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The Influence of Strategic Decision Making on Organizational Performance

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Abstract:

Strategic decision making is very useful when dealing with poorly structured problems for which there are no clear solution procedures. In attempting to provide an evaluation of how much influence strategic decision making has on organizational performance, this paper posits that effective strategic decisions are results of systematic and careful analysis of information. Factors that influence management decisions as well as organizational performance are explained, pointing out that though the strategic decision-making approach enables organizations to sustain a competitive edge and ensure survival, there is a likelihood that the scope and direction of the organization will be changed. This paper uses a systematic review of articles and contributes to an understanding of factors that contribute to organizational performance such as management, employee behavior, decision making processes as well as organizational environmental factors. Having adopted the administrative behavior theory of Herbert Simon, the study concluded by indicating that the strategic decision-making process plays an important role in the effective performance of an organization.

Keywords: Management, strategy, decision-making, organizational performance

1. Introduction

Decisions are essential in everyday personal, career or professional life. Making a decision means making a judgment or making a choice between two or more alternatives. As human beings, we make decisions every moment of our lives with the belief that such choices are logical and rational, having weighed the advantages and disadvantages of the various likely outcomes.

A distinct characteristic of an effective manager is making a calculated and wise choice from a range of available options. Decision-making plays major roles in both private and public organizations as well as in profit and not-for-profit organizations (Elbanna & Child, 2007). Every organization grows, prospers or fails as a result of the decisions made by its managers, such that the business world is replete with evidences and outcomes of both good and bad decisions. It is essential, therefore, to build skills on being a good decision-maker. A good decision-maker chooses actions that give the best outcome for themselves and others, by not being biased, but by making rational choices after researching on the alternatives and understanding their consequences. Strategic decision-making as an important aspect of every organization is the responsibility of top-level management because there is an important link between decision-making process and outcomes.

The purpose of this article is to point out the influence of effective decision-making strategies on the performance of organizations. Given that decisions differ in many ways, we need to establish an understanding of decision-making by exploring its meaning as well as getting to know the conditions under which decisions are made.

2. The Concept of Decision-Making

While leadership is a combination of several things, the description of any particular leader and his leadership effectiveness is often a reflection of the decisions he made or did not make. Decision-making is the process of defining problems and choosing one best alternative from a set of alternative options (Eromafuru, 2016; Griffin, 2016), as a means of providing a solution to an identified defined problem. Opportunities exist within the competitive external environment of every organization and great responsibility lies on the shoulders of management to determine what to do with available resources, in order to capitalize on these opportunities to the organization's advantage. This necessitates a decision on how best to effectively and efficiently allocate and utilize available organizational resources to ensure goal realization.

The best alternative, mentioned in the above definition, refers to effectiveness. This is worthy of note, because though it can be said that management is about decision-making, some decisions made by managers fail (Ireland & Miller, 2004). Decision making, one of the essential duties of every manager in every level of an organization (Nooraie, 2012;

Jankelova, 2017), plays important roles in determining what an organization has to do or is able to do. Increasing effectiveness in decision making is therefore, an important part of maximizing organizational performance.

In talking about strategic decision making, Wilson (2015) states that the heart of strategy lies in decision making, such that having analyzed the environment, assessed organizational capabilities and investigated technological shifts, managers have to take preferred courses of action, after examining possible alternatives. Being a set of decisions that drive or shape most of an organization's actions, strategic decisions, Wilson further states, are not easily changed once they are made and they also have great impact on organizational performance.

Wehrich, Cannice and Koontz (2010) are of the opinion that decision making is the conscious process of making choices among alternatives with the intention of moving toward a desired state of affairs. These authors introduce the concept of consciousness, implying that management decisions should be made while in the right frame of mind. That is to say that the decision maker has knowledge of the prevailing problem and is responding by making a choice from a list of alternative solutions to it.

