7 Strategic Decision Biases and Decision Making Principles

A complete strategy is not necessarily a good one.

7.1 A Model of Four Strategic Decision Types

As is known to all, a car with "four wheels and an engine which drives people from one place to another" is an intact car, however, this kind of car might not be attracted to the car buyers for its color, or design, or incomplete functions. An intact car as it is, there might be dead stock. Similarly, a strategy with three basic elements is a complete strategy, but it does not make it a perfect one, for there might be some flaws (actually the flaws are inevitable). In other words, a complete strategy is not necessarily a high quality strategy.

Strategic decision is about the integration decisions of three aspects[1] (the three elements of strategy) that concerns organization's future development. Decision makers need to be familiar with the internal and external situations of the company. It is necessary to accurately predict the development trend of the industry, be familiar with competitors' competitive strategies, and know well with the company's own advantages and disadvantages. The decision-maker's understanding and judgment on the organizational internal resources, competitive capabilities and industry external environment have a great influence on the quality of the strategic decisions.

[1]The three aspects are: (1) Where is the company going (long-term goal)? (2) What key hurdles will the company be facing in realizing the long-term goal? (3) What will be the basic or general guiding ideology in solving the key blocks?

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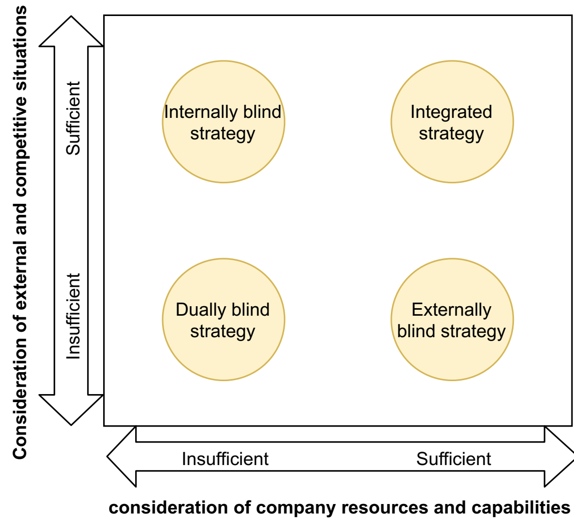


Fig. 7.1 Four Strategic Decision Types

When the judgment of company's own strengths and weaknesses is wrong, strategic decisions will be wrong. Strategic decisions also go wrong when decision makers misjudge the external environment or the strength of their competitors.

Biases in judgment will lead to strategic mistake. According to whether the decision-makers have adequate consideration on the internal and external situations, corporate resource and capability, strategic decisions can be divided into four types (see Fig. 7.1) which are integrated strategy, internally blind strategy (or externally biased), externally blind strategy (or internally biased) and dually blind strategy.

Let us have a look at some cases of the four strategic decisions.

7.2 Dually Blind Strategy

(1) **Leftist-inclined decision of Wang Ming**

In January 1931, with support from the Communist International representatives, Wang Ming was made the leadership of the CPC Central Committee. Wang Ming wrongly estimated the force of the Red Army at that time (or ignored the fact that the Red Army was relatively weak) and made wrong judgment about the revolutionary nature, the situation and class relations.

In October 1931, Wang Ming left China to serve as head of the Chinese communist party's delegation to the communist international in Moscow, the Soviet union. Wang Ming remotely conducted the interim central committee of the communist party of China headed by Bogu. In January 1933, Bogu and other officials

took direct command of the work of the red army and the base areas, and fully implemented Wang Ming's erroneous “left” policy in military strategy, agrarian revolution, and base area construction. In January 1934, the fifth plenary session of the sixth central committee of the communist party of China (CPC) over exaggerated the great situation of the Chinese revolution despite the objective facts. Because of the cognitive errors in strategic “problems” which led to the military guiding ideologies of emphasizing “formalization”, “regular warfare”, “all-out attack” and attempting to confront the Chinese Nationlist Party or Kuo Min Tang (hereinafter referred to as KMT) from the front. The “left” error and adventurism led directly to the failure of the fifth counter-” encirclement and suppression “in the Soviet area and the forced withdrawal of the main force of the red army from the Soviet area for strategic transfer. It caused serious damage to the CPC and the revolutionary cause. In October 1934, the main forces of the red army began the Long March.

