
**“STRATEGIC DECISION MAKING (SDM)
– The Concept and A Literature Review”**

1) Dr. Uttamkumar Kinange, Professor,
Kousali Institute of Management Studies (KIMS),
Karnatak University (KU), Dharwad, KARNATAKA - INDIA
E-Mail: uttam2020@gmail.com Mobile: +91-98800 46965

2) Mr. Nikhil Patil*, Research Scholar,
Kousali Institute of Management Studies (KIMS),
Karnatak University (KU), Dharwad, KARNATAKA – INDIA
E-Mail: prof.np1311@gmail.com Mobile: +91-99165 60400

** Corresponding Author*

A. ABSTRACT

Strategies play a key differentiator role in the success or failure of an Organization among the closely competing organizations. In any competitive business world, it's widely accepted and acknowledged that well thoughtful Strategy Formulation is a key success mantra for an Organization. In most of successful Organizations successful strategies are the outcome of their “Strategic Decision Making (SDM)” process. The aim of this conceptual research study paper is to conduct a comprehensive literature review of the concept of SDM, with a focus on synthesizing the concept of SDM. This conceptual research study organizes the existing literatures of the recent and past studies around the area of SDM and the main purpose to review the literature in the area of SDM and understand its necessity and importance in the area of Business and Management research studies. This research study concludes with the learning of "What is Strategic Decision Making (SDM)" and "The Factors Affecting SDM Process" with further scope for future holistic research with empirical evidences to identifying several implications of concept of "Strategic Decision Making (SDM)" in the Business and Management world.

B. KEYWORDS

Business Studies, Literature Review, Management, Research, Strategic Decision Making, Strategic Management.

C. INTRODUCTION

The Core of Strategic Management lies in the Strategy Formulation process for any organization. To have timely and apt Strategies, “Decision Making” plays an important role and while making Strategic Decisions for an organization Decision Making becomes even more difficult and vital, looking at the implications of the “Strategic Decision Making (SDM)”.

The study of Strategic Decision Making (SDM) has long been of interest to both scholars and executives (*Ireland and Miller 2004*). Research into Strategic Decision Making (SDM) has often been divided into two categories: ‘Content Research’ and ‘Process Research’. Content research deals with issues of strategy content such as portfolio management, diversification, mergers and the alignment of firm strategies with environmental characteristics. Process research, however, deals with the process by which strategic decisions are made and implemented and the factors which affect the strategic decisions. For example, it concentrates on the way in which managers influence the firm’s strategic position through the Strategic Decision Making (SDM) process that they use (*Elbanna, S. 2006*).

Although the body of research over the last few decades indicates the domination of the research agenda by content issues, while process issues have received less attention, there is at present renewed interest in process research (*Rajagopalan et al. 1997*). This interest is still maintained. It should be borne in mind that these two categories are complementary, not alternatives, and that content research can significantly influence the direction of process research and vice versa (*Mintzberg and Waters 1985*). While strategy process research covers a broad range of issues, this review focuses on the SDM process, an area of process research which deals with the question of how strategic decisions are made (*Elbanna, S. 2006*).

D. STRATEGIC DECISION MAKING (SDM)

According to *Charles R. Schwenk (1988)* Strategic Decisions are ill structured, non-routine, and important to the firm, in which top management usually plays a central role (*Hofer & Schendel, 1978*). "Strategic Decision Making (SDM)" is incremental and interdependent, shaped by a variety of contextual influences arising from past events, present circumstances, and perspectives of the future (*Quinn, 1980; March, 1981; Neustadt & May, 1986*). One of the central features of strategic decisions is their lack of structure (*Mintzberg et al., 1976*) mainly due to the complexity of the strategic problems (*Mason & Mitroff, 1981*). *Gamble and Thompson (2009)* found that a company's strategy consists of competitive

moves and approaches management has developed to attract and please customers, conduct operations, grow the business, and achieve performance objectives.

The Strategic Decision Making (SDM) process is described as a set of different characteristics, such as rational, comprehensive, political; or as a sequence of activities (Goll and Rasheed 2005) that involves information gathering, developing alternatives and choosing among alternatives (Wally and Baum 1994). Strategic decision-making process research is of great importance, because the insights that it provides can improve the effectiveness of Strategic Decisions made by decision makers, which ultimately contribute to the success of organizations.

Kathleen M. Eisenhardt and Mark J. Zbaracki (1992) reviewed literature on Strategic Decision Making (SDM) and define a Strategic Decision as one which is ‘important, in terms of the actions taken, the resources committed, or the precedents set’. Strategic decision makers are boundedly rational, that power wins battles of choice, and that chance affects the course of strategic decision making. It is also clear that a synthesis of bounded rationality and political perspectives provides a compelling description of Strategic Decision Making (SDM).

Further, they argue that these traditional paradigms rest on unrealistic assumptions and tired debates about single goals and perfect rationality, and on unrealistic assumptions about how people think, behave, and feel. They conclude with a research agenda that emphasizes a more realistic view of strategic decision makers and decision making, and greater attention to normative implications, especially among profit-seeking firms in global contexts.

In conclusion, organizations are accurately portrayed as political systems in which strategic decision makers have partially conflicting objectives and limited cognitive capability. Further, strategic decision making is best described by an interweaving of both boundedly rational and political processes. It is boundedly rational in that strategic decision makers are cognitively limited and engage in a cycling among rational decision-making steps. It is political in that strategic decision makers also engage in politics and that ultimately the most powerful among them determine decisions. In contrast, they observe that the garbage can model is less relevant for strategic decision making. It remains a clever reminder of the importance of chance but is empirically less robust than the other paradigms.

