negative consequences or conflicts. Options without any vetoes are

considered for further evaluation. Decisions can only be made if all participants agree.

Multi-veto recognizes the importance of consensus, encourages discussion, promotes transparency, and prevents decisions that may be detrimental to the overall objectives. Multi-veto can help identify potential risks and ensures that potential drawbacks are discussed and considered leading to more robust and well-informed decisions.

However, the framework's reliance on unanimity can result in prolonged decision-making processes, delays and inefficiencies. Without careful management, use of the framework can create a stalemate situation where decisions cannot be reached, causing frustration and impeding the overall decision-making process.

Both multi-vote and multi-veto have their advantages and limitations, and their suitability depends on the specific context and objectives of the decision-making process. Understanding these frameworks and their applications can empower individuals and groups to make more informed and effective decisions.

9. Cost-benefit analysis

A cost-benefit analysis is the process of comparing projected or estimated costs against the projected benefits or opportunities associated with a project to determine whether it stacks up from a business perspective.

Cost-benefit analysis is a form of data-driven decision making. The basic principles and framework can be applied to virtually any decision-making process by establishing a framework for analysis, identifying costs and benefits, and assigning each a value for comparison purposes. If total benefits outnumber total costs, then there is a business case for you to proceed with the project or decision. If total costs outnumber total benefits, then you may want to reconsider the proposal.

Beyond simply looking at how the total costs and benefits compare, you should also return to the framework to evaluate whether the analysis shows you have reached your goals for success.

If the costs outweigh the benefits, consider whether there are alternatives to the proposal and whether you can identify cost reductions to enable you to reach your goals.

Leveraging cost-benefit analysis as a part of a decision-making process enables an evidence-based decision to be evaluated free of bias. The process simplifies the decision-making process and identifies any hidden costs and benefits.

The cost-benefit analysis framework is best suited to short- and mid-length projects because of difficulty predicting accurately any further into the future. Unknown variables such as inflation can also impact the accuracy of the analysis. Other potential limitations are the difficulty in predicting all the factors that may impact the outcome (market demand, costs of materials and the long-term business environment worldwide) as well as inaccurate data. Also, this approach does not consider non-financial reasons to pursue a project or decision.

Cost-benefit analyses should be used in conjunction with other business tools in determining the future direction of your organization or project.

10. Scaled Agile Framework (SAFe)
SAFe is a knowledge base of proven, integrated principles, practices and competencies for achieving business agility and driving organizational change.

Using Lean, Agile, and DevOps (cultural philosophies, practices, and tools), it is built around the Seven Core Competencies of Business Agility critical to achieving and sustaining competitive advantage.

The seven core competencies are:
- Lean-agile leadership

- Team and technical agility
- Agile product delivery
- Enterprise solution delivery
- Lean portfolio management
- Organizational agility
- Continuous learning culture

Mastery of these seven core competencies enables enterprises to achieve the agility needed to successfully respond to volatile market conditions, changing customer needs and emerging technologies.