

Reducing “Bad” Strategic Business Decisions

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Good managers want to make good decisions. So why do some good managers make bad decisions? Looking back on “bad” strategic decisions is one means to find ways to reduce the chances of repeating someone else’s mistake. Was a decision maker knowingly or unknowingly biased to favor a certain course of action? Did the decision maker(s) have inadequate or inaccurate information? Were the analyses conducted flawed? Was there inadequate analysis or perhaps too much analysis?

According to a study by Nutt (1996), "Managers fail about half the time when they make business decisions involving their organization". He notes "about one-third of real-life business decisions were initial failures -- the decisions were never implemented by the organizations involved." Nutt concluded that "Managers seem committed to fast answers and fail to recognize that quick fixes make failure likely." Making good strategic business decisions is hard work. The more consequential and strategic a decision situation, the more resources that should be spent on the specific decision making task.

In this article, we begin by reviewing some extremely “bad” strategic business decisions. Based upon these examples and the academic literature we review several causes of bad strategic decisions. We conclude bad strategic business decisions can be reduced but not eliminated. The remainder of the article focuses on helping senior managers recognize and avoid biases and use tools and techniques to create a better decision making situation at each stage in the decision making process. Computerized decision support can help at each stage of the decision making process, but using a combination of traditional and computerized tools provides the best hope for reducing bad strategic business decisions.

Examples of Bad Strategic Business Decisions

Senior business managers do sometimes make bad decisions. Cokins (2015) noted in his blog that "almost half of the roughly 25 companies that passed the rigorous tests to be listed in the once-famous book by Tom Peters and Robert Waterman, *In Search of Excellence*, today either no longer exist, are in bankruptcy, or have performed poorly." According to McIntyre, Allen, Weigley and Sauter (2012), “Most bad business decisions are not fatal.” They tried to identify the worst business decisions of all time. Their list included decisions by managers at Motorola, Lehman Brothers, Firestone, and Kmart. BusinessPundit.com created a list of the 25 worst business failures in history. The list includes decisions at Ford Motor, Washington Mutual Bank, Polaroid, Commodore Computers, Pets.com, DeLorean Motor Company, and Pan Am. Other authors have

created similar lists. Below, we review briefly a few famous examples of bad strategic business decisions.

Kodak. Mui (2012) noted Kodak managers missed many opportunities in digital photography, a technology its employees invented. Steve Sasson, the Kodak engineer who invented the first digital camera in 1975 said management's reaction was "that's cute—but don't tell anyone about it" (New York Times, 5/2/2008). According to Barabba (2011), "Kodak management not only presided over the creation of technological breakthroughs but was also presented with an accurate market assessment about the risks and opportunities of such capabilities. Yet Kodak failed in making the right strategic choices." Senior managers can be biased to protect the current business model and fail to identify technology disruptions.

Kmart. In the 1990s, Kmart senior managers decided to compete with Walmart on price. Kmart was bigger in stores and sales, but Walmart was growing rapidly. Walmart had an innovative supply chain system that allowed the retailer to restock shelves efficiently. Kmart failed to implement a similar system. Duff and Ortega (1995) argued attitude may have made a bigger difference than strategy in the demise of Kmart. They noted Walmart senior executives Sam Walton and David Glass asked employees for feedback and corrected weaknesses identified by subordinates. In contrast, The Kmart CEO Joseph Antonini "didn't think others could tell him much about the business". Antonini was forced out as CEO in 1995. By 1995, Duff and Ortega reported Kmart's market share of total discount sales had dropped to 22.7% from 34.5% and Wal-Mart's market share had soared to 41.6% from 20.1%. Smith (1996) identified managerial incompetence as the primary problem at Kmart. Between June 1998 and June 2000, Walmart's stock price rose 82% as Kmart's fell 63%. Kmart filed for bankruptcy in 2002 and shut hundreds of stores.

Liz Claiborne. According to Minato (2012), in October of 2006 Liz Claiborne management "made one really poor decision, and since then the company has not turned a profit. Less than two weeks before appointing the 43 year-old William L. McComb as CEO, the brand decided to make clothes for J.C. Penney." The fallout came from Liz Claiborne's long time retail partner, Macy's. The retailer retaliated and drastically reduced orders for fall 2007. Penney's was also having brand image problems. In 2011, Liz Claiborne Inc., the parent company, was forced to sell off many of its brands, including the Liz Claiborne label.

