1. Introduction

In *Hamlet*, Shakespeare wrote that the play is the thing. That is in *Hamlet* where his father’s murderer would reveal himself. The drama critic would go further and say the performance is the thing too. That is our concern as well. In this book, we, the authors, examine the performance of the business organization in terms of the execution of the script, or in the case of business, the business strategy decisions. The play is what happens on the stage, something we can believe or not but the performance is what we discuss after the play in the world of the real. We know that play and performance are inextricable on the stage, but we separate the two when we consider businesses. In a cause and effect sequence, the business acts through its decisions and these decisions have detectable consequences. Unlike drama, the performance of the business occurs after the playing of the parts. Business decisions are aimed to produce future results. Decisions can be modified in their process of execution but major decisions such as strategic decisions really should not be changed in midstream. Strategic decisions are ones the organization sticks with. They are major decisions not tactical ones.

Time matters with strategic decisions. It matters because there is distance between the strategic decision and its consequences. The time between decision formulation and full execution gives the observer time to see the decision be implemented and have the organization and its people adjust to the decision. The longer the time, the more that can happen to affect performance results.

By and large, parties outside the business such as governments, communities and consumers do not act directly on business operations but after time intervals when the results of the actions have been recorded and publicized. Most of the time this is a year or so with quarterly reports of results within the year for publicly traded companies. These outside parties then act themselves with investment advice for investors, evaluations of progress and strategies that were employed as well as reviews of contracts with the businesses. There is reliance on these reports and analyses because corporate managers run things autonomously from the outsiders. The report card of firm performance is critical for outside reviewers. They hold the fate of many businesses. Invariably and repeatedly CEOs will
ask, “How will this strategy affect our quarterly report?” And: “What will we have to show in our annual report?” These are not sentiments of impatience but of orientation to the future. Accountability for future results is primary the responsibility of the CEO so there is little wonder why that assignment looms daily for the CEO even if the strategic plan is not worked on every day.

In our study of decisions and results, we will trace backward from result to decision to better understand what happens. We will work from the performance results reported in our interviews with corporate leaders and case studies of both successful and unsuccessful decisions. These are also reported by the business leaders in our survey group and our findings from the cases. What is different between the successful and unsuccessful decision? What can be learned from businesses and what can be applied, if anything, to other corporate operations? A more detailed elaboration of research questions follows shortly in this chapter, but the central questions are how successful and unsuccessful strategic decisions are different and what are the connections between decisions and corporate performance?

Popular business literature abounds with stories about how good business decisions helped businesses thrive and how bad decisions caused bad results (Harnish, 2012). These decisions may not seem epic for the organization, but they are pivotal and directional. It can be a matter of hiring the right person or changing a strategic orientation but the right thing was done at the right time. A pivotal change of strategy was made.

Here are just a few decisions that had a positive effect from the book: Apple bringing back Steve Jobs, Toyota pursuing zero defects, Henry Ford doubling worker’s wages and Boeing betting big on the 707 are just a few examples of course-changing strategic decisions.

On the negative side, that of bad decision making, there are also many instances of poor business decisions. There are some memorable standouts such as when Ross Perot didn’t buy Microsoft, IBM letting Microsoft keep the copyright for DOS and Western Union passing on the telephone (Business Insurance, 2016). Most of these were lost opportunity decisions but there are many other business decisions which led to financial or market loss. They are exemplified by Detroit motor vehicles ignoring the Japanese motor vehicle quality control efforts, American small electronics firms ceding small electronics manufacturing to Asian firms and Exxon’s failure to act quickly when Exxon Valdez spilled oil.
THE DECISION–PERFORMANCE LINK

Our purposes are to draw conclusions about the decision–performance link from an executive interview research project where CEOs, owners and key managers of American companies reported successful and unsuccessful decisions in terms of corporate performance. Over two hundred decisions, half for successful decisions and half unsuccessful decisions are included from key individuals and case studies. The survey respondents set their own criteria for successful and unsuccessful decisions.

There are six major questions we will address:

1. Is there a connection between strategic business decisions and business performance?
2. Are there business decisions that lead to successful performance?
3. Are there business decisions that lead to unsuccessful performance?
4. How strong is the linkage between decisions and successful performance?
5. How strong is the linkage between decisions and unsuccessful performance?
6. Can the decision–performance sequence be modeled?