We often hear that decision-making is either an act or a process. According to Griffin (2016), decision-making is the act of choosing one alternative from a set of alternatives. On the other hand, decision-making process involves much more than just making a choice from a list of alternative options. It includes recognizing and defining the nature of a decision situation, identifying alternatives, choosing the best alternative, and implementing and evaluating its outcome, with the intention of moving toward some desired state of affairs, by creating visions of future states and mobilizing resources (McShane & Glinow, 2015; Griffin, 2016). This implies that there are different decision situations which can be denoted as decision under certainty, uncertainty or risk. In addition, translating the decision into action is part of the process that does not only address an immediate challenge, but speaks to the future as well; and also, searches for and ensures the availability of the resources needed for its realization. To these authors, who stand with Drucker (1967), the core of planning entails that until the manager gets to the point of staking his reputation to give directives and allocate resources, no decision has been taken. Moving toward a desired state is the crux of decision making.

According to Robbins and Coulter (2018), decision making is not only the essence of management; it is what managers try or try not to do. The underlying insight in this definition is that all managers would like to make good decisions because they are judged on the outcomes of those decisions. Such judgment is based on the effectiveness of decisions in terms of following specific objectives as well as efficient utilization of limited resources. This goes to say that every decision has an outcome, which could be positive or negative. A positive outcome means that the right decision in moving toward the desired state of affairs was taken. A negative outcome, on the other hand, will entail going back to the drawing board to determine what went wrong.

Decision-making, which involves action both before and after the actual choice is made, is the process of identifying problems and opportunities and then resolving them (Daft, 2016; Griffin, 2016). In addition to decision making being a process, Williams included the concept of rationality in decision-making. According to Williams (2017), rational decision-making is a systematic process in which managers define problems, evaluate alternatives, and choose optimal solutions that provide maximum benefits to their organizations. This definition recognizes the importance of the decision maker deriving maximum satisfaction from his optimal choice, having analyzed the options available to him.

In the light of this study, management decision making is a conscious, rational process of identifying a deviation from an organization's desired position, assessing and choosing the best alternative from a set of available options and providing required resources to implement the choice, with an aim of satisfying the stakeholders and objectives of the organization. Stakeholders of an organization can affect or be affected by such an organization's actions, objectives and policies. Key stakeholders are directors, creditors, employees, government (as well as its agencies), owners (that is, shareholders), suppliers, unions and the community which provides resources to the organization. Any and every management decision should take into consideration the interests of all stakeholders and in addition, be in line with the realization of the organization's goals and objectives.

Effective decision making is a process. Management decision making is not as simple as merely choosing from a list of alternatives. It demands much more, which is why it is referred to as a process (Robbins et al, 2018). This implies that there is a step at a time approach to it, meaning that it is systematic, objective and rational. Managers who make rational decisions must clearly understand every option by which a goal can be realized, given the prevalent circumstances and limitations (Wehrich et al., 2010). In addition, they must have all necessary information as well as the ability to analyze and evaluate alternatives, bearing in mind the desired goal. Managers who make the best decisions, in the opinion of McShane et al. (2015), use logic and every available information to choose the alternative with the highest value.

2.1. Strategic Decision-Making

Strategy, in terms of being analytical and rational, is a positioning process by which organizations chart their ways through the challenges of competition, internationalization and changing markets and technologies (Wilson, 2015). The task that the management of every organization grapples with is that of selecting such options as meet the objectives of the organization. Given that the global market offers same resources to all organizations, such that many business operations tend towards a convergence, the only point of difference seems to be the competitive edge provided by strategic decision making, aimed at providing maximum returns to shareholders (CIMA, 2007). This has necessitated that several firms take advantage of the opportunities provided by globalization to ensure that their operations and decision-making processes are effective and efficient. The strategic decision-making (SDM) process, according to Hart and Banbury (1994) may be one of the most important organizational sources of competitive advantage.

There have been signs of growing interest in strategy process research because from a management perspective, the link between process and outcome is very important. Literature notes that there has been increasing emphasis on such

organizational sources of competitive advantage as skills, competencies, processes, values and the ability to learn, which complement the traditional strategy content issues such as the firm's choice of, and positioning within, product markets (Rumelt, Schendel & Teece, 1991).

Realizing that high quality and speedy decision-making enhance the performance of an organization, the Chief Executive Officer (CEO) must not seek to make good decisions alone, he ought to groom the decision-making abilities of his team, facilitate decisions that support the corporate strategy, and build buy-in for final decisions (Nwoye & Agwu, 2017). Decision-making entails a commitment of available resources to a future that is not certain. Bearing this in mind, experienced CEOs who know that effective decision-making demands precise and accurate strategies that would produce maximum success, identify road-blocks to effective decision-making and develop strategies to overcome them (Ammeh, 2013, as cited in Nwoye et al., 2017).

