

CHAPTER 7 | Decision Making at the Strategic Level

The interviewed strategic leaders agreed that decision making at the strategic level is significantly different from typical decision making processes at the operational and tactical levels. Whereas most decisions at lower levels are routine or established through accepted procedures, strategic decisions are unstructured and rarely routine. In addition, decisions at the strategic level are consequential—they will have second, third, fourth, and later order effects.

The complexity and uncertainty of the environment requires the strategic leader to look into the second and third order consequences of his decisions.”³

Strategic decisions rarely follow a prescribed decision making framework. Many elements of the decision process are intangible and fuzzy, without a clear picture of how to approach the problem—much less the solution. Jacobs explained, “Because of the VUCA nature of these unstructured [strategic] problems, there even may be no agreed-upon strategy for developing workable solutions even with appropriate framing. When dealing with such problems, a lot of creativity often is demanded to find novel approaches, as yet undiscovered technologies, or contingencies previously unimagined.”⁷

Who Makes the Strategic Decisions?

Considering the complexity of the decision making environment at the strategic level, and the necessity to anticipate often hard-to-determine second and third order consequences, engaging other members of the strategic leadership team is often prudent when making decisions at that level. Jacobs agreed, stating:

*The likelihood of unanticipated indirect effects—the ripple effect—is so great in really complex systems that prudent decision makers test and fine-tune their proposed solutions with [experienced, trusted] advisors before implementing them. In most cases, the ultimate quality of the decision will strongly depend on the quality of these advisors, their relationship to the decision maker, and their relationships with one another—the extent to which they have . . . [evolved] into a real team with shared commitment to a common purpose.*⁸

Jacobs acknowledged, however, that leaders must remember there is a tradeoff when considering team inputs. He explains:

*When the problem space is either too complex for any single individual to comprehend totally, or involves such diverse constituencies that no decision can be implemented without substantial input from the many different interests invested in the issue, investing in a decision team approach may pay very handsome dividends. . . . On the other hand, investing in a lengthy decision process to make an easy decision will often in itself create dissent. . . . [The] members of the decision team—with responsibilities in their own right—will feel their time is being wasted. The question is when to use what kind of decision making process.*⁹

Regardless of the decision making strategy, technique, skill sets of the leader (or the leadership team), or process, the results of the process vary according to the people involved. As leadership scholar Donald Hambrick stated:

*In the face of the complex, multitudinous, and ambiguous information that typifies the top management task, no two strategists will identify the same array of options for the firm; they will rarely prefer the same options; if, by remote chance, they were to pick the same options, they almost certainly would not implement them identically. Biases, blinders, egos, aptitudes, experiences, fatigue, and other human factors in the executive ranks greatly affect what happens to companies.*¹¹

Thinking Behind Strategic Decision Making

Whether making decisions with input from a team or as the lone leader, understanding what influences those decisions is important. Previously, attention focused on the need for strategic leaders to hone their strategic and reflective thinking skills, enhance their frames of reference and mental models, and confront their biases and their impact. Doing so enables strategic leaders to combine logical and analytical reasoning with informed intuition, thereby enhancing the decision making process.

To summarize, logical and analytical reasoning typically works well with the structured, routine decision making often found at the operational and tactical levels, whereas judgments made by informed intuition, or “gut instincts,” may be required at the strategic level. At the strategic level, the VUCA environment often requires leaders to make decisions that involve increasingly dynamic, unstructured challenges. The broader the leader’s frames of reference, mental models, and thinking skills, the more informed their gut instinct will be. As Oxford professor of organizational decision making Gerald Smith noted, “The capacity for reflective thought is a decision maker’s most valuable resource.”¹²

The following sections outline various aspects of rational and intuitive decision making in more detail.

Rational Decision Making Model

Decision trees, cost-benefit analysis, and other analytical decision making processes often depict the rational model. It is a simple model borrowed from economic theory that offers a straightforward sequence to the decision making process. Rational decision making requires understanding the goals desired and familiarity with common frames of reference. A typical rational model has the following seven steps:

1. Define goals
2. Identify alternatives
3. Calculate the consequences
4. Assess the risks and uncertainties
5. Decide the most favorable using a calculated ratio of benefits to costs
6. Monitor implementation
7. Begin again.