In the language of social research, we will investigate top level decisions as the independent variable and business performance as the dependent variable. By “top level” we mean decisions that are made that affect the strategic direction of the organization. These decisions are most often done by the chief officers of the business but not necessarily so. The decisions can percolate up from other levels of the business as one sees in flat and newly formed businesses. A high technology business may have a small number of workers and the workers may themselves have considerable responsibility for product or market or both. Software developers may introduce a cloud-based application that represents a very new direction for the company and the CEO merely ratifies that direction. The decision itself truly emerged at a lower level but became the raison d’être for the whole enterprise.

WHAT IS DECISION MAKING?

Providing some definitions is a requisite launch point for research and this is no exception. Nobel laureate Herbert Simon calls decision making the process of evaluating and choosing courses of action. Decision making happens after fixing agendas, setting goals and designing actions. Decision
making does not occur out of sheer fabrication or whim. It derives from the preceding problem-solving steps of setting an agenda, deciding goals and specifying what the actions should be. So, when you arrive at the decision-making stage, there should be defined and different paths that the organization can take. Simon notes that the complexity of problems in organizations necessitates cutting them down to size so that decisions can be made. Why? Because we can get bogged down in trying to cope with making big decisions like those called for in strategic management. When a company faces a large downturn in sales revenue, the problem to be solved can be broken down to explore what product lines are contributing to this, where in the country the sales decline is happening and other smaller possible contributors to the problem.

Simon is well known for demonstrating there are limits to human rationality in solving complex problems. This leads to the use of heuristics, rough modeling (simple conceptual models of depicting what is happening), and intuition when it comes to arriving at solutions. People tend to anchor on simpler and more understandable decision-making aids when facing complex decisions. They anchor on these because they may not know about more sophisticated problem-solving techniques and may not understand the methods. Simple methods may have worked well in the past too.

Another definition of decision making is that it is the thought process of making a choice from the available options (BusinessDictionary, 2016). This source advises that the decision maker weigh the positives and negatives of each option and consider all the alternatives. To be effective, the outcome of each option should be forecast. Both the Simon and the BusinessDictionary definition put a premium on choice of courses of action in their definitions.

In practice, meeting the outcome forecast of the BusinessDictionary definition is the very difficult part. This necessitates many assumptions about competitive moves, industry trends and customer preferences. Directional paths or courses of action must be converted to numbers, usually dollars in this step. Populating the alternatives with numerical specificity is more difficult than heading this way or that way is something that is commonly said by decision makers in businesses.

Behavioral decision making is a variant of decision making. As one author notes, it “attempts to understand how people make decisions and how they can make decisions more effectively” (Taylor, 1984, p. 1). In this endeavor, special attention is placed on human behaviors that affect decision making in the words of Taylor. We are clearly focused on behavioral decision making in businesses.
DECIDING OR NOT AND DECIDING WRONG

Deciding is burdensome. It takes time and consumes intellectual resources. At times, the solution developed from the decision makes the problem worse; such was the case when the British in colonial India decided to eliminate cobras by paying for their destruction. This only caused a bigger problem when cobras were bred extensively, and breeders collected their bounties. When the British stopped paying, the cobras were released thus exacerbating the original problem.

There are conditions when decisions should not be made or should be delayed, such as when a decision is unnecessarily forced, and a multitude of undesired outcomes can happen. Simply waiting it out when trapped is a choice.

Making a decision is not indicated if the alternative decision paths are direr than the present path. Then, taking a blow for the good of the business might be the best approach. If an entire industry is looking at extinction, then the best thing could be to make no decision and instead sell off all or parts of the company. Ampex faced this when digital storage took over from analog magnetic tape storage. The inevitability of sea change, like the ocean receding away from the shore as a sign of a tsunami, is a metaphor for this.

When no reliable information can be obtained to gauge the results of a change of strategic path, this too can be reason to avoid a decision. An alternative path might be beneficial, but that path might also lead to hastened doom. Pursuing a present course is a cautious but prudent choice in instances such as this. Riding it out with your corporate head above water but still breathing is an apt metaphor for this. Bob with the waves and hope you can touch the sand with your feet and get traction is the hope. If you can’t touch, you can swim to shore.

Decision making is also risk taking. The decision puts the hand of humans on the process of moving the business organization through its environment. If the decision is wrong, human fingerprints are still on the act. The information technology decision making software cannot be blamed because human beings made the decision to rely on such software. The larger issue is whether any business would survive if the apex of strategic decision making was occupied by machines, not people. The idea that comes to mind is whether airline passengers would climb onboard a plane piloted solely by computers. That can be done today with navigation systems and auto-throttles but few and far between would be the intrepid souls boarding airplanes with unpeopled cockpits.