Pets.com was an ecommerce website. It launched in November 1998 about the same time as several other online firms offering pet products. Pets.com's business model was not unique and the website had similar products and pricing to other online pet supplies retailers. Also, Pets.com was selling low-margin food and supplies that are extremely costly to ship directly to consumers. In February 2000 Pets.com had a public stock offering, in June, 2000, Pets.com managers made the decision to purchase the assets of its rival Petstore.com. According to Olsen (June, 2000) Pets.com acquired the customer database, domain name, trademarks, live fish business, and several strategic supplier agreements from Petstore.com. In September of 2000, senior managers decided to move part of its operations from San Francisco to a more affordable location in the Midwest to help decrease operating costs. Pets.com had become a leading online pet store, but managers could not identify a profitable business model. Pets.com declared bankruptcy in November 2000. Fischer (2000) argued Pets.com managers and venture capitalists took the company public too quickly and the company ran out of money. Pets.com now redirects to Petsmart.com. Managers seemed to misidentify the problems and made multiple bad decisions.

Causes of Bad Strategic Decisions

Popular press articles and blogs offer anecdotal information about underlying causes of bad strategic decisions. For example, McIntyre et al. (2012) examined "the worst business decisions of all time." They noted the worst bad decisions fell into three categories: 1) Management was reckless and managers ignored internal warnings that their decisions were highly risky, 2) Management missed major shifts in their industries until it was too late, and 3) managers showed a general lack of foresight. McGrath (2012) suggests, "Corporations and people are sloppy in the way they make decisions. They don't understand the techniques that lead them to make a good decision. ... Executives don't look at decision-making as a skill. If you're a high school football player, you have a playbook and you practice. Executives often wing it."

Insights from anecdotal evidence, though useful, do not provide scientifically grounded insights into the causes of bad strategic decisions. Accordingly, we reviewed the literature and found that poor or bad decisions may result from process, individual or situational factors.

The process perspective on strategic decision-making explores how the decisions are made and implemented (Elbanna, 2006). Researchers have identified two broad types of decision-making processes: rational and political (Dean & Sharfman, 1996; Elbanna, 2006). There is considerable agreement that the rational process is bounded by a decision maker's cognitive limits as well as scarce organizational resources. That is, bounded rationality causes a decision maker to settle for a "good enough" solution (March & Simon, 1981; Simon, 1955). From a prescriptive perspective decision processes should include four basic steps: intelligence, design, choice, and implementation.

Poor and bad decisions often result from incomplete or short-circuited decision processes. For example, a senior decision maker's favored or "pet" project may limit search for relevant information to develop better alternatives. While bounded rationality and some political process elements must often find a balance in decision processes to implement effectively a desired decision, these two decision processes do not always work in concert. Some causes of bad strategic decisions include: 1) Unclear goals and aspiration levels; 2) Early commitment to implicit favorites and pet projects; 3) Organizational inertia and resistance to change; 4) Ineffective Business Intelligence systems and DSS; 5) Groupthink; 6) Excluding important external stakeholders from the decision process; 7) Heuristics related errors: anchor and adjustment, overconfidence, confirmation trap; 8) Insulated and autocratic Senior management; 9) Ignoring ethical concerns; and 10) Organizational politics. Let's examine a few of these factors.

The intelligence phase in decision processes encompasses gathering relevant information. A significant body of literature suggests that decision debacles may result from a decision maker's affinity towards a pet project and/or his/her implicit favorite alternative (Nutt, 2001; Shimizu & Hitt, 2004; Soelberg, 1967). This early commitment to a pet project could blind a decision maker to search for relevant information for only pet projects. Likewise, a decision maker may seek irrelevant information if s/he sets-up unachievable aspiration goals. Poor business intelligence systems may not track needed performance indicators. These problems are accentuated by uncertain and complex environment and limited organizational resources. Furthermore, influential decision makers may force other managers to ignore useful information that is seen to hurt team's cohesiveness, causing groupthink.

The design phase in the decision process deals with developing appropriate alternatives. In the face of uncertainty along with excessive information gathered during the intelligence phase, a

decision maker faces the daunting task of developing a manageable number of good alternatives. Decision makers use a variety of information processing strategies to develop alternatives. March (1994) suggests that decision makers tend to decompose problems, simplify or edit problem definitions, and use heuristics to utilize recognizable patterns in processing information.

Bazerman (1988) lists thirteen different heuristic biases that could lead to error in solving problems. Three specific heuristics, anchoring and adjustment, overconfidence, and the confirmation trap, are especially relevant to the understanding the underlying causes of bad strategic decisions. The anchoring and adjustment bias results from insufficient adjustment to an initial value like a demand forecast. Once a decision maker has made an early commitment to a pet project, it is cognitively difficult to change. The second heuristic bias deals with overconfidence. According to Bazerman, (1998), "The most well-established finding in the overconfidence literature is the tendency of people to be most overconfident of the correctness of their answers when asked to respond to questions of moderate to extreme difficulty" (p. 33). In other words, the less a decision maker knows about a complex problem, the more likely s/he tends to assume in her/his ability to correctly solve the problem. Since strategic decisions often involve ill-structured problems, the presence of the overconfidence bias as a cause of bad decisions is highly likely. The third bias is somewhat counter intuitive. To gain useful insights, a good decision maker should look for disconfirming evidence about a favored solution (Bazerman, 1988). Unfortunately, decision makers often seek information that supports their viewpoint, that is, they suffer from the confirmation trap. Absence of excellent management information systems (MIS) or decision support systems (DSS) tend to exacerbate the effects of heuristic biases. Research evidence also supports the presence of the political motives of leaders to support the status quo.

