

An integrated framework for strategic decision-making following a shock event

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Stream A: Business Policy & Strategy

Abstract

The purpose of this paper is to investigate the impact of shock events on strategic decision making and the processes and strategies that organisations have put in place to cope with such events. It integrates research on strategic decision-making and crisis management to develop an integrated framework of strategic decision-making after shock events. Our central argument is that shock events influence strategic decision-making processes and the role of decision makers. A number of propositions were developed to guide future research.

Keywords: Strategic decision-making, shock event.

Introduction

The tourism and travel industry, already a highly volatile environment, has become increasingly susceptible to shock events generated outside the industry. For example, the September 11 attack and the second Gulf war caused devastation to the global tourism industry, seeing the demise of airlines such as Swissair and Sabina and huge losses for United Airlines, American Airlines, British Airways and Qantas (UK Financial Times, 22/2/03, 25/2/03), as tourists were fearful of travelling following these events. Many smaller travel agencies declared bankruptcy and a number of large hotel chains are still suffering from the effects of September 11 (Stafford, Yu and Armoo, 2003). Since September 11, there have been the bombings of the Sari nightclub and the Marriott Hotel in Jakarta, both in Indonesia, Australia's closest neighbour. Lastly, recent health epidemics such as Severe Acute Respiratory Syndrome (SARS) and the avian influenza (bird flue) scare also poses serious threats to the survival and prosperity of tourism and travel businesses not only in Australia but worldwide (The Weekend Australian, 13-14/4/03; Australian Financial Review, 22/4/03).

The aim of this paper is to integrate research on strategic decision-making and crisis management to develop an integrated framework of strategic decision-making in

crisis situations. Our integrated framework will contribute to existing literature and strategic management practice in a number of ways. First, we contribute to a more comprehensive understanding of strategic decision-making by contending that shock events not only influence strategic decision-making processes, but also the role of decision-makers and the use of strategic decision-making tools. Second, our integrated approach provides senior managers with a clearer understanding of strategic decision-making following shock events. It will help to guide senior managers in the aftermath of shock events and enable them to better cope with such events.

There are four main sections in this paper. The paper commences by identifying the parameters of this research to present the research problem. In the second section we review the literature on strategic decision-making and crisis management. The strategic decision-making review looks at strategic decision makers, the internal and external context of strategic decision-making, and the types of strategic decision-making processes. The crisis review discusses previous research on the impact of crises on strategic decision-making. The third section of this paper outlines an agenda for future research and the fourth and final section presents the conclusion.

Research Problem

The term ‘shock event’ is rarely used in the literature. Writers tend to talk rather of ‘crisis’ or ‘disaster’. There are more than 4,000 references examining crisis and disasters in variety of contexts. Contexts examined to date include the social and economic impact of crisis (e.g., Edmunds, 2003; Seneviratne, 2003; Yates, 2004), the financial impact of crises (e.g., Doraisami, 2004; Healy, 2004; Phelps, 2004) and the impact of crises on employees (e.g., Frankenberg et al., 2003; Kondrasuk, 2004; Roth, 2004).

Pearson and Clair (1998) define organisational crisis as “...a low-probability, high-impact event that threatens the viability of the organisation...” Carter (1991) defines a

disaster as “an event, natural or man-made, sudden or progressive, which impacts with such severity that the effected community has to respond by taking exceptional measures”. Prideaux et al. (2003) describe disaster as “...unpredictable catastrophic change that can normally only be responded to after the event...” They classify the highest shock level as “not anticipated, sudden and very low level of forecast certainty”.

