

## Strategic Decisions: Not for the Light-hearted or the Light-headed

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**Abstract:** The 2016 UK Referendum required the electorate to take an important strategic decision. To address strategic decisions effectively, flexibility and an understanding of the issues holistically are important characteristics. Issues that require strategic decision-making are challenging and should not be attempted without prerequisite knowledge and understanding. Hence, strategic decisions in firms are the sphere of influence of senior management and middle management (the latter at least having some input). Given this scenario, are referendums that are propagated on strategic decision-making appropriate for the whole electorate or are they the preserve of the lawmakers? The scope of referendums needs to be defined very carefully. Strategic decisions are converted to tactical decisions by building a context, and thus a consensus, via a cost-benefit analysis. Thus the aim of the paper is to add to the understanding of strategic decision-making in the political context, namely a referendum. The paper will use information in the public domain on the 2016 UK Referendum and evaluate it based on the academic literature on strategic decision-making and related areas.

**Key words:** strategic decisions; characteristics of strategic decisions; UK Referendum 2016; uncertainty; unpredictable environments; unknowable environments; decision-making

**JEL codes:** M1, M3 & L8

### 1. Introduction

Many decisions are deemed strategic, but what determines whether a decision should be classified as strategic? Cummings and Daellenbach (2009) reviewed 2,366 journal articles in Long Range Planning from 1966-2006, finding no certainty as to what constitutes a strategic decision. There is a danger that “strategic decisions” could be a catch-all term for all decisions. Tactical decisions could be misrepresented as strategic decisions, thus conflating a tactical victory as a strategic victory. The 2016 Referendum in the United Kingdom on remaining in or leaving the EU would be classified as a strategic decision, because of its long-term implications for the UK. However, Scotland is posturing to leave and become independent, yet remain part of the EU. According to the article “Day of change turns rules upside down” (BBC News), Scotland is thus applying tactical approaches to achieve a victory over a strategic decision. However, tactical successes do not always lead to strategic success. The war in Vietnam saw the US inflict collateral damage on the Viet Cong, but their success on the battlefield did not lead to a strategic win. Eventually, the US made the decision to withdraw, meaning that they accepted they could not achieve their strategic aim, and had lost the war (Karnow, 1991).

The paper’s aim is to add to the body of knowledge on how decisions are classified as strategic or

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non-strategic and to explore the consequences of getting the classification wrong. A further aim of the paper is to identify the “best” stakeholders to take strategic versus non-strategic decisions.

## 2. Strategic Decisions

Strategic decision-making approaches have produced inconsistent results, and a combination of perspectives may be a better technique. This outcome could be the simplification of complex outcomes (Elbanna & Child, 2007). Several researchers have suggested that different techniques and perspectives should be applied to “solve” strategic decisions (Elbanna, 2006; Hough & White, 2003).

Strategic decisions influence other decisions that a firm makes — operational and tactical. Decisions of a strategic nature are challenging, because there are no “right” or “wrong” answers, and are difficult to comprehend without precedents. Firms are tempted to delay strategic decisions until the critical uncertainties are resolved (Shivakumar, 2014). There is no right or wrong answer to the 2016 Referendum in the UK, and there were no precedents to help the electorate to make a more informed decision. Attempts at minimizing the uncertainties relating to the strategic decision included the Prime Minister negotiating with the EU to remove influences that would create uncertainties in the electorate. The Remain side did not sufficiently resolve these uncertainties to ensure victory in the 2016 Referendum, according to the article “EU referendum: Scotland backs Remain as UK votes Leave” (BBC News, 2016).

The degree of commitment is linked to the reversibility of the strategic decision. Some strategic decisions are costly to reverse and others are less costly. Decisions that are low in commitment are non-strategic, and are reversible. The idea of commitment to the strategy is a consistent influence on performance (Shivakumar, 2014). The scope of the firm refers to choices on products, services, markets and activities (Grant, 2013). The Prime Minister defined the scope of the Referendum, and it is costly to row back. The strategic decision-making process was irreversible, and there was commitment to the process. Non-strategic decisions such as tactical or operational decisions demand less commitment to the strategy. However, commitment to the strategy needs to be tempered by adapting a flexible approach, because outsiders are likely to have different perspectives. Flexibility appears to be more important than commitment to the strategy (Bharami & Evans, 2011; Doz & Kosonen, 2008; Raynor, 2007). Strategic decisions require flexibility both during the strategic decision-making process and after an outcome has been achieved. If you are bound to a particular outcome, i.e., there is commitment, and flexibility is not possible, then a negative outcome is likely for the strategic decision.