In this example, the decision-maker (Wang Ming) was biased in cognition on “major development issues” (decision on the element at the bottom left of the strategy triangle). That is, he perceived the “against a stronger enemy” situation to “against a weaker enemy” and made mistakes, which naturally leaded to the wrong “overall guidelines” (decision on the element at the bottom right of the strategy triangle). Wang Ming's judgment on the situation has gone biased, so no matter it is against the enemy or for the Red Army, his strategic decision was not correct.

In the example of Wang Ming’s leftist-inclined route, he made mistakes in judging the military strength between the Red Amy and KMT. As for the reasons behind the mistake, the problem lies in himself. Wang Ming had always regarded himself as “100% Bolshevik”. Without knowing the actual situation of the Red Amy forces and lack of integrated analysis capability, he failed to realistically look at the specific conditions but only blindly copied Marxism and tried to lead Chinese revolution practice with the experience of Soviet Russia’s “October Revolution”. In 1927, Mao Zedong pointed out the situation in his book ***On Practice*** that “We oppose the empty-talk of leftism, for ‘their thinking goes beyond a certain development stage. Some takes illusions for truth, while some only force the ideal to be realized in the future on present, far away from practices of the majority at present, far away from practicality, and showed an act of adventurism”.

(2) **Possible causes for the dually blind strategy**

If the decision-makers are not familiar with situation of the organization’s internal resource and capability, they will not have reliable decision information to identify the key strategic issue or problems (decision on the element at the bottom left of the strategy triangle). They are thus incapable of choosing appropriate guiding ideology (decision on the element at the bottom right of the strategy triangle) for solving the key-problem, which will lead to incorrect strategic decision.

In the case of Wang Ming’s leftist-inclined route, he not only lacks knowledge in the nature of Chinese revolution, but also does not know well of the reality of different strength between Red Army and KMT military. This led to his misjudgment (incorrect decision on the element at the bottom left of the strategy triangle)

and blind copy of Marxism and Leninism, and inadaptability of military strategy (wrong decision on the element at the bottom right of the strategy triangle) in Chinese revolution practice, making it a dually blind strategy.

In the business situations, dually blind strategy generally appears in the following situations:

- Corporate executives who are not familiar with the real situations both of the company and of external environments, or pay not much attention on the company or industry. They are thus lacking of important information in decision-making.
- The cognitive ability of decision makers is insufficient which, will result in making incorrect decisions even with rich information.

7.3 The Externally Blind Strategy

(1) **Microsoft's attitude towards piracy**

In 1992, Microsoft entered the Chinese market but encountered a serious problem that blocked the development of the company (the element at the bottom left of the strategy triangle), i.e. market piracy. Although the market demand was high on software then and customers were buying and using Windows software, Microsoft did not have any income because of piracy. Notwithstanding the serious development issues in the Chinese market, Microsoft did not intend to withdraw from China but wish to stay in China for future development (goal).

We can see that Microsoft needs a strategy to solve the key problems in the Chinese market, a problem-oriented one. From past experience in the United States and other western countries, Microsoft started to sue piracy (original decision on the element at the bottom right of the strategy triangle) in the Chinese market only to get little effect, leading to merely any profit in China in nearly more than ten years.

In the 1990s, Chinese ordinary folks cannot afford Windows software without several months or even one year of salaries according to the pricing then, which means the pricing in the Chinese market is too high for local consumers. Besides, in the beginning of the 1990s, China just entered into market economy with everything to be rebuilt in systems and state laws (including intellectual property protection) to be perfected. As a result, the way of prosecution will take no effect it deserves.

In 2001, senior managers from Microsoft started to realize that the usual ways (or measures) of solving major issues were doomed to fail in China. So they changed their mind and cut down prices of the software products. For example, Microsoft Office's price was depreciated to only 3 dollars in 2007 for students. At the same time, close relations with Chinese government were built up for Chinese corporations and government to use copyrighted software (decisions on the element

at the bottom right of the strategy triangle), which in turn encouraged other companies to do the same.

