

ONLINE COUNTERPOINT 12.7

Individual executives are responsible for the decisions they make, but business leaders are part of a collective culture in which positive (or negative) sentiments are widely shared. In the boom of the 1990's and 2000s, managers who did not succumb to 'irrational exuberance' by engaging in rapid, highly-leveraged expansion, were painted as excessively cautious and failing to bring adequate returns to shareholders. In the aftermath of an economic bust such as that which began in 2007-2008, there is inevitably a search for culprits, who are punished with legal sanctions and/or public criticism, such as that faced by RBS's Fred Goodwin. However, the deeper cause of boom-bust is business culture and inadequate regulation. Spanish banks, for example, emerged relatively unscathed from the credit crunch despite Santander, the country's biggest bank, being part of the ABN-Amro takeover consortium. Spain avoided the worst of the problems largely because Spanish regulators discouraged financial institutions from indulging in speculative trading of foreign derivatives and other exotic financial instruments that crippled the US and UK financial systems .

iii "Three amigos, only one conquistador", Economist, July 17th 2008; Victor Mallet, "Still standing", Financial Times, 16 December 2008.

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In effect, programmed decisions eliminate decision-making at least until a decision is made to replace the programme.

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It is not so much 'new decision-making processes' that are required but, rather, a willingness and capacity to anticipate a range of possible scenarios and eventualities, and then to develop skeletal 'programmes' for addressing them. Although it is not possible to imagine and plan for every eventuality, much can be anticipated and the very process of continuously exploring possible future scenarios can itself contribute to more inclusive decision-making that takes account of diverse possible effects – positive and negative.

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Managers who have this ambition are likely to be frustrated and ineffective as they put energy into creating the perfect conditions rather than learning to adapt more effectively to the constraints of 'bounded rationality'.

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This assumes that complex problems are amenable to solution through 'orderly, thoughtful process'. Arguably, something more like 'random access memory' can be more effective in making multiple connections at a rapid pace. Sometimes that is called 'intuition'.

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In such circumstances, managers are pretty much spared decision-making as much is likely to be programmed.

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In this example, it would seem, and even taking the benefit of hindsight into account, that many of the difficulties encountered by Coloplast could have been anticipated. That they were not suggests that managers at Coloplast gave priority to other considerations – primarily, to the outsourcing of its goods to Hungary which meant that additional costs associated with production and distribution were comparatively insignificant.

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The point to be stressed here is that the quality of ‘intuition’ depends upon ‘years of practice’. It is relevant to be skeptical about anyone who claims to have an ‘intuitive’ grasp of a problem who has not put in the years of practice. But, of course, years of practice are only a necessary, not a sufficient, condition of developing an intuitive grasp of complex, uncertain situations.

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Instead of waiting for information to accumulate, managers could have identified the announcer as a critical role for their business and ensured that performance was carefully monitored in a way that left time for problems to be remedied long before it became ‘necessary’ to fire an experienced announcer. However, this case illustrates how other priorities – values and sectional interests – become institutionalized in ways that compromise effective organization and management.

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This is a key insight that is infrequently recognized in decision-making models that are often linear in formulation. It is also relevant to appreciate how the anticipation of future ‘stages’ – e.g. the difficulties or the effects of firing an announcer – inform the earlier stages of the process, even to the point of a denial that there could possibly be a problem.

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This understanding accounts for the existence of different approaches in terms of the situations in which they are adopted. Against this simple, rationalistic account, it is more plausible to view the approaches as alternatives that are favoured for 'boundedly rational' reasons. Approaches are justified rationally, post hoc, by appealing to the demands or logic of the 'situation' rather than acknowledged to be favoured for other, 'political' reasons.

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Using the framework is likely to sensitize managers to a range of different possibilities. In this way, it may expand the options considered by them. However, if the observation that 'nearly six of ten strategic management decisions failed to follow the framework' can be relied upon, it is likely that urging managers to use the framework will not result in its widespread adoption. Ultimately, managers will use the framework only if this is consistent with their 'boundedly rational' frame of reference.