In making strategic decisions, there is need to understand the realities on ground as well as the dynamics of the environment. According to Vasilescu (2011), to make a good decision, it is important to clearly identify the objectives or outcome to be achieved; thereafter, collect adequate and relevant information to assess available options; it is also expedient to have an overview of several possible choices in accordance with the organization's values, interests and competences; reflect on the possible outcomes of each course of action and estimate their acceptability; make a brief list of advantages and disadvantages, along with what you consider to be very important, important or less important; learn from previous experience and in addition, ask for opinions from those who have had similar situations to contend with.

Strategic decisions, according to Mintzberg, Raisinghani and Theoret (1976), determine the flow and magnitude of all business activities required to achieve organizational objectives. They differ from administrative and operational decisions because they deal with such organizational activities that are very uncertain and risk oriented. They are such category of decisions that commit significant resources, set precedents, and generate a series of lesser decisions. Ivan and Ivana (2012) opine that strategic decision making is employed when dealing with problems that have extremely high stakes, whose solutions have long-term implications for the organization, with a primary focus on business areas that are necessary for organizational growth, prosperity, and survival. Its importance primarily results from effects it has on such organizational performance indices as enabling an organization to maintain its competitive edge, aligning internal operations with external environment and surviving threats and challenges. However, the risky nature of strategic decisions is such that, a poor decision can lead to the fall of an organization, resulting in corporate embarrassment and large economic losses for stakeholders or even bankruptcy (Mueller, Mone & Baker, 2007).

Furthermore, Nickols (2015) in emphasizing that strategic decisions are often fluid, ambiguous, uncertain and complex, outlined some of its impacts in such areas as:

- Direction - Strategic decisions alter or confirm the organization's direction.
- Finance - Strategic decisions typically have significant financial implications; in some cases, it is a matter of betting the company.
- People - Strategic decisions often have profound implications for people in key organizational roles which can affect their morale, motivation and commitment to the company.
- Risk - Strategic decisions are characterized by considerable risk because its outcomes are very uncertain.

It is not practicable, according to Vasilescu (2011) to assume that people can and should make decisions as rationally as possible. Ideally, people ought to make decisions by identifying and comparing options to determine which one produces the optimal outcome for a given set of circumstances. It is however noticed in practice that the unpredictable behavior of individuals shows that people rarely act rationally, but rather use mental shortcuts to simplify and speed up their decision-making process, based on previous experience, intuition or common sense. This is in line with the notion of bounded rationality (propounded by Simon in 1956), the idea that rationality of individuals is limited by the information available to them at the time of decision-making. This is because decision makers who work under three unavoidable constraints of limited available information; limited capacity of the human mind to evaluate situations, and limited amount of time available to make decisions, in many occasions, make satisfying (good enough), rather than maximizing (the best) decisions (Nwoye et al., 2017).

2.2. Approaches to Decision Making

There are several approaches to decision making. These differences according to Ivan et al. (2012) stem from the decision maker's way of thinking, perception of the entire environment, understanding of and interaction between different internal and external variables as well as interpretation of events and activities undertaken while searching for possible options to achieve defined goals. These approaches as enumerated by Ivan and his colleague are:

Analytical approach which denotes decision making based on formal analysis, is methodological by nature, proactive, and time exhaustive.

The intuitive approach, on the other hand, denotes decision making based on overall knowledge, experience, available information, but without the support of formal analysis.

The analytical approach is used by strategic decision makers because it employs a systematic and careful analysis which generates superior choices that lead to effectiveness which as Jankelova (2017) observed, significantly increases performance, success and survival of small corporations, by ensuring that objectives are set so that success can be measured effectively.

2.3. Organizational Performance

This, according to Randeree and Al Youha (2009) is an organization's ability to effectively implement strategies in order to realize institutional objectives. Furthermore, organizational performance represents how much an organization

has fared, over a given period of time, in achieving its set and intended goals, objectives, outputs and targets (Cho & Dansereau, 2010; Tomal & Jones, 2015). It is a measure of the leadership and cognitive competences of the management in implementing strategies, as well as the level of cooperation among employees who have to work as a team in achieving organizational goals (Almatrooshi, Singh & Farouk, 2016). As a critical aspect of strategic management, Khatri and Ng (2000) are of the opinion that organizational performance is the position of a firm when compared with other firms in same industry, in terms of both financial and non-financial performance indicators.