Looking back at the strategy took by Microsoft, the first guiding solution for resolving strategy problem (through prosecution) was not based on a proper analysis and understanding of the external environment in China then, which led to mismatching in "guiding policy" with the given Chinese landscape on the issue of piracy problem.

For senior managers of Microsoft who did not have a clear vision of China's reality, they had only copied the western model of resorting to lawsuit for piracy problems in Chinese and did not make a thorough analysis on the deep reasons behind the problems. In 1990s, China was still in the process of transiting from planned economy to market economy with incomplete market policy and legal environment while the western countries had already toughened up through the market economy for half a century with more mature legal environment and higher income among the common people. In the beginning of 1990s, a college professor could earn only 7,000 RMB per year while an American reached 120,000 RMB. The senior managers of Microsoft disregarded the specific conditions of the new Chinese market and adopted a doctrine way to carry out western business practices in China. It took them 10 years to realize the huge difference in the economic and legal conditions between China and western countries. After that they started to change attitude and the overall guiding ideologies and tactic plans for the strategic problem in the Chinese market without changing the strategic goal.

(2) **Defeat in digital camera business of Kodak**

As we know, traditional film cameras are not able to produce images right after shooting and users cannot see the photo before the film was sent to the film-developing store. While pictures cannot be checked timely and deleted selectively on film cameras, the digital ones have showed convenience with real-time selection. Therefore, digital camera is better than the traditional film ones whether in terms of functions or convenience for users. We can safely say that since the invention of digital cameras, it is only a matter of time for it to replace the traditional film ones.

The digital camera was invented by former Kodak employee Steve Sasson in 1975 after the company invested billions of dollars in developing the technology. Although a 1.3 megapixels digital camera was developed in 1991, Kodak was still focusing its core business on the film business area (took by senior managers in Kodak). For fear of *impact from the digital business on its traditional core film business* (the element at the bottom left of the strategy triangle), Kodak did not expand its business in digital camera and lost developing opportunities (decision on the element at the bottom right of the strategy triangle). Early in 2003, sales on films began to shrinking with profit dropped from 14.3 billion in 2000 to 4.18 billion dollars, and in seven years from 2005 to 2011, Kodak was in the black for only one year with share price jumped from $80 per share in February, 1999 to $0.78 per

share.[2] So for saving operational cost, Kodak started to downsize employees from 86,000 staffs in 1998 to less than 20,000 in 2010.[3]

As we can see, with its core resources and capabilities in films (technology, production and sales) against the industrial trend of digital camera unfortunately, Kodak's development direction was not adaptable to digital camera business development. Even though senior managers of Kodak had foreseen the industrial trend, they still chose to bias towards their strategic decision to the internal resources and capabilities nevertheless (or to protect its own resources and capabilities mismatching with the external industrial development situation).

When talking about the failure of Kodak, the inventor of digital camera in 2008 said to *New York Times*,[4] "senior managers of Kodak hold the digital camera prototype with only 0.01 megapixels and said, 'this gadget is lovely but don't tell anyone about it.' I think the time point is very important, because this example exposed Kodak's corporate culture thoroughly: Senior managers are not short of excellent engineers and technologies, but the eager for innovation".

Founded in 1880, Kodak was always the technology pioneer and trailblazer in the field of imaging and boasted of a long-term monopoly position in film business which brought a steady flow of revenues and profits. In 1976, Kodak made up 90% of sales in films and 85% in cameras in the American market. In 1996, Kodak's sales revenue was closed to 16 billion US dollars and its annual net profit reached 2.5 billion[5] in 1999. Kodak's senior managers were quite content with their accomplishments and monopoly in traditional film business but disregarded the industrial change and transition speed as they were afraid of losing the dominance in the film business. Kodak once thought that the middle class of China would buy a large amount of films which turned out to last for a very short time after people found out that the digital cameras are more attractive.[6]

Kodak had monopolized the film business for nearly a century for the digital image product is not as profitable as film business, which led to its reluctance in entering the digital age faster and misjudged the huge market potential for digital cameras, thus losing the opportunity for corporate transition and transformation with new products.

