STRATEGY PROBLEM FORMULATION:

BIASES AND ASSUMPTIONS EMBEDDED IN ALTERNATIVE DECISION MAKING MODELS

LYLES AND THOMAS (1988)

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Introduction

- Need to examine **how strategic decisions** are formulated by management.

- **Critical task:** identification of the most **important problems threatening** the organization's ability to survive

These are not every day routine problems

Wicked problems:

- related to other problems,
- uncertainty in a dynamic environment,
- Have conflicting trade-offs associated with alternative solutions

Strategic Problem Formulation (SPF)

The process of resolving the nature of these major strategic problems

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Critical strategic capability

Factors that affect Strategic Problem Formulation

- **.1º FIRMS DO NOT DEFINE UNANTICIPATED PROBLEMS**

Solution generation is often adopted as a means of problem sensing

- **2º THE COMPLEXITY OF STRATEGIC PROBLEMS**

Leads to **different views** regarding the nature of these problems

- **3º INDIVIDUAL INTERPRET THE SAME SITUATION DIFFERENTLY**

An individual's interpretation will be a function of his/her **background and prior experience**

- **4º SPF IS SENSED BY INDIVIDUALS**

The process emerges into an organizational process in which **biases are commonly introduced**

Objective

- Examine how strategic problem formulation is treated within five commonly accepted models of organizational decision-making.

Strategic decision-making models

Strategic problem formulation should be analyzed in terms of the of strategic decision-making models

- Rational model
- Avoidance model
- Adaptive model
- Political model
- Decisive model

Rational Decision-Making model

Assumes that:

- Decision emerge from a process of **conscious choice**
- Full information is available
- Power, conflict, fear, credibility or turnover **will not** influence the process.
- There is a correct formulation of the nature of the problem
- There is no biases

Rational Decision-Making model

- Many of the assumptions of this model are problematic
- Few researchers have accepted this view
- Can be useful only for low-level managerial problems

Avoidance Model

Beliefs that organizations will **avoid uncertainty**:

- **The status quo must be maintained**
- **Avoid the identification of new problems**, because new problems can indicate that **management is not doing its job**
- Recognition of a problem will occur **only** when the **status quo is threatened**
- If **symptoms** to a problem are **ignored**, the problem will eventually **go away**

Avoidance Model

- May be useful in situations of high **ambiguity and uncertainty**.

- Occurs in organizations where there **is no pressure** for new **activities** or no competition for **resources**

- **The danger** is that the firm may procrastinate about resolving a problem that will **impact its strategic capability and survival.**

Adaptative model

The change must be introduced slowly and incrementally

Identifying new problems is a necessary evil and that some change may be necessary. This should not however **create dramatic changes.**

It is better to:

- Take incremental steps

- Be flexible to new information

- **Be cyclical** and cover a **large period of time**

Adaptative model

Biases in this approach would be:

- Utilizing new data to support previous view.
- The illusion of better control by moving slowly
- Selective perception

POLITICAL MODEL

Contrary to those of the Rational model. Here it is assumed that **people are biased and personally motivated**.

Even if everyone looks at the same symptoms of a problem, they will commonly adopt **different viewpoints**.

- EVERYONE HAS ONE VIEW OF THE PROBLEM
- PEOPLE WILL ACT IN OWN SELF INTEREST
- THERE IS NO ONE CORRECT VIEW
- MINIMIZE CONFLICT
- PERFORMANCE OUTCOME: AGREEMENT

SOURCE: LYLES AND THOMAS (1988)