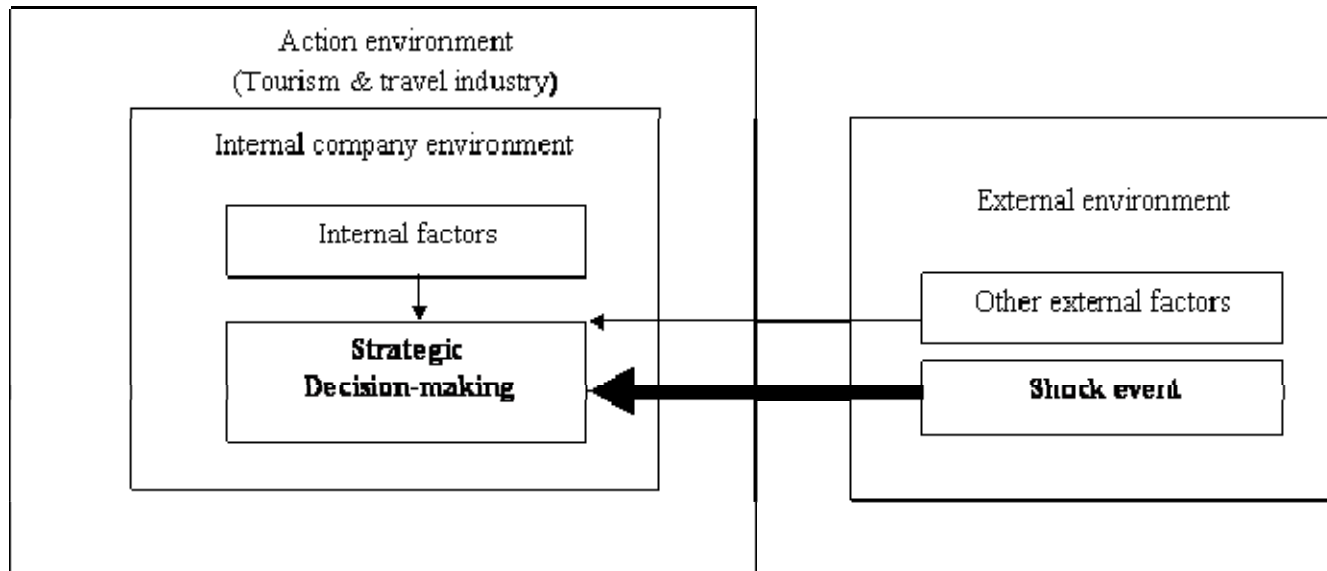
While the terms ‘crisis’ and ‘disaster’ are most frequently used in the literature the term ‘shock event’ is the focus of this paper since it emphasises suddenness and unpredictability. This has become particularly evident in recent and continuing terrorist attacks. Moreover, a crisis is seen as a situation that has been brought on by a particular event, which is called here shock event. Lastly, a shock event may have an initial negative impact due to its sudden and unexpected occurrence, but may not necessarily lead to a crisis.

For the purpose of this paper, a shock events is defined as:

A sudden, unexpected and unpredictable externally generated event that causes significant negative stress in the industry and in individual organisations, seriously threatening the profitability and existence of an organisation.

Figure 1 outlines the framework for the literature review to address the research question: How have recent shock events impacted on strategic decision-making processes in companies in the tourism and travel industry?

Figure 1: Research Problem Framework



Literature Review

Strategic Decision-Making

Strategic decisions are those that are “important in terms of the action taken, the resources committed, or the precedents set” (Mintzberg, Raisinghani and Theoret, 1976: 246). They are typically made by upper-level management and affect the long-term health of the organisation (Eisenhardt and Zbaracki, 1992). Previous studies have provided important insights into rational and bounded rational processes of decision-making (Eisenhardt, 1989; Nutt, 1989), the role of power and politics (Pettigrew, 1973), and the importance of chance and random confluence of events (Cohen et al., 1972).

Decision-making has been studied in a variety of social science literatures including marketing (Nowlis and Simonson 1996; Sivakumar and Raj 1997) organisational

behaviour (Connolly and Wagner 1988; Beach and Mitchell 1998), strategic management (Eisenhardt and Zbaracki, 1992; Eisenhardt, 1999), and psychology (Tversky and Kahneman, 1983; Beach, 1990; Bazerman, 2002). Within marketing science empirical research includes both consumer (Simonson 1989; Tellis and Gaeth 1990; Nelson and Puto 1998; Kivetz and Simonson 2000) and organisational or group-based decision-making (Irwin and Davis 1995; Dawes et al. 1997; Weatherly and Beach 1998).

The literature recognizes board of directors, chief executive officers and top management teams as the main decision-makers in organisations. McNulty and Pettigrew (1999) for example argue that board members influence the decision-making process by “shaping the ideas that form the content of company strategy and the methodologies and processes by which those ideas evolve” (p. 47). Other authors argue that CEOs are the ultimate decision-makers whose effectiveness is based on their insight into their own work (for example Mintzberg, 1975) and that CEO’s tend to make lone decisions when the organization is perceived to be under threat (Staw et al., 1981; Tjosvold, 1984; Dutton, 1986). Westphal and Frederickson (2001) suggest that new CEOs have an effect on strategic change, but that this could mask the effects of the board. Pfeffer and Salancik (1978) argue that instead of having an all-knowing single chief executive, the organisation should have a number of executives with individual expertise in their respective area of specialization, effectively forming a decision-making or top management team, chaired by the CEO. Based on the above literature, we argue that the actual decision-makers vary according to the external and internal context in which strategic decision-making takes place and the type of decisions to be made.