(3) **Possible causes of the externally blind strategy**

If the strategic decisions are biased towards the company's own resources and capabilities while neglecting the external environment situations, the strategic decision will be biased inwardly or become externally blind strategy.

[2]Cohan, P. (2011, Oct 2). How did success smother photography magnate, https://www.forbes.com/sites/petercohan/2011/10/01/how-success-killed-eastman-kodak/.
[3]Qiao, Jihong. (2011, October 2). The decline of Kodak leads to bankruptcy, and the share price plummeted by more than half. https://finance.huanqiu.com/article/9CaKrnJsClD.
[4]https://www.nytimes.com/2008/05/02/technology/02kodak.html?pagewanted=all.
[5]Anonymous. (2012, Feb 22). Legend fallen—Last moment of Eastman Kodak.
[6]Digital technology is developing rapidly, and now, mobile phone camera has replaced the digital camera with complete function.

In Microsoft's case, strategic decisions followed the company's usual practice because it lacked sufficient knowledge of the Chinese customer, market, and environment. Decisions are made from the perspective of protecting oneself only, regardless of the purchasing power of the market and the characteristics of the environment. In Kodak's case, the company predicted the impact of its own new technology on the company's main business. The basic idea of the company's decision was to protect its own original resources and capabilities. It did not predict that other companies would soon master the new technology.

Externally blind strategy generally arises in the following situations:

- Corporate executives are not so familiar with the external environment (industrial development trend, industrial competitive situation, national industrial information, etc.), without which, they cannot make matching strategies according to the external environment. The lacking of information was sometimes owing to the neglect of work, to subordinates not reporting the actual situation, or to the insensitivity of the external environment due to the subjective reasons of the decision-makers such as the values, personal preferences, etc. Like in the 1990s, IBM was always proud of its own technology, taking its own understanding of technology as the demand for the market. It did not link the technology with the real market demand and made attractive products for consumers. This kind of strategy isolated from the market demand and technology boasting is internally biased.
- Corporate executives have full understanding of the internal and external information and are able to judge the influencing external factors on the future development of the company. However, decision-making is not able to judge the influence in an objective perspective, possibly due to the impact by their habits, ways of thinking. It thus leads to a strategic decision biased towards over-protection of the original corporate resources like the example with Kodak.

7.4 The Internally Blind Strategy

(1) **BenQ bought mobile business from Siemens**

In 2005, Siemens mobile phone business was bordering on bankruptcy and BenQ was just hoping to buy this kind of business (decision on the element at the bottom right of the strategy triangle) and develop its own mobile business by acquiring Siemen's technology and brand, thereby becoming the world's fourth largest mobile manufacturer (strategic goal). At that time, the deal was seen as quite a bargain from the outside world, for BenQ did not pay a cent while Siemens reimbursed (subsidized) 250 million euros to BenQ.

However, the real situation is that Siemens mobile phone business was losing €1.2 million daily (€400 million annually). So BenQ prepared €800 million planning to absorb the losses from the acquisition of Siemens mobile phone business. But one year later it came to BenQ that the chances to turn Siemens mobile phone business into a profitable business are slime added with increasing losses and pressure from other shareholders. As a result, BenQ had to announce no more financing on its German subsidiary BenQ Mobile and applied for bankruptcy protection. In the end, BenQ had spent up all €800 million of the loss reserve and ended up with 40% drop in market value.

From this case, we can see that BenQ decided to buy Siemens mobile phone business for it saw the external opportunity: the technology, management system and culture of Siemens. However, whether or not this opportunity could become that of BenQ's is very much depended on BenQ's own resources and capabilities as well as the mobile phone industrial trend in Europe.