Active decision-making means risk taking. The alternative, described shortly, is to coast, go with the flow and let present inside and outside
forces carry the business ahead. This passivity conflicts with what we expect from management, however. In the universally expressed term of “leadership,” the expectation from top level managers is that they lead their organizations by taking reasonable risks for the sake of potential gains and not be custodians of the status quo. Corporate executive committees invariably pick CEOs who are successful and the way they are successful is in their strategic decisions. Taking on some risk with a potential but tolerable downside is the commonality of risk taking among corporate leaders. The risk is perceptible but corporate leaders can see the upside of opportunity in risk.

In the next section, the essential questions about decision making are raised in the mode of a news reporter. The who, what, when, where and how are the questions. The answers, also in this section, are based on the authors’ real-life observations and participation in ten business and state government decision making efforts.

Who is the Decision Maker?

A straightforward question like this often elicits a facile but inadequate answer: the boss, the CEO of course. For all but very early stage enterprises, the decision maker is not a party of one but a group. In some firms it is truthfully most of the organization that makes the major strategic decisions. Some cooperatives operate this way. The head of the company has the authority to make decisions, but they share responsibility for it with others. A decision maker is a choice maker.

The number of decision makers is a factor on the quality of the decision. But adding numbers of decision makers complicates the process of trying to reach a consensus. It is obvious that too many people involved in decisions can slow the process of making a choice. If the culture of the company is to get consensus before making a choice, then getting that consensus can take more time than getting a choice from a fewer number of deciders. Many deciders means having differing views and a more thorough consideration of courses of action.

On the other hand, fewer decision makers means quicker decisions but the final choice of a path has not been scrutinized widely and the chances are greater for reluctant adoption of the decision or even rejection of it.

How Decisions are Made

Neither a purely autocratic, “I am the decider” George Bush kind of unitary decision making nor a totally participatory “from the ground up” type of strategic decision-making process were used. The answer was in the
middle and it was a wide swath, so much so that none of the twenty methods could be described as typical.

The organizations involved varied much in the involvement of other people. The most constricted was an insurance company which had a chief strategy officer with a small staff of analysts. This group of five staffed almost all the process. They did the internal and external analysis and produced a set of few strategic initiatives that the executive officers discussed and adopted. In one college, the strategic plan was largely in the hands of the public relations executive who held listening sessions and then produced a shopping list of strategic actions. In another action, the executive director of a state agency produced a strategic plan and the members of the board discussed and approved the decisions recommended in the plan.

What are the Decisions?

By and large, the strategic decisions stemmed from the organization’s mission, vision and goals. In every case, these were reviewed before the decision making began. The decisions were strategic in nature because they dealt with the allocation of major resources, the timing of application of the resources, considerations of competitive actions and expected outcomes. In this way, the process of strategic decisions forces the connection between decisions and performance by describing each of these two aspects.

When Strategic Decisions Happen

From the examples we were involved in, the duration of the decision scope was annual, either calendar year or fiscal year except in the case of state government when it was biennial. Interestingly, there were no long-term decision horizons of three years or more. In every instance, there was some informal accommodation of crises that would require a strategy rework though no such crises developed.

Why Strategic Decisions Happen

All the organizations were under requirement from their sponsoring organizations to do a decision-making process almost universally as a part of mandated strategic planning. All the organizations went beyond the mandates by recognizing the limitations of tactical planning, the value of analyzing their external environments and the desire to at least set some directional vectors for their organizations.
Decision making has always been a component in humanity’s evolution. The ascension of human needs from the most basic, those Maslow labeled physiological up through to self-actualization, have always been accompanied by choice. The land we inhabit, the shelter we build, the food we eat, the societies we create are all functions of choice. That choice may not be entirely free choice, such as when matters of disease, war and scarcity drive us elsewhere and force choice, but our inherent mobility and drive for something better is the spark that ignites human progress. Decisions are driven by available choices for us as individuals and in collective actions. We will address collective actions on decisions as they occur in businesses in this study.

Creation of businesses is relatively recent in human history and choices within the world of business stem from formulations of social order that well predate business organizations. Humans have spent almost all their time making choices and decisions in non-business environments. The artificial creation of business entities emanate from king’s charters. They are not creations from the natural order of things. These charters made the early business organizations legitimate. Territories of their operation, both literal and actual, were carved out for companies. Increasingly sophisticated legal systems defined the limits and the privileges of corporate activity. The legal system has a heavy influence over business decision making. That system provides the rules for decision making between businesses and within businesses as far as civil and criminal law is concerned.