The choice phase in decision making deals with selecting a "best" or optimal solution. Behavioral models of decision making imply that decision makers tend to settle for "good enough" solutions (March & Simon, 1981; March, 1994). Political models of decision making point to problems from organizational politics and focus on short-term gains as causes for poor choices (Dean & Sharman, 1996).

The implementation phase in decision making involves actions needed to make changes and resolve the problem. Several experts have suggested that decision makers likely learn quickly that their proposed solution could be bad. Some decision makers escalate their commitment to bad choices. Rationalization of choices and hopes for future success help escalate a decision maker's commitment to a bad choice (Hodgson & Drummond, 2009; Nutt, 2001; Staw, 1981). It has also been asserted that it is difficult for a leader to accept a mistake as it would make them look weak (Hodgson & Drummond, 2009; Staw, 1981). The desire to be a consistent decision maker in the face of adversity could motivate a leader to force others to accept a bad choice.

Our analysis of the literature on the causes of bad decisions suggests that errors made during the intelligence phase as well as the implementation phase seem to be more critical. Two reasons - an early commitment to a pet project (Nutt, 2001) and escalation of commitment to a poor choice (Hodgson & Drummond, 2009) - are frequently cited as major causes of making "bad" strategic business decisions.

Tools and Practices to Reduce Bad Strategic Decisions

Information Technology can assist in the intelligence and implementation phases of decision processes (Power, 2013). IBM is heavily promoting a cognitive system named Watson and tools

like tradeoff analytics, mathematical filtering, and linguistic analysis to make better decisions. A major selling point is that "IBM Watson thinks with us to help outthink competitors." Also, IBM advertises "Determine your next big business move with predictive analytics in Watson Analytics". Supposedly using Watson will help managers make better strategic business decisions. Watson will be able to engage in an intense debate with strategic decision makers (Rodin, 2014). Software that helps managers "outthink competitors" would be a major advance in computing technology, BUT for the examples of bad strategic business decisions discussed above Watson would probably not have helped avoid the mistakes. In the future advanced cognitive computing may make a difference, but we are not yet at the point where IBM Watson can help us outthink competitors. Senior managers must continue to do the thinking and there are "best" practices and tools that can help reduce the frequency of bad decisions. Table 1 summarizes our suggestions.

TABLE 1
Tools and Practices to Reduce Bad Strategic Decisions

Strategic Decision Processes Steps	Recommended Tools and Practices	
	Decision Maker (DM)	Situational
Intelligence	<ul style="list-style-type: none"> • Train DM to slowdown to minimize committing too soon to various options 	<ul style="list-style-type: none"> • Deploy tools for stakeholders analysis • Effective MIS and DSS
Design	<ul style="list-style-type: none"> • Train DM about errors resulting from heuristics 	<ul style="list-style-type: none"> • Nominal group technique • Effective MIS and DSS
Choice	<ul style="list-style-type: none"> • Utilize political capital for creating acceptance of win-win choice for all stakeholders • Develop ethical training 	<ul style="list-style-type: none"> • Devil's advocate • Dialectic inquiry • Effective MIS and DSS
Implementation	<ul style="list-style-type: none"> • Minimize biases to deal with escalation of commitment to a failed course of action as well as entrapment 	<ul style="list-style-type: none"> • Astute financial resource allocation • Develop strategic flexibility

While most of our proposed suggestions deal with developing training programs for enhancing decision makers' awareness about cognitive biases and limitations, we wish to specifically discuss the use of a few decision making tools that we believe are quite useful. Evidence suggests using techniques like the devil's advocate can reduce some biases and improve decision making outcomes (Janis & Mann, 1977; Schwenk, 1984), but few people want to serve

that role and be the "devil's advocate". As Seager (2010) notes "A dialectic approach means equally judging both sides of any argument." Having a designated "devil's advocate" improves the argument. We believe that deployment of a Devil's Advocate can minimize early commitment to a pet project, minimize incidences of groupthink, and enhance openness to disconfirmatory evidence. In addition, we believe that the use of the nominal group technique can help decision makers to suspend quick judgment and develop superior alternatives.

Decision failures occur and will continue to occur. There is some evidence that improved decision processes, deployment of decision tools such as devil's advocate, more computerized decision support including analytics, improved decision making skills, and better decision implementation can reduce the decision failure rate. Ultimately managers must take responsibility for failed decisions and learn from such failures to improve their strategic decision making skills.

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