There are issues, however, with the actual use of the model, even for structured decision making requirements. For example, “[researchers] found persistent behavioral violations of rational norms. Evidence that preferences are constructed on the fly threatens the model’s claim that people have stable preference structures.”¹³ As decision scholars Gerard Hodgkinson and William Starbuck argued:

*Decision makers have neither full information nor the competence and capacities to process the myriad of information that is available, nor do they have perfect knowledge of the issues at hand. . . . Furthermore, those who have studied it have described actual decision making as iterative and complex, punctuated by digressions, and warped by biases and misperceptions.*¹⁴

Furthermore, Smith posited, “Increasingly . . . proponents of rational methods are recognizing that, except in special circumstances, decision analytic techniques are not useful. Arguably the most that the teaching of decision making can take from the rational model are a few principles and its conceptual framework, encapsulated in a decision tree.”¹⁵

Intuition in Decision Making

Intuition commonly refers to “an experiential phenomenon based upon implicitly stored knowledge in which there is a complex interplay of cognitive and affective processes operating below the level of conscious awareness. The process of intuiting involves rapid, holistic information processing of which the recipient is unaware.”¹⁶

In comparing intuition in decision making with rational models, professors Eugene Sadler-Smith and Paul Sparrow suggested:

A rational action is feasible if decision makers [agree] about goals and cause and effect relationships, and if they are cognizant of the environmental and other constraints, under which decision makers take action. Conversely, if decision makers cannot come to consensus on goals and cause and effect relationships, and are not fully cognizant of environmental constraints (including uncertainty) they cannot rely exclusively upon rational methods. Hence, the limits of rationality may be all too apparent in uncertain environments where it is difficult to identify, to measure and predict key variables and their interrelationships.

*Rational analysis and intuitive judgment are complementary components of effective decision making.*¹⁷

Cynthia Valles, an Executive Vice President at American Express, explained that “Although you try to make decisions based on the best information available, ultimately you have to decide with your gut exactly how much information is enough to make a decision. Reliance upon the gut reflex comes largely with experience.”¹⁸ All of the interviewed senior leaders indicated they relied on informed intuition when making decisions. For example, Peter Schlote, CEO of Tesat-Spacecom GmbH & Co., expressed that “As a strategic leader, you always seek consensus and logic when making a decision, but ultimately intuition drives the decisions made at the strategic level.”¹⁹

Based on observations and experiences, informed intuition helps the strategic leader synthesize and make sense of disparate information and volatile conditions. Unfortunately, many decisions at the strategic level are made with inadequate information and sensitive time frames. Consequently, as General Richard Myers, USAF (Ret.), former Chairman of the Joint Chiefs of Staff, noted, “That’s why, when it comes down to it, most decisions are made by informed intuition.”²⁰

In view of the previous and above discussions regarding intuition, its use by the strategic leader must be considered as part of the strategic decision making process, especially when facing challenging and unstructured issues inherent in the VUCA environment.

Take a moment to solve the following problem as quickly as possible:

- A bat and a ball cost \$1.10 in total.
- The bat costs \$1 more than the ball.
- How much does the ball cost?

Most likely, if you answered quickly, the answer offered will be “10 cents.” Intuition quickly surmises that the sum \$1.10 easily breaks down into \$1 for the bat and 10 cents for the ball. Studies consistently demonstrated that 50 percent or more intelligent people selected 10 cents as the answer rather than the correct answer of “5 cents.” In view of the above result, scholar Daniel Kahneman argues, “The surprisingly high rate of errors in this easy problem illustrates how lightly the output of effortless associative thinking is monitored; people are not accustomed to thinking hard, and are often content to trust a plausible judgment that quickly comes to mind.”²¹ This example of an initial “gut” reaction demonstrates that a strategic leader should always challenge and validate his or her intuition results.

The Vroom-Yetton-Jago Decision Making Model

In 1973, Victor Vroom and Philip Yetton developed a prescriptive decision-tree model reflecting five decision processes that ranged from highly autocratic through consultative to participative. The model, after multiple modifications identifies twelve situational variables (e.g., need for commitment, goal alignment, decision importance, potential for conflict), decision rules to govern either decision quality or decision acceptance, and enhanced prescriptive specificity using linear equations rather than *decision rules*. Below is a simplified depiction of the model:

Level I: Decide and Announce. Leader makes the decision and either announces or “sells” it to the group or organization.