A long social tradition predates business decision making. Even the traditions of law do not supersede social tradition. Factors like the drive for individual power as articulated by David McClelland explain the social context of business decision making. Individuals want their decision preferences done. That happens at the supervisor to employee level and up through interactions between work groups. In business settings, we also have the matter of responses to decision making. This takes many forms: resistance, compliance and compromise exist but the added factor of the group adds other choices: sabotage and passive resistance among them. Since most business organizations need the consent of others to get things done, reaction to decisions is a critical factor because it extends decision making consequences as the decision works its way through the organization.

The process of group decision making is well known by management theorists and experimenters. Individuals may use their power to influence the group’s decision. They may use other devices to have an outcome they
want to be the group decision. We will consider group decision making and implementation as we move along with our subject.

Many management practitioners have devised ways to better-optimize group decision making. Some ideas involve the composition of the group, the process used in decision making, the structure of the group to achieve effective group functioning. The effort to improve group decision making serves to reinforce the notion that decision making is important in business organizations, either individually or in group settings.

At the highest level of the organization, its chief officers engage in strategy-setting decisions. These decisions have occurred in increasing layers of public scrutiny as concepts like sustainability play a part in corporate decision making. Corporate accountability has also been heightened as well through SOX and other laws. Strategic decisions, to be effective, require broad commitment on the part of employees. In a way, employees should decide whether to commit themselves to a strategic decision or not.

This approach of including reactions to decision making is a rarity for most practical businesses studies especially those of large, well established businesses. There the key decisions about what product to offer, what markets to be in, what resources are allocated and how to competitively position the firm are matters for senior executives. They concern themselves with core decisions which nudge and even, linebacker-like, shoulder the organization into new commercial worlds. This includes consideration of what to do, when to do it and the anticipated results. These kinds of decisions are tectonic in nature and decisions which we can properly designate as strategic decisions.

IMPORTANCE OF TOPIC

The subject of business decisions and performance of the firm is important for several reasons.

1. Decisions are done by people. The people in the organization through their decisions affect the results of the decisions. Accordingly, if the decision process changes then the results of decisions change. Not all business decisions are done by people all the time. Minor decisions are done by people but codified in policies and procedures. Increasingly, minor decisions are done by decision support programs. These routine decisions are imperceptible, but they do occur.

2. On a daily basis, thousands of decisions are made by larger businesses and hundreds of decisions are made by smaller businesses. It is important to sort out these many different types of decisions to know
which decisions are most consequential to the business and which are less consequential.

3. Decisions are made about investments by outside investors based on the decisions that led to certain results by the business. Effective decisions with results lead to more investment from investors.

4. Sound decision making is a source of competitive advantage for businesses. Businesses with a record of such decisions can differentiate themselves from organizations without sound decision making.

5. Results of business decisions are based on hard facts. The facts cannot be distorted and so, the performance results are definitive and do not require another round of verification. The proof is in the pudding so to speak.

6. Overall, not much is known about how business decisions affect performance. Studies of the subject have been narrowly defined. It is important to know more about what decisions lead to specific results so that speculation is reduced.

7. Little is known too about aggregated performance results although that is important for managing the whole enterprise. The decision–performance continuum has been studied more on the basis of single decisions and single or few performance parameters and not on multiple strategy dimensions and multiple performance measures. This book will add to this understanding.

8. Major corporate decisions are game changers. They can have the effect of restructuring industries. Some of these instances are when King Gillette changed the way people shave by deciding to produce disposable razors to replace blades that required constant sharpening. Another was when Pan Am decided to embark on international air travel. Other carriers quickly followed. When Sam Walton revolutionized the distribution system by deciding to explore neglected trade areas by large scale retailers like Sears and Penney’s, retail distribution itself changed.

**LEVELS OF BUSINESS DECISIONS**

Starting with the individual and proceeding to the corporate level, we can and will further delineate decision making.

At the individual level, decisions at large, established organizations are very often preferences for courses of action which are not specified by policies or procedures or by embedded information technology systems. An individual can sometimes decide how they will do the work, what the sequence of actions will be and when the work will be done. Think of
work of an artist as an example of this. Individual-level decision making happens more in emerging businesses where there are fewer policies and procedures.

At the next level, a work team, work group or small department level a few individuals can make decisions about work they are responsible for.

In ascending the organization, the functional level is where business decisions can occur. Hofer and Schendel have expanded on this (Hofer and Schendel, 1978). This level is where most day-to-day decisions happen so the scope of the functional level is quite broad. By functional level, what is included is the maximization of resource productivity. A focus on distinctive competencies rather than large scope initiatives is a mark of this level. When considering structure, the functional level decision making happens in business units such as finance, marketing, production and purchasing. Fit is also a major component of decision making. Decisions made need to fit with upper level business purposes. Coordination across other functional units is also important.