## 3. Types of Decisions

The literature identifies four types of decisions, namely strategic, neo-strategic, tactical and operational (Shivakumar, 2014).

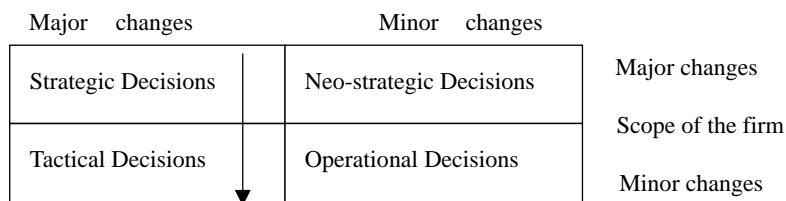


Figure 1 Commitment

Source: Adapted Shivakumar (2014)

Strategic decisions (Figure 1) are heavily influenced by commitment and are influential on the strategy of the firm (Rotemberg & Saloner, 1994; Ghemawat, 1991). Shivakumar (2014) and Mintzberg & Quinn (1987) suggest that strategic decisions have long-term consequences, and influence the overall direction of the organization. They should be viable in uncertain, unknowable and unpredictable environments. Strategic decisions relate to important actions, resources committed and precedents already set (Mintzberg, Raisinghani & Theoret, 1976). The view that strategic decisions are the territory of senior management is not totally borne out from the literature. Research shows that middle managers can influence strategic decisions, because of their explicit and tacit knowledge (Shivakumar, 2014; Shi, Markoczy & Dess, 2009; Wooldridge, Schmid & Floyd, 2008). Managers at the mid-level understand the firm's capabilities and performance better than other levels of the organization, which is a significant contributor to strategic decision-making. Middle managers' knowledge is important in planning and implementation (Shivakumar, 2014). Strategic decisions require specialist knowledge or skills to contribute to the decision-making process. Managers below mid-level are unlikely to make significant contribution to strategic decision-making because a holistic ability to envisage the issues or adopt different perspectives is necessary, and they lack sufficient concentration of specialist input to achieve this. This does imply that only individuals that understand the issues will be able to make a significant contribution to the strategic decision-making process. If we look at this in the context of a firm, then strategic decisions are not appropriate for low-level managers or employees. Since the UK Referendum 2016 requires strategic decision-making, it is inappropriate to open it to the whole electorate, but it is not possible to partition the electorate. Consequently, the only body that has the specialist knowledge and understanding of the intricacies of the issues are the lawmakers, i.e., in the UK Parliament. The decision process would be vetted and the necessary checks and balances applied. This could not be achieved in a plebiscite.

Neo-strategic decisions (Figure 1) alter the scope of the firm, but do not alter the commitment. They entail the ability to expand the scope of the firm without committing to specific resources and capabilities (Shivakumar, 2014). Senior management should not only consider strategic decisions that require strategic commitment (Bharami & Evans, 2011; Doz & Kosonen, 2008; Raynor, 2007; Lawler III & Worley, 2006; Volberda, 1998). Start-ups can enter mature markets without a great deal of commitment, because tools of production once only available to large firms are now available to SMEs. Online firms such as Bing, Google and Yahoo have reduced search costs. There is a greater desire to customize manufactured products. The implication of these changes is that start-ups and SMEs can operate differently. They can be virtual, have few employees, use informal networks, be loosely organized, and change their goals and strategy rapidly and timely (Shivakumar, 2014). Firms must be nimble, future-looking and proactive to operate neo-strategic decisions. Consequently, governments would find neo-strategies challenging to initiate and develop.

Tactical decisions (Figure 1) significantly alter the level of commitment, but not the scope of the firm. A high degree of commitment is not sufficient to classify a decision strategic. The context of the decision is important — a long-term contract with an IT firm is a tactical decision, but outsourcing a part of the business, such as HR, is a strategic decision (Shivakumar, 2014). Tactical decisions capture and create value, such as the launching of an advertising campaign to focus on brand, quality and value. However, to manage an advertising campaign requires many tactical decisions. Tactical decisions are challenging, because they are needed to address a “tough” problem. Stress and being under pressure are characteristics associated with tactical decisions. Apple's requirement to replace the screen on the iPhone in 2007, because of the ease with which the screen could be scratched, is an example of a tactical problem. The screen was replaced with a scratch-resistant one. The logistics to produce the

replacement in China, and to guarantee the quality, were tactical decisions (Shivakumar, 2014; Kahneman & Klein, 2009).