- **Pro:** Can make decision and implement quickly—but to avoid possible indifference or lack of motivation to implement, leader should explain rationale as to why he or she made the decision unilaterally; leader controls the situation.
- **Con:** May not consider all the necessary information. May use “rule of thumb” decision process that is not valid for the specific issue at hand. May alienate members of the group unnecessarily.

Level II: Gather Input from Individuals and Decide. Leader gathers input from selected individuals or the group individually and then makes the decision.

- **Pro:** Can go to recognized experts to gather additional information in order to make a more informed decision; does not require meeting with the entire group.
- **Con:** Others in the group may wonder why the leader did not consult with them— they may perceive the leader as “playing favorites.” Could result in lack of motivation to implement the decision.

Level III: Gather Input from the Group and Decide. Leader gathers input from the group and then makes a decision.

- **Pro:** Including the group in gathering the data enhances the chance for synergy and better-informed decision making.
- **Con:** If leader makes a decision different from what the group suggests, the group may feel that they were “used”—that the decision making process was preordained by the leader and the process was a façade; may result in members of the group undermining implementation; may not be so willing to participate in future decisions. It takes more time for the leader to make a decision.

Level IV: Facilitate Consensus. Leader presents issue or problem to the group and facilitates the decision making process within the group. If the group is unable to reach consensus, the leader has the option to make the decision.

- **Pro:** Educates and enhances buy-in and ownership by members of the group; implementation could be quicker as more people are knowledgeable regarding the decision process and what needs to be done. Helps to build and sustain trust and respect between group members.
- **Con:** Takes more time—possibility the decision is “watered down” from what would be best for the organization; group may not function/collaborate well in reaching a decision.

Level V: Delegate with Constraints. Leader delegates the problem to the group and authorizes the group to make the decision within specified boundaries. Leader does not abandon the group, but facilitates support and resources to enable the group’s success in making a decision.

- **Pro:** Good for building team leadership skills and ownership of the decision by the group; frees leader to focus on other issues.
- **Con:** Takes more time; may lead to a decision not viewed by the leader as optimal; team may not have the skills to reach a quality decision.

In essence, the model is about levels of participation—when to involve others in the decision making process. While the model appears simple in presentation, its actual use is much more complex. Myriad factors influence the selection of a specific decision approach. Some examples include: how well the decision maker perceives the issue; the leader’s judgment regarding amount of time available for making a decision; the perceived knowledge and expertise held by the leader (e.g., if the leader has a high opinion of his or her knowledge, may lead to a more autocratic decision process); the perceived knowledge and skill of the group or team members in participating in the decision process, and the situation or context surrounding the decision; and, an appreciation as to where the necessary knowledge and skills for making the decision reside.

Vroom offered the following thoughts regarding the model: “Predictions of the quality of the decision resulting from each of the five decision processes are based on where the problem-relevant knowledge resides (in the leader, in the group, both, or neither), the extent to which the goals of group members are aligned with the organization, and the competence of the team members in working together.”²³

Therefore, successful strategic leaders examine each decision requirement and, based on a case-by-case analysis, determine the best decision making process for the situation and context. Continued use of one particular approach can lead to complacency, demotivation, and possible loss of the leader’s credibility.

Ethics and Emotion in Decision Making

It is important for senior leaders to recognize that emotion is a major factor in decision making, especially at the strategic level. Intuition is a construct of data residing in the leader’s brain, where much recollection and reasoning include emotional tags. Most memories are not associated with a specific fact; rather, memories typically relate to a story component; and most stories remembered have an emotional component. Many rational decision making models minimize or ignore the influence of emotions on people’s behavior.

Along that vein, Professor Gerard Rossy suggested five questions to assist leaders to more effectively deal with ethical dilemmas in the decision making process:

1. What are my self-interests in this situation and context? How might they influence me?
2. What would lead to the greatest good for the greatest number? What are the legitimate interests of others?
3. What laws, rules, regulations, policies, principles and values, or socially appropriate behaviors apply?
4. What are my obligations to others in this situation? How should the principle of reciprocity apply?
5. What will be the long-term impact on important stakeholders and me?²⁶

Strategic leaders often use this rational model of conscious and intentional reasoning as an effective tool to evaluate more thoroughly the ethical implications of a proposed decision or solution. *END*