Let us look at BenQ's resource and capability on the mobile phone business then. In May 2005, BenQ just got the license plate to manufacture mobile phones. However, it was an OEM manufacture for other brands. It was lack of mature experience in marketing, promotion and brand management. In addition, BenQ did not have experience in acquisitions and cross-cultural management, not to mention that the traditional mobile phone business was already in a mature development stage in Europe. Hence, no matter in the company's capabilities or in the external environment of European mobile phone industry, BenQ did not have the ability to turn Siemens mobile phone business into a profitable one.

Believing in its ability of reversing the loss of Siemens, BenQ spent 250 million euros given by Siemens and then invested 840 million after it took over Siemens mobile phone business, but to no avail,[7,8] and end up in bankruptcy. In this case, we can see that BenQ's focus of strategic decision was biased to opportunities from the external industry and neglected the company's own weakness in this field.

(2) **Possible causes of the internally blind strategy**

If the decision-makers put too much weight on the external opportunities and misjudged the company's ability to seize the opportunity, their strategic decision will be internally blind (or biased externally). BenQ's acquisition of Siemens mobile phone business is an example of this regards. Some will say that in BenQ's case, the deal went into failure only after the acquisition in the follow-up or post-acquisition management process. Please be noted that the things went wrong in the integrating process implied that BenQ did not having the sufficient ability to make up the deficit and transform Siemens mobile phone business into a profitable one. In addition, Apple's first smartphone was released in 2008, just three years after the year when BenQ brought the traditional cellphone business from Siemens.

[7]Anonymous. (2006, Oct 10). Cutting one's own wrist—BenQ give up Siemens after 840 million losses, ZOL.

[8]Anonymous. (2006, Oct 12). BenQ and Siemens—"Break up in October", IT export Network.

The top management of BenQ did not foresee the development of new mobile phone technology. It bought a traditional handset business from Siemens. What looks like an outside opportunity is actually a threat.

The internally blind strategy usually turns up in the following situation:

- The decision-maker hoped to realize a high strategic goal by virtue of the external opportunity but misjudged on the company's ability of seizing the external opportunity.
- The decision-maker hoped to realize a strategic goal by virtue of the external opportunity but misjudged on the external opportunity due to incorrect judgment on industry development trend or the external situations.

7.5 Integrated Strategy

(1) Huawei's strategic decisions on its mobile phone business

Huawei Technology Co., Ltd. (hereinafter referred to as "Huawei"), founded in 1987, is a technology company that produces and sells telecommunication equipment. Its business covers mobile, broadband, optical network, telecommunication value-added services, and terminals. Huawei mobile phone is one of the three core businesses of the company. In 2019, Huawei's mobile phone sales volume reached 241 million, ranking the second in the world (Anonymous 2020). In the first three quarters of the same year, the sales revenue of this business reached 610.8 billion yuan, an increase of 24.4% year-on-year (Reference News 2019). Huawei's mobile phone business department was founded in 2003. Initially, it was a B2B business that had no own brand. It processed and produced products on behalf of telecommunication operators, or OEM business. We know that OEM profit is low. Huawei's mobile phone business has leaped to the second position in the world from OEM manufacturing to today's independent brand sales. Three major strategic decisions have set the direction for Huawei's mobile phone business in its development course.

The first strategic decision is a forward integration decision. The company decided to transform the B2B business into B2C business, create its own brand and enter into the terminal business. That was at the end of 2010, Ren Zhengfei, the leader of Huawei, organized a senior management symposium, repositioning Huawei's mobile phone business. Huawei's mobile phone would enter into a time of having own independent brand and priority would no longer be placed to OEM. It proposed that the company should study consumer psychology, act according to the laws of consumer goods, and make product planning. Mr. Ren reminded Huawei's senior executives to accurately identify themselves and do a good job in the phased target positioning. At the same time, the company should significantly

increase the investment in R&D, brand channel and surpass competitors in the budget (Li and Li 2018).

The second strategic decision is an adjustment of competitive strategic positioning. When Huawei's mobile phone was separated into an independent business unit, Yu chengdong, the former head of CMO, 3G and European division, served as the chairman of Huawei's terminal business. Based on his overseas experience, Yu chengdong adjusted Huawei's mobile phone competition strategy, proposed a "high-quality route", and comprehensively transformed from low end into medium and high-end products. The company conducted a lot of interviews on the target consumers and investigations including CPU, core number, memory, screen material, etc. In 2013, it finally launched the Mate mobile phone with a price of 2688 yuan, which was a success.