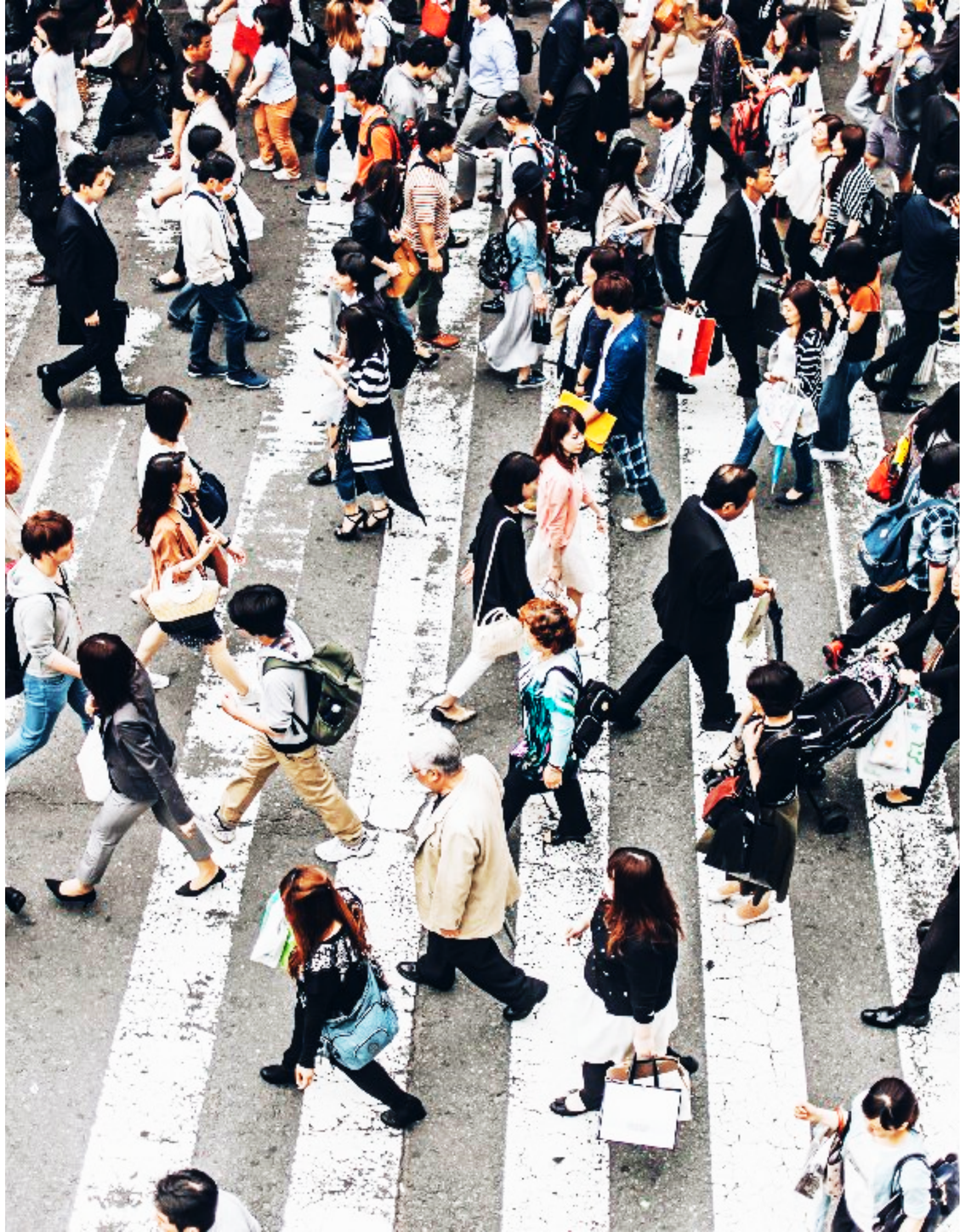
DECISIVE MODEL

It extends the Political model one step further by suggesting that **there are inherent inconsistencies** in the way people experience information and perceive the environment.

Everyone has ready-made solutions that they fit to situations.

- ENVIRONMENT IS VERY DYNAMIC
- ACTIONS ARE THE MOST IMPORTANT
- RANDON PROCESS
- EMOTIONAL STRESS, SOCIAL PRESSURES
- PERFORMANCE OUTCOME: NEW SITUATION

SOURCE: LYLES AND THOMAS (1988)



FIVE APPROACHES TO STRATEGIC PROBLEM FORMULATION

	Rational	Avoidance	Adaptive	Political	Decisive
Assumptions	Full information One right formulation No biases inherent	Maintain status quo If problem is ignored, it will go away Symptons change	Maintenance of status quo Environment is too uncertain to predict	Everyone has one view of problem People will act in own self interest There is no one correct view Minimize conflict	Environment is very dynamic Actions are the most importante management task
Criteria	Rationaly	Maintenance	Incrementalism satisficing	Bargaining	Action generation
Performance outcome	True definition	Maintenance of status quo	Incremental change	Agreement	New situation
Process	Sequencial	Discontinous	Improvements Incrementalism cyclical	Cyclical	Random
Biases	Wishful thinking Rationalization	Selective perception Rationalization Wishful thinking Anchoring	Escalating commitment Illusion of control Selective perception	Social pressure Escalating commitment Illusion of control	Emotional stress Social pressures Prior hypothesis bias Illusion of controle
Evidence	Facts	Status quo	Intuition	Power	Actions

SOURCE: LYLES AND THOMAS (1988)

Do successful problem formulators understand and use each of the five decision making models? When and how do they choose one model?

LYLES AND THOMAS (1988)

The research literature suggest that successful organization is closely related to organizational learning capabilities. As organizations learn, they are likely to develop strong skills.

LYLES AND THOMAS (1988)

CHARACTERISTICS OF SUCCESFUL AND UNSUCCESFUL STRATEGIC PROBLEM FORMULATORS

	CONTEXTUAL	DEFINING	RESPONDING
SUCCESSFUL	• Generate multiple scenarions of worst case • Many past experiences with unancticipated events	• Multiviews of problems nature • Strong discussion or debate • Tolerance for ambiguity	• Past sucess programmes • Newly designed programmes • Unlearning • Action-taking • Flexibility
UNSUCCESSFUL	• Formalized environmental scanning and low scenario generation • Few past experiences with unancticipated events • Centralized	• Single view of problems nature • Consensus or mandated • Strong need to reduce ambiguity	• Past sucess programmes well developed • Rigid • Poor discrimination skills

SOURCE: LYLES AND THOMAS (1988)

Theoretically the characteristics of good strategic problem formulation and poor can be suggested based on their ability to learn how to formulate strategic problems.

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THANK YOU

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