Turning to referendums, can they ever be classed as tactical decisions? According to the article 'EU referendum: Scotland backs Remain as UK votes Leave' Scotland voted in the 2016 UK referendum to remain (62% to remain in the EU and 55% to remain in the UK), and thus continue to be part of the European Union (EU) (BBC News, 2016). According to the article "Ewing: EU 'sympathetic' over Scotland" the SNP are threatening to call a referendum to leave the UK so that Scotland becomes independent and remains in the EU (BBC News, 2016). If Scotland votes to be independent then this could be classed as a tactical decision, because it would be in the context of the result of the 2016 UK Referendum. The decision would take place in an uncertain environment, but it is not unknowable, because of the turbulence Scotland has experienced as a result of the overall result to leave. Remaining in the EU appears to be a safer bet at least economically. Before the EU Referendum Scotland voted to remain in the UK, which therefore does not change their long-term position. It is easier to gain a positive result from this type of referendum question than to take a strategic decision. Converting a strategic decision to a tactical decision would make a referendum more winnable. This will require building a context, being open, and identifying the pros and the cons of the debate. Essentially, a cost-benefit analysis would be a suitable tool to give an even-handed approach.

Operational decisions (Figure 1) do not significantly alter the level of commitment or scope of the firm. These types of decisions are to do with routine problems and administration. Operational decisions are concerned with target setting, measurement, monitoring performance, and the creation of management incentive. It would be unusual for operational decisions to be confused with strategic decisions. A poor operational decision is unlikely to have detrimental consequences (Shivakumar, 2014). Firms that are rated highly for operational-related activities are more productive, efficient and profitable, have higher growth, and survive longer (Bloom et al., 2012). Firms that are behind due to poor operational performance do not realize they are laggards, and often suffer from a problem of *perception*. Surprisingly, many firms are not aware of modern management techniques such as lean manufacturing and human resource management. Laggards suffer from a lack of *inspiration*; they know they are behind, but do not know what to do (Bloom et al., 2013; Gibbons & Henderson, 2013).

#### 4. Implications to Management

The solving of strategic decisions in a firm should not present as much of a challenge as putting a strategic decision to a referendum. Typically in a firm stakeholders (senior management and middle managers) involved in the strategic decision-making process are aware and knowledgeable of the issues. They have a holistic perspective (on the scope of the firm and capabilities), and thus debate and argument on the pros and cons of the strategic decision would be evident. This does not preclude that disagreements will probably take place. There is not a greater need to convert a strategic decision to a tactical decision in a firm. Putting a strategic decision to a referendum is a game of chance with high stakes (as the previous Prime Minister, Mr Cameron knows). To reduce the probability of failure, and thus chance, a process to build context around the strategic decision is one approach. This is the equivalent of building a narrative, but a balanced one. Both sides of the argument should be detailed, so that a cost-benefit analysis is undertaken. This helps in perceiving the strategic decision-making process to be balanced and fair, but it does not mean there will not be opposing sides. Care must be taken that the cost-benefit analysis is not skewed to favour one side. When the context is created openly there is a better chance of

commitment and openness in the referendum debate. Strategic decisions that have not been contextualized should be avoided. A case in point is the potential vote on Scottish independence in a new referendum following the result of the EU Referendum, which is less of a strategic problem and moves towards the area of a tactical decision. The context is in place and the pros and cons are evident, but will depend on voters' perspectives. There is less emphasis on the unknowable (the consequence of leaving is developing, so a context is forming), but uncertainty will still weigh on the decision.

## 5. Future Research

The conversion of a strategic decision to a tactical one requires changing the context of the decision. When should the context be shared, before a referendum or during it? What are the challenges in converting a strategic decision into a tactical decision? If strategic decisions and tactical decisions are on a continuum, at what point does a strategic decision become a tactical decision, which is dependent on the degree of contextual building? Is there an optimal level of context to change from a strategic to a tactical decision?

## 6. Conclusion

Referendums can give unexpected results, and politicians want to minimize such an event. By their very nature referendums require a strategic decision, which will have long-term consequences. Moving strategic decisions in the direction of tactical decisions maintains commitment, but reduces the unknowable and uncertainty in the context of the decision. One approach to build a context is the use of a cost-benefit analysis that is open and not prejudiced, which will require agreement from the opposing sides. There is thus less risk that there is insufficient information to make a decision. When there is a perception of insufficient information a multi-stage decision is converted to a single-stage decision as it is easier to focus and reach a decision on (Bowen & Bowen, 2016).

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