Internal and External Context of Strategic Decision-Making

A number of studies have examined the internal and external influences on the decision process. Internal influences on the decision process include goals of the decision maker (Bettman et al. 1998), decision situation (Benson and Beach 1996), decision context (Simonson and Tversky 1992), knowledge (Alba and Hutchinson 1987; Bettman and Park 1980), emotions (Arnould et al., 2004), characteristics of the decision task such as information presentation (Bettman and Kakkar, 1977), organisational capabilities and resources (Flannery and May, 2000; Hitt et al., 2001;

Aragon-Correa, 2003), organisational culture and strategy (Bowen and Helfat, 2001; Jackson, 1993), and finally individual behaviour and cognitive bias (Bazerman, 2002; Sharma, 2000).

External factors influencing strategic decision-making include technology factors (Laplante et al., 2004), political and legal conditions (Aragon-Correa, 2003; Elenkov, 1997; Goll and Rasheed, 1997), and competition and consumer demand (Malnight, 2001; Thompson and Troester, 2002). Changing, volatile and new environments are perceived as risks and such risks result in strategic trade-offs in order to reduce the risk factors (Shrader et al., 2000). Zajac et al. (2000) showed a clear link between specific environmental forces - e.g., high interest rates, and organisational resources, such as competency deficiencies - and strategic decision-making by modelling the dynamics of strategic fit. This is consistent with findings by Forte et al. (2000) who conclude that a fit between environmental contingencies and organisational form relates to enhanced company performance.

Strategic Decision-Making Processes

The literature suggests that strategic decision-making processes can be broadly divided into three categories, namely rational and analytical (Harrison, 1999), incremental and opportunistic (Quinn, 1993; Dess et al., 1997; Mintzberg et al., 1998; Barringer and Bluedorn, 1999), and consultation and consensus (Smart and Vertinsky, 1977; Pascale, 1984; Eisenhardt and Brown, 1998; Branson, 2000). Rational and analytical decision-making processes assume that the decision-maker moves through a predetermined sequence of steps and selects the most effective and advantageous option available. However, Weick (1993) argues that rational decision-making strongly depends on making sense. An incremental and opportunistic approach is usually guided by 'emergent' strategies (Mintzberg and Waters, 1982) and responds flexibly to rapidly changing conditions in the environment. An approach based on consultation and consensus involves broad consultation with key people before the announcement of key strategies.

Table 1 positions shock events within the external and internal context of strategic decision-making.

Table 1: External and internal context of strategic decision-making

Context	Predictable/Expected	Unpredictable/Unexpected
Internal	Organisational capabilities Organisational culture and strategy Individual behaviour and cognitive bias	Sudden death or departure of CEO or and/or key managers
External	Technology Political and legal conditions Competition and consumer demand	Shock event

A review of the literature shows that previous researchers have addressed a number of issues with regards to either strategic decision-making or shock events/crises; however, the two concepts have not been linked. In addition, many researchers have taken a narrow view of strategic decision-making and crisis prevention. This has led to a call for more interdisciplinary and integrated models and frameworks that better address the new threats faced by businesses (eg. Papadakis, Lioukas and Chambers, 1998).

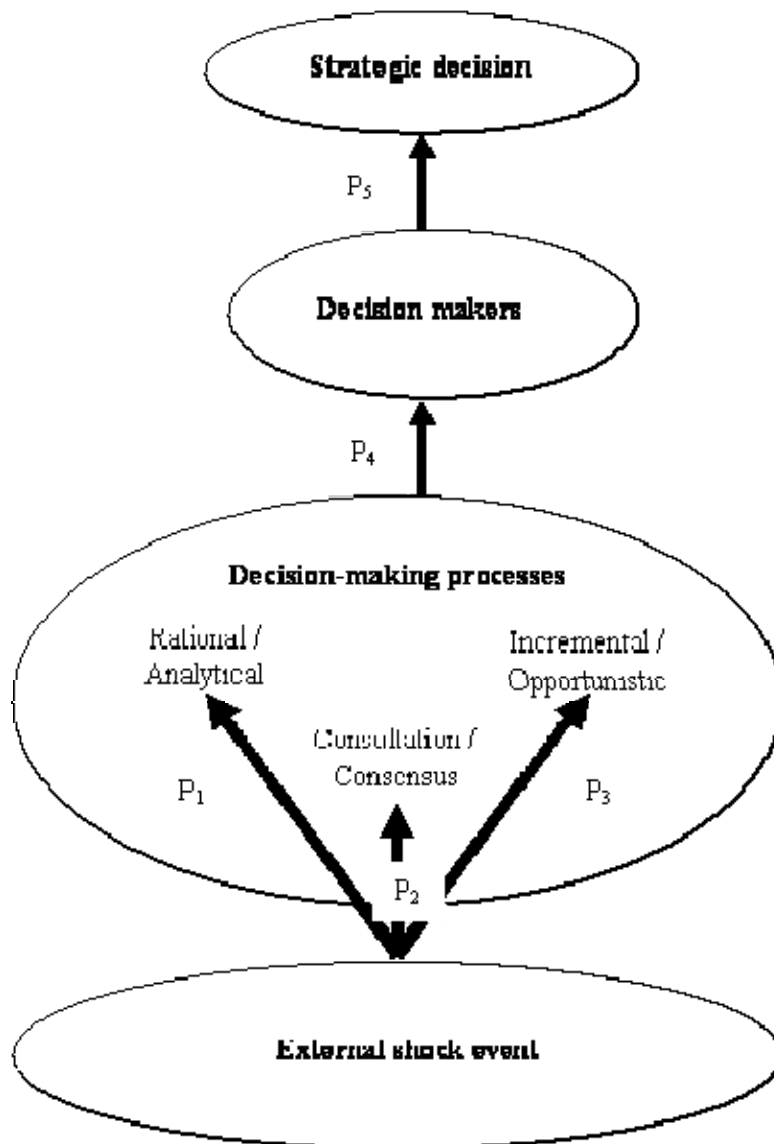
Hence, research is required that looks specifically at how shock events impact on strategic decision-making processes. This research should be inter-disciplinary and