Being able to manage the internal and external environment of an organization is a great determinant of organizational performance. The dynamic and competitive nature of these environments influence decision making, which ultimately rubs off on the organization's outcomes. Internal environmental factors (goals, strengths and weaknesses) and external environmental factors (Porter's 5 forces (1979), regulatory pressures, economic conditions and emerging technologies) make great impacts on organizations (Provan, 1989).

Variables that constitute organizational performance include profitability (Alhawamdeh & Alsmairat, 2019), business model effectiveness, efficiency and outcome (Deshpande, Farley & Webster, 1997). Boyatzis and Ratti (2009) also identify a leader's social and emotional intelligence as factors that contribute to the effective and efficient performance of an organization. This is because being able to innovate, motivate, communicate and delegate authority are essential requirements for optimal performance.

2.4. Theoretical Framework

This study adopted Herbert Simon's theory of administrative behavior, first published in 1947. The exposition of the theory in this study is as outlined by Mintrom (2016).

Organizations, according to Simon, are understood based on their decision processes. He saw decision making as the heart of administration such that administrative theory is derived from the logic and psychology of human choice. Simon in propounding this theory acknowledged the limits of rationality as the kick off point for developing certain criteria that must be weighed in evaluating an administrative organization.

The essence of adopting this framework lies in the fact that Simon, having noted that the problem of choice is one of describing consequences, evaluating them and linking them with behavioral alternatives, explained that the limitations of individual rationality can be corrected by the way organizations structure the environment of choice, because appropriate organizational forms can promote better rational decision making. Mintrom (2016) notes that the central concern of administrative behavior lies in the boundary between rational and non-rational aspects of human social behavior. Making reference to the administrative man who because he is aware of some options available to him, willingly settles for an adequate solution rather than to keep looking for the optimal one, causes organizational participants in high positions to make decisions with a high value component (what decisions), while those in lower positions make decisions with a high factual component (how decisions).

In seeking a means to improve performance, overall efficiency, as stated by Simon is the guiding criterion in administrative organizations. It is expedient, therefore, that scientific methods be used to determine how to improve such efficiency in-order to ensure that optimal performance is constantly achieved.

2.5. Empirical Review

In a study to determine the effectiveness of strategic decision making on organizational performance, using such criteria as achieved objectives and assessing the extent to which the decision solved the original problem, Hickson, Miller and Wilson (2003) observed that since achievement is dynamic, it makes little sense to judge decisions on their final outcomes. In addition, planning alone does not seem to guarantee success, though it can help. Planning, they noted, needs to be supported by acceptance amongst those involved and affected by the decision, because it is when people accept what is going on, or do not oppose it, that decisions stand a chance of success, the level of planning, notwithstanding. These scholars also noted that it is important that the decision is taken in a conducive or supportive context. This means that structures, systems, and authority can either mar or aid successful decision making and implementation.

In a literature-based review to determine the effect of strategic management practices on performance, Imane and Driss (2017) noted that knowing what is needed to succeed in a market is a key success factor in every organization. This gives credence to the notion that coherence between operational decisions and strategy is a determinant of organizational performance. In its final analysis, this study opined that the mastery of strategic information for decision making purpose provides every organization with a competitive advantage as well as opportunities for development and prosperity.

Hoffman, Carter and Cullen (1993), while concluding that though strategic decision making has an effect on organizational performance, performance needs to be measured on a long-term, rather than a short-term basis so that the results of strategic decisions will be felt over a period of time.

3. Methodology

This paper adopted a systematic conceptual review of articles to determine the influence of strategic decision making on organizational performance. The essence of the review is to summarize literature that fit the context of this study.

4. Conclusion

This study, having observed that management decision making is not free from environmental influences, opines that strategic decision-making process plays an important role in the effective performance of every organization. This is because strategic decision making is a holistic process which considers such factors as management's perspective, the

external and internal environments of the organization as well as the decision specific characteristics. Implementing a decision that comes from such a systematic analysis is a pointer to effectiveness and optimal performance.

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