The next highest level for decision making is the business level. This can be a single line of business. At this level, there is attention to environmental factors outside the immediate business. How environmental factors affect the business operations along with internal operations are the scope of business level decisions. An example of a single line business is Victor mouse traps.

At the apex of decision making is the corporate level. Here we find decisions about the formulation of strategies which are aimed at meeting the purposes of the organization. The corporate level is the broadest level possible. It deals with the entire universe of decision making, from survival to balancing the separate businesses that a holding company might own to global operations of many individual businesses. An example of a corporate level decision base is General Electric which owns single businesses in broadcasting (NBC), medical imaging and aircraft engines.

Our treatment of decisions will include the corporate, business and functional levels with most emphasis on the corporate and business level where we can find strategic decisions being made. At the individual and workgroup level, strategic decisions are largely absent except in very small and venture stage businesses.

**STRATEGIC AND TACTICAL LEVEL DECISIONS**

To further clarify the nature of the decision that is in the scope of this study, a distinction between strategic and tactical decisions is made. Our interest is in strategic decisions.
A strategic decision is a determination by the business of when considerable resources are directed to non-short-term objectives. It is directional or re-directional for the organization. Many if not all the work units are affected. A strategic decision cannot easily be reversed. A strategic decision is usually formulated after a serious analysis of options and its implementation often involves challenges and more individual commitment than tactical decisions. Strategic decisions are most often made by the top corporate executives. Strategic decisions look more at the outer organization than do tactical decisions.

Strategic decisions are very apparent while tactical decisions are less obvious. Strategic decisions are known to competitors because they require visible resource movements, add or subtract from the workforce, alter product markets and initiate or retract from major markets. Competitors can see and react to this. Tactics, on the other hand, are smaller and quicker moves which are more difficult to decipher as patterns. Most times, tactical decisions remain internal and are not visible outside the organization.

A tactical decision involves fewer resources and the objectives are more short term, frequently within a year’s time. Its domain is within a division or department or work unit. The consequences of the decision are also more evident within the division, department or work unit. A tactical decision can be more easily reversed. Tactical decisions are made in cases when an organization may want to test market a product or may want to try a sales approach. It may also mean trying a marketing message to provoke a competitor’s reaction. It can be thought of as a foray instead of a strategic advance. Tactics that fail are less consequential than strategies that fail. Tactical decisions are made by vice presidents, directors, managers and supervisors. Implementation of tactical decisions is easier than strategic decisions though tactical decisions are reviewed for fit with strategic decisions. Strategic decisions are not as subject to conformance with tactical decisions.

Strategic and tactical decisions are not entirely separate, however. A strategic decision to introduce a new product in a new market may have a whole series of tactical level decisions which stem from the strategic decision. Tactical decisions about distribution channels might be: how many? This tactical level decision follows from the strategic decision of having distribution channels in the first place. Corporate or independent and the like are very consequential and can involve complex and interdependent subsidiary decisions that, especially for those involved, may seem strategic in nature because they consume time and require organizational change. Overall then, the difference between tactical and strategic decisions is one of degree. That leads to the idea that businesses themselves, depending on at least their size and complexity, should sort out the two forms for their
purposes. Our approach is to use the aforementioned descriptors as a guide for distinguishing between the two.

Tactical decisions are largely outside the scope of this book because these kinds of decisions are quite varied, and they tend to be isolated to the specific circumstances of the company. What kind of load weighing equipment for coal extraction is a specific tactical question for coal companies that is irrelevant for natural gas production companies. Strategic decisions, our focus, are common to most types of companies and this approach thus becomes more useful for most business organizations.

Strategic decisions will have more impact on the overall business organization than tactical decisions. Each is important and when they are coordinated with each other, the overall strategic direction of the organization is a force of nature.

PROBLEMS WITH MAKING BUSINESS DECISIONS

The sequence of making the decision and then measuring performance is syntactically simple but in actuality it is complex. That complexity manifests itself in different but important ways as enumerated.

1. The performance that is measured has changed over time. As described shortly in the chapter, the measurement of corporate performance has shifted from the collection of financial measures used in the 1950s through the 1970s in U.S. businesses to more customer focused measures, cross-industry measures, and an array of non-financial methods perhaps best exemplified by balanced scorecard techniques.

2. Establishing a causal relationship between the decision and the performance has always been difficult but it is increasingly difficult in contemporary times where corporations have encountered more governmental scrutiny, a circumspect public, rising expectations from the financing communities, review and regulation by foreign governments and more intense competition in many industries. Executives can intelligently speculate about the causes of performance but certainty about decision cause and performance results is far from certain.