Charles R. Schwenk (1995) reviewed literature on Strategic Decision Making (SDM) and the factors that affect it. He says that Research on strategic decision making and the factors which affect it

may allow us to better understand and improve the processes by which strategists come to understand their businesses and the environments in which they operate as the business environment changes and old rules derived from the “content” area of strategic management become less valid. In this review, He identified four major streams of research on Strategic Decision Making and described some of the research needs in each area. He also discussed three emerging areas of research. As Information Technology becomes a bigger part of Strategic Decision Making, as Competitive Decision Making becomes more important.

E. Factors Affecting Strategic Decision-Making Process

Mahmood Nooraie (2012), different theoretical models of strategic decision processes, which reflect different conceptions of organization, has been suggested by various literatures (e.g. *Chaffee, 1985; Lyles & Thomas, 1988; Hart, 1992*). These models that definitely differ substantially in terms of their underlying assumption(s) about the decision context and the characteristics of decision process are usually influenced by different factors.

The factors affecting the Strategic Decision Making (SDM) in particular the different stages and process can be classified into four major categories;

- Decision-specific characteristics,
- Internal organizational characteristics,
- External environmental characteristics, and
- Top Management Team's characteristics.

Decision-specific characteristics:

There is limited research dealing with the relationship between Strategic Decision Making (SDM) process and Decision specific characteristics. *Rajagopalan et al. (1993)* believed that the relationships between decision specific factors and decision process characteristics have received very limited attention in past research. According to *Papadakis et al. (1998)* “our understanding, however, of the impact of decision-specific characteristics on organizational decision-making process is still quite limited”.

Research (e.g., *Dean, Sharfman, 1993; Dutton, 1993; Papadakis et al., 1998*) on decision-making process recommends that managers in various organizations or even within the same organization may view the same internal or external problem quite differently. Thus, the nature of the decision itself may be important and influences the strategic decision-making processes. From among the past studies, which

have been conducted in terms of contextual factors influencing Strategic Decision Making (SDM) process, decision specific characteristics have received very limited attention.

Following are the major dimensions of Decision specific characteristics which impact Strategic Decision Making (SDM) process;

- Decision’s Familiarity
- Decision’s Magnitude of Impact
- Threat/crisis or Opportunity
- Risky Decisions
- Decision’s Complexity
- Type of Decisions

1. Internal organizational characteristics,

Internal organizational characteristics indicate that research relating to organizational factors such as slack, past strategies, and power have received very limited attention in previous research, while studies relating organizational size to decision-making process have produced contradictory results.

Following are major internal organizational factors influencing Strategic Decision Making (SDM) process;

- Organizational Structure and Power
- Organizational Size
- Organizational Performance
- Organizational Slack

2. External environmental characteristics

External environmental characteristics indicate factors such as hostility, velocity, heterogeneity, and uncertainty, etc., researches relating environmental dynamism and hostility to strategic decision-making process have produced contradictory results. In the 21st century, managers of any organization must cope with a dynamic world (*Cook & Russell, 1981*). According to *Priem et al. (1995)* firms usually are faced with an environmental continuum ranging from stable to dynamic.

Following are the major environmental factors which influence Strategic Decision Making (SDM) process;

- Environmental Dynamism
- Environmental Opportunity/Threat,
- Environmental Hostility
- Environmental Heterogeneity
- Uncertainty

3. Top Management Team's characteristics

Executive experience; cognitive conflict and affective conflict, consensus, and need for achievement to nature of the Strategic Decision Making (SDM) process are very limited. There are few studies that have tested the impact of the manager’s need for achievement and cognitive diversity on Strategic Decision Making (SDM) process have produced opposite results. Upper echelon theory proposed by *Hambrick and Mason (1984)* essentially argues that strategic choice is partially predicted by executives' characteristics.

Following are the major factors, which affect Strategic Decision Making (SDM) process in terms of top management team characteristics;

- Risk Propensity
- Education and Experience
- Consensus
- Age
- Cognitive Diversity
- Cognitive Complexity
- Cognitive Conflict and Affective Conflict
- Need for Achievement

F. RESEARCH METHOD

The methodology adopted in this research study paper is literature review and this research study paper is an outcome of the knowledge acquired through the review of various existing literatures from Research documents, Journals and Articles. This research study reviewed the existing literatures focusing on the Business and Management literatures around the concept of “Strategic Decision Making (SDM)”.

G. RESULTS

From this literature research study, we understand that the concept of “Strategic Decision Making (SDM)” is a quite researched topic in the recent decades and SDM has its different practices based on different characteristics of the SDM process specific to the organization. It's also event through this study that there is a need to further study empirically the concept of “Strategic Decision Making (SDM)” in a much holistic way to give a lesson learnings through the empirical evidences to the future decision makers from research study point of view.

Limitations and Future research directions

As this research study paper is the result of the review of literatures, which inherently has a limitation of not having any Empirical evidence other than the available Literatures referred in the research study. Considering this nature of limitation, future studies can be made where researcher can study the implications of different processes/methods of “Strategic Decision Making (SDM)” and their comparative advantages and challenges. Researcher can also perform the empirical study pertaining to the applications of the processes/methods of “Strategic Decision Making (SDM)”.

H. MANAGERIAL IMPLICATIONS AND CONCLUSIONS

This research study paper consolidates literatures around the basic concept of “Strategic Decision Making (SDM)”, also this research study paper has below mentioned Managerial Implications which a practicing Manager can refer to understand Strategic Decision Making (SDM) concept; What is Strategic Decision Making (SDM) and Factors Affecting Strategic Decision Making (SDM) Process.

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