The third strategic decision is a backward integration into the chip industry, where products are important components. Chips are the most important part of the handset chain and the most expensive part. Among chip manufacturers, only Qualcomm produces the chips needed for high-end smartphones. The monopoly of high-end chips, no matter in terms of chip quality, price and delivery date, seriously restricted Huawei to core components in the supply chain. In order to extricate away from this situation, in October 2004, Huawei separated its ASIC design center and set up Hisilicon Semiconductor Co., Ltd., specializing in the research and development of chips needed for Huawei's products. In order to support the development of Hisilicon, Ren Zhengfei gave Hisilicon great supports in human, financial resources and other policies. From 2012 to 2014, all Huawei mobile phones were equipped with Hisilicon K3V2 chips. From 2013 to 2015, Hisilicon successively launched Kirin910, Kirin920, Kirin 925, and Kirin950 chips. In 2015, the Kirin950 chip achieved number one in its comprehensive performance, which marked the maturity of Huawei's independently developed chip technology.

Let's take a look at these strategic decisions. In December 1999, the first smartphone was launched in China by Motorola. In 2010, Huawei immediately decided to creat its own brand. At that time, the smartphone industry was still in its early stage of development. There was more than 5 billion population in the world. As a personal communication product, the potential demand for mobile phones would be huge. Therefore, Huawei's decision accurately predicted the development needs of the industry. Huawei had been doing mobile phone OEM for seven years before 2010, so the company had the experience, ability, and technology to manufacture and produce mobile phones. The only thing it lacked was sales channel. The company has experienced some setbacks in this aspect. However, based on its advantages in IT, the company established its own platform for sales and achieved success in combination with other channels.

In 2013, the per capita annual disposable income of urban residents in China was 18,311 RMB (around US$ 2577), and that of rural residents was 7907 yuan (Zhu 2014). Huawei's Mate mobile phone priced at 2,688 RMB (around US$ 378) was undoubtedly a high-end product in the market at that time. Unlike Xiaomi, Huawei made a boutique strategy (differentiated competition strategy). Judging from Huawei's achievements today, it is successful. How about the decision at that time?

First of all, Apple had been in the Chinese market for many years, and its high-priced mobile phones were selling well, which showed an example of the popularity of high-end mobile phones in the market. Second, China's economy was developing rapidly. During 2000–2010, the average annual growth rate of GDP reached 10%, which was far higher than that of other countries in the world. China had a large population. With the improvement of living standards, the demand for high-quality mobile phones would be growth.

We know that the R&D of mobile phone chips is costly, risky and pays off slowly. It was undoubtedly a major decision for Huawei to enter into the chip industry. Judging from the industry environment at that time, it was a right decision for breaking away from the shackle of suppliers, but could Huawei's own strength, including technology, capital, and manpower, support this decision at that time? Let's take a look at the situations of Huawei. As an information and communication technology company, Huawei had always attached great importance to R&D and insisted on spending more than 10% of its sales revenue on research and development every year. In 2011, Huawei invested 23.7 billion RMB (around US$ 3.34 billion) in R&D, accounting for 11.6% of the annual sales revenue. Over the past decade before 2011, Huawei had invested more than 15 billion US dollars in R&D. In 2011, Huawei applied for 36,344 Chinese patents, 10,650 international PCTS and 10,978 foreign patents. Among the 23,522 obtained patent licenses, over 90% were invention patents. As of the end of 2011, over 62,000 R&D personnel (44% of the company's total employment) were working on products and solutions. The company had 23 research institutes in Germany, Sweden, United Kingdom, France, Italy, Russia, India and China (Jiang 2012). This investment and strength in R&D, even today, is strong. Therefore, the strategic decision to enter the mobile phone chip industry was fully based on the evaluation of the company's own ability. Despite a decade of trial and error, Huawei's efforts in the chip field have paid off.