provide an integrated framework that better links the two concepts. The next section of this paper presents an integrated conceptual framework to guide future research.

Research Agenda

Figure 2 expresses the research focus in an integrated framework, linking the relevant components into a cohesive construct. The framework suggests that shock events potentially affect not only decision-making processes, but also the role of decision makers.

Figure 2: Integrated Conceptual Framework



Five propositions (P) have been developed to guide future research to address the research question: How have recent shock events impacted on strategic decision-making processes in companies in the tourism and travel industry? The propositions were placed on the integrated framework and are placed on the integrated framework (Figure 2) to illustrate the relevance of the propositions to the framework.

RQ₁: How have recent shock events impacted on strategic decision-making processes in companies in the tourism and travel industry?

As discussed previously, the literature identifies three basic types of strategic decision-making processes. These are 1) rational and analytical, 2) incremental and opportunistic, and 3) consultation and opportunistic. These processes are often combined or otherwise altered as the situation demands (Quinn, 1993). During a time of crisis or high uncertainty the decision-making process will become rational and analytical, following a set procedure as part of a crisis or emergency plan (Harrison, 1999; Faulkner, 2001; Faulkner and Vikulov, 2001; Stafford et al., 2002). Hence, the following propositions are posed:

P₁ Decision-making processes will become rational and analytical in the short-term (1-4 weeks) following a shock event.

P₂ Decision-making processes will become consultative and consensus seeking in the medium term (1-6 months) following a shock event.

A shock event and consequent crisis may expose severe weaknesses in an organisation's position in the market place (for examples, Miller, 1998; Goodrich, 2002; Prideaux et al., 2003; Calantone et al., 2003). Therefore, as a direct result of the impacts of shock events, organisations may alter their strategies in order to strengthen their future market position (Mintzberg and Waters, 1985; Faulkner, 2001; Faulkner and Vikulov, 2001; Boin and Hart, 2003). Thus, the following proposition is posed:

P₃ Decision-making processes will become opportunistic in the short-medium term following a shock event.

Framing a problem is critical to finding the solution to the problem, or in other words, the decision-maker must first correctly evaluate the problem before employing the appropriate decision-making mechanism (Beach, 1990). The literature shows that consultation and team agreement in times of uncertainty will improve decision-making quality (Smart and Vertinsky, 1977; Quinn, 1993; Ianquinto and Frederickson, 1997), hence leading to a better framing of the problem. Thus, the following proposition is posed:

P₄ The consultation and consensus process will lead to improved framing of the problem.

The literature on management and leadership recognises board of directors, chief executive officers and top management teams as the main decision-makers. It seems that shared leadership and/or decision-making between board of directors and/or top management teams is prevalent during times of stability, whereas strong unitary leadership is required and preferred during periods of uncertainty and instability (Staw et al., 1981; Harrison, 1999; Waldman et al., 2001; Shen 2003). Thus, the following proposition is posed:

P₅ *In the time period immediately following a shock event, the CEO will become the ultimate decision maker.*

Conclusion

This paper developed an integrated conceptual framework to link the relevant components of strategic decision-making and crises management into a cohesive construct. This framework suggests that shock events influence strategic decision-making processes, the role of decision makers. A number of propositions were developed to guide future research.

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1-4 weeks

1-6 months