3. Strategic decisions do not have immediate impacts. They are more gradual unless they occur in a crisis. Strategy managers often use the expression of “turning battleships” when referring to the directional sets or resets that strategic decisions cause.

If strategic decisions were quickly measured for their effects, then many other intervening variables explaining performance could be
eliminated. Instead, strategic decisions take time – as well they should so the decisions can be digested by the business as a whole.

4. Implementation of strategic decisions is not direct. Formulators of strategy are not direct supervisors of the front-line troops. The front-line troops are led by managers and directors who interpret the strategic decision. Conformance of this to original strategy can vary greatly with some managers and directors paying lip service to the strategy, others actually opposing, and others truly committed to it.

5. Another problem with linking the decision to the performance is that the performance measure may not validly measure what is supposed to be measured. Market share will serve as an example. Market share information is often modeled and based upon a sample of potential customers. A very difficult part of this is that new customers may come into the market who are undetected in the model.

6. Still another problem is filtering of measurement, both intended and unintended may occur. Enron concealed information about its true financial condition in order to meet investor expectations.

7. The reliance on past information to make predictions about the future faced by the business can also be a difficulty as Kurt Christensen observes in assessing the impact of market disruption on corporate strategy.

8. Each company has variations in the way they measure performance. In the world of accounting, there has been some uniformity through the use of generally accepted accounting practices (GAAP) and accountability with the implementation of the Sarbanes–Oxley Law.

9. The presentation and communication of performance information can skew interpretation. CEOs want to constantly paint rosy pictures about the status of their organizations. The temptation exists (and is sometimes succumbed to) for highlighting modest, minor and temporary good news in annual reports while downplaying bad news.

10. The measures of performance may be changed by upper level managers if they do not meet internal organization objectives or outside market expectations. The restatement of financial results is one way this is done. The timing of cash inflows is another. Tax law allows deferment of revenues as a way of deferring or reporting revenues in one year or another.

11. Strategic business decisions are the handiwork of the people who set strategy for the organization. There is no other aspect of business which is more closely connected to people as this. Strategic management and strategic planning do use information gathering and analysis tools, but these actions are evaluated by strategy crafters, not by computer-based decision-making programs.
12. Indecisiveness is a problem with business decision making as it is with the human condition itself. Indecisiveness can cause the elimination of available choice as time precludes available choice. That makes worse decisions possible. It may be reason to try stopgap measures or workarounds so frequently found in information technology activities.

This is not a complete listing of the problems inherent in business decision performance measurement. They may be formidable in some instances, but they are not insurmountable. The reason for their listing is to identify how they may raise their ugly heads. For each of these problems, there are ways the problems can be mitigated or even eliminated. The role of people is immense and touches most of the problems.

The listed problems would appear to affect larger businesses more than smaller businesses mainly because change to solve the problems is more difficult for larger organizations. Smaller companies are nimbler in this respect.

It would be essential for the strategy managers to address each of the problems (and add other problems that would be relevant) and determine which must be addressed.

The work of managers, of scientists, of engineers, of lawyers – the work that steers the course of society and its economic and governmental organization – is largely the work of making decisions and solving problems, which is a paraphrase of Herbert Simon.

**STEPS OF DECISION MAKING**

Simon has also contributed to an understanding of organizational decision making by proposing that decision making happens in stages not in one fell swoop. Commonly, an attribute of decision making is to say that one is decisive. This connotes rapid decision making. Simon, however, states that decision making happens in three phases: Finding reasons to make a decision, finding courses of action and picking a course of action (Simon, 1960). There are two respects in which this is important. The first is that snap decisions are not advocated by this leading management theorist and the second is the implication that the decision involves others in the organization. Strategic decisions involve others to a greater degree.

The time element also comes into play in a phased approach to decision making. The time between when the reason for making a decision happens and when the decision is implemented can be a time for uncertainty and change to come into the decision equation. Uncertainty can emerge if new
environmental factors, unforeseen at the first phase, come in to challenge assumptions made. The recession of 2008 did just that for the American automobile industry. Unanticipated change can also happen. The people who were expected to implement the decision might leave for outside jobs. A natural event like a hurricane could disrupt a supplier chain.

DECISIONS AND PLANNING

Two authors have delineated the roles of decision making and planning (Mankins and Steele, 2006). They argue that strategic planning isn’t about making decisions, but it is about documenting choices that have already been made. Strategic planning is still a very popular tool among corporate leaders. These authors take a skeptical look at the process of strategic planning. They assert that strategic planning inhibits decision making. It takes too long and does not focus on making decisions. They state executives plan 66 percent periodically but decide 100 percent continuously. Unit by unit planning is done but decisions are made issue by issue. An antidote for this is continuous, decision-oriented planning which begins with identifying strategic priorities, then through executive committee dialogues as many decisions are made on issues faced by the company. Alternative actions are devised, and a decision is made to resolve the issue. Budgets follow the decisions rather than lead the decision process. This means budgets and strategic planning are better integrated.

THE PROBLEMS WITH MEASURING PERFORMANCE

In this section, the problems and issues about measuring performance are discussed. This review will demonstrate just how varied these problems are.

1. Deciding just what is to be measured can be a problem. In our times, the ways of measuring performance are legion in number, and many can be used in business settings. The mere act of screening out inappropriate measurement tools is time consuming for the organization. Screening might also result in the elimination of very appropriate methods of measuring performance. In considering the broad measures of business performance, economic (macroeconomic, GDP, etc.), financial (profitability, earnings), market (market share, market position), innovation (patents, research and development new product introductions), customers (satisfaction, loyalty), social
responsibility (sustainability measures, value of charitable contributions), employees (satisfaction, tenures): there are dozens of measures embedded within each of the categories. This leads to hundreds of measurement tools.

2. There may be a problem with standardization of performance. This problem can happen internally or externally. Internally, it may be discovered that performance criteria are no longer useful and should be replaced. Externally, the business may not be measuring performance using methods employed by other businesses in the same industry. It may also be true that the business is holding businesses in multiple industries each with different performance standards.

3. Another problem could be that the performance measurement chosen does not fit the outcome that it is supposed to measure. The Total Quality Measurement movement unveiled the notion of root causes in which fundamental or root problems were identified in the fishbone diagram which pointed the way to controllable causes and not symptoms of those causes.

4. Still another problem is the Heisenberg effect which is a very loose derivation from the physics phenomenon of measurement distortion. If an objective measurement is taken at a certain time and position, mass and energy, the process itself distorts measurement in such a way that not all elements of the interaction can be measured accurately. Applying this to the world of management, if employees know that something they are doing is being measured, they react in unnatural ways to distort the result if it affects assessment of their personal performance. That is the very basis of the Hawthorne experiments of Elton Mayo that reshaped management thought.

5. In addition to the measurement validity issue described above, there is the possibility of a measurement reliability problem. Reliability means consistency in repeated uses of the measurement in producing consistent results.

6. Calibration of instruments to measure performance results may be another cause for concern. Very famously, the Hubble Space Telescope had a primary mirror with a very slight amount of spherical aberration that was not caught on Earth because the instrumentation used was incorrectly calibrated in the first place. Once in space, the fuzzy images caused an initial failure for Hubble and it was not until astronaut Story Musgrave inserted a corrective lens into the imaging path that Hubble was fixed. For management, measurement calibration of performance parameters is essential for reliable calculations. Using standardized instruments which take accurate performance does this. People build trust in performance measures as a consequence.
7. Informal versus precise measurement is yet another issue. Casual observation of work is in fact a level of measurement. Management-by-walking-around is a management practice in which a manager visits different work areas, watches and sometimes interacts with workers and makes judgments about how satisfied they are about what they see. At the other end of the spectrum, objective measurement of time spent on projects, computer monitoring and the like are numerically based. The numerical base identifies them as being objective. The numerically-based measures can easily conflict with casual measurement. Managers may trust their direct observation more than the numbers produced by another source.

There are solutions to these problems and issues of performance measurement. For standardization, the measurer can investigate if there are established measurement practices within their industry grouping for single industry businesses. If there are not, then they can determine if there are trends favoring certain measures.

If there is doubt about whether the right way is being used for performance measurement, the fishbone diagram of total quality measurement can be employed. Also checking assumptions about the appropriateness of a particular tool can be evaluated by using a designated devil’s advocate who is assigned the task of critiquing the measurement technique.

The problem of individuals responding to research scrutiny by changing their performance can be corrected by non-intrusive measuring. It can also be neutralized by the myriad of experimental designs which compare the measurements of studied participants with non-studied participants.

Reliability can be improved by employing proven performance measures. Reliability is also better served by increasing the number of repeated measurements.

Calibration of measurement instrumentation can be enhanced by more frequent calibration and by calibration against more widely accepted standards. An example is measuring a meter by wavelength of light instead of a physical rod a meter long.

**PERSPECTIVE ON PERFORMANCE**

We take performance to be a consequence on decision making. As such, we are obliged to present a cautionary tale. That follows.

A perspective on business performance is offered by Robert Eccles (1991). He tracks the evolution of performance measurement from financial terms to a much broader set of measures that include market share,
customer satisfaction and other non-financial indicators. Eccles notes that purely financial measures have had a long history of dissatisfaction among practitioners and academics. Offering many products in many markets and encountering competitive reaction are more of a fact of life for the modern business organization. These factors make the old accounting measures obsolete. Numbers like quarterly earnings and profits serve investors’ concerns more than strategic direction concerns of the business leaders. Eccles adds that financial measures depict the consequences of past decisions, a further limitation. He observes that the quality movement and customer satisfaction measurement have challenged the old financial measures. Benchmarking against industry leaders and information technology has further challenged the old systems of measurement.

To further the effort for better performance assessment, new information architecture is the needed first step. It must be directed to produce the data that the business needs to pursue its strategy. This can lead to what Eccles calls a common grammar within the organization so all know the terms and concepts of an expanded sphere of performance.

How the business generates the performance data is a second step. It incorporates established financial performance with a softer element of innovation, quality, human resources and customer satisfaction. While the company’s grammar may be stable, organizations experiment with methods to measure what is important to them. Firms can adopt their own performance measures but should be prepared to modify their structures to get a performance management system that works. Eccles cautions that it is more difficult. If formulas are developed to measure incentives, these rarely work. Thus, there are limits to wholesale incentive-based performance.

Additional information about business performance information is plentiful. It emerges from both practice and academic research. Eccles points out that this needed shift to more expanded performance measurement is a revolution and consequently difficult for all involved.

Though the article is decades old, the issues described remain current. For our purposes, we can use this as an identifying factor for our own look at performance. That is the changing nature of performance management itself.

To a considerable extent, the academic investigation of business decisions and business performance has been confined to building taxonomies of the types of business decisions or describing the many processes of business decisions. Both these efforts have led to a rich development of typologies and processes but there are far fewer and much narrower casual studies that connect performance with decisions despite its promising outcomes for researchers and practitioners alike. The overall aim of this book is to fill
the gap between decisions and performance with a sounder understanding of that relationship. This effort will begin with an examination of decisions and then business performance from the point of view of theorists and researchers. What follows is a description of the interviews and cases which are the basis for the research part of the book. Research findings are then presented. Interpretation of research results by executives are offered and finally implications and recommendations along with predictions about the future for corporate decision making and performance.

What follows immediately are briefly presented objectives of each chapter.

PLAN OF THE BOOK

In this chapter, the basics of business decisions and performance were outlined. The objective of explaining performance based on business decisions was set. The importance of the topic was introduced. Problems and issues of decisions were raised as well. Research questions were also posed.

In Chapter 2, much more detail will be presented on business decisions. Literature on business decision making is described and implications are drawn for the present study. The evolution of business decisions is included, and a model of business decision making is described. The circumstances of differing approaches to making business decisions are offered. Different types of business decisions are described including programmed decisions, decision making under uncertainty, data-based decision-making, and intuitive decision making are explained.

Chapter 3 is dedicated to business performance. Literature on the subject is covered and theory and empirical findings from leading management investigators are explained. The various methods of measuring performance are presented and issues about performance are revealed. Each method will be evaluated and a performance measurement system for use in this study is introduced.

In Chapter 4, the focus is on modeling decisions and performance collection. The interview process is described including the purposes for each of the research questions. A model of the decision–performance is presented. That model will be reevaluated in Chapter 8. Finally, interviews with individual CEOs will be conducted to provide elaboration on some of the open-ended comments in the interviews.

Chapter 5 concerns details on the first round findings from the research.

Chapter 6 presents key findings of the research. The key findings will be presented and discussed.

Chapter 7 offers the focused findings through using research techniques
aimed at discovering underlying patterns and associations among performance factors. The intent is to fully explore these possible relationships for some of the less obvious findings.

For Chapter 8, overall conclusions are made. Points of difference between perceptions of practitioners and academic investigators are done. Also, through feedback contacts after interviews with some survey participants, the matter of what they believe about performance results from business decisions is explored and possible explanations are reported. A revised conceptual model of decisions and performance is provided.

In Chapter 9, recommendations by business size and other factors are offered. Recommendations for optimizing business decisions is a topic of the chapter. The recommendations will be based on the business leader interviews and separate feedback from individual leaders.

In Chapter 10, the future of business organization performance and decision making will be forecast. Decision making future and performance measuring future will be separately and jointly addressed. Projective speculation by the authors will be done with respect to decision risk reduction, computer-based decision making, inclusion and exclusion of certain performance measures, composition of strategic decision-making groups are among the topics.

REFERENCES