Therefore, the three strategic decisions on the mobile phone business of Huawei are all made on the basis of correct prediction of the industry, the correct evaluation of external environment and the correct understanding of the company's own strength. They are unbiased, which showed the wisdom and insights of Huawei's decision-makers.

(2) **Possible causes of the integrated strategy**

A strategic decision, which takes both the real situations of the internal resources, capabilities and the external environment into full consideration, is an integrated strategy. The decision is neither biased internally nor externally, but valuated objectively on the internal resources, capabilities and external environment conditions.

The integrated strategy requires the decision-makers (or the decision-making team) to fully understand the core advantages and disadvantages of the company's business and key opportunities and threats from external environment. They are able to make integrated analysis with full consideration of the external environment, corporate resources and capabilities.

The integrated strategy usually appears in the following situation:

- Decision makers are familiar with the internal situation of the company, especially the key information of the development of the company.
- Decision makers understand the industry and the information that affects the development of the industry, and have a clear grasp of the future development of the industry.
- Decision makers are diligent and have good judgment.

7.6 Key Principles in Strategic Decisions

In the 1990s, the development research center of the state council, China's cabinet, and other departments jointly launched the "survey of Chinese entrepreneurs". According to the survey, 46.3% of entrepreneurs believe that the most common problem in business operation is "decision-making error", which ranks number 1 among several problems (China Entrepreneur Survey System 1997a). Among the 15 abilities that entrepreneurs need to improve, "decision-making ability" ranks first, accounting for 47.7% (China Entrepreneur Survey System 1997b). Between 1993 and 1997, China's per capita GDP grew at an average rate of 11.42%. At that time, the economy was on the rise, business opportunities outnumber threats. Decision-making was relatively easy. However, even at this time, managers still think that decision-making error is the most common mistake. We can imagine, during periods of slow economic growth, strategic decision-making would be more difficult.

According to Haohui Xiao (1995), there are two types of decision-making, one is routine decision-making, which accounts for 80% of the total decision-making. Routine decision-making is a repetitive decision-making based on a large amount of daily data, with few random factors affecting the decision-making. Its importance is 20%. The other is non-procedural decision making, which is usually non-repetitive and is influenced by random factors. Strategic decisions are non-routine decisions. The information and data they rely on are uncertain, and need to be estimated. To make strategic decisions, executives need to familiar with the internal and external situation of the company, accurately predict the future development trend of the industry, and at the same time make integrated decisions on three issues related to the development and fortune of the organization. Hence, it is not easy to make the correct strategic decision. Mistakes and biases in strategic decisions are common.

Strategic decision relates to the survival and development of business organizations. Right decision can make firms advance in the right direction, improve their competitiveness and ability to adapt to the environment, and have good economic benefits. On the contrary, decision-making errors will bring huge losses to firms, and even lead to the bankruptcy of organizations. In strategic decision-making, we can abide by some basic principles, which can help us make rational strategic decisions to avoid mistakes and improve the quality of decisions.

Are there basic principles that can help decision makers avoid or reduce mistakes in strategic decision? What are the principles? Or what basic principles should senior managers follow when making strategic decisions? Some terms appear repeatedly in some strategic definition documents, indicating that these terms are important for strategic decision-making. They are likely to be the principle content of strategic decision-making.

In the analysis and collation of strategic literature, I found that some scholars (Hofer and Schedel 1978; Jemison 1981; Katz 1970; Miles and Snow 1978; Mintzberg 1979:p. 25) put "matching of organizational resources and capabilities with external environment" in the definition of strategy. From the perspective of strategic decision-making, if the organization's resources and capabilities are considered in the decision-making to match the external environment, the quality of the strategic decision can be better improved.

In filing the strategy definition literature, I also found out that in some literature, the definition of strategy includes "rational utilization of resources" (Chandler 1962: p. 13; Ronda-Pupo and Guerras-Martin 2011; Harrison 1999).

Going back to our introduction about the definition of an automotive in Wikipedia and Baidu we have mentioned before. When we talk about definitions, the topic only needs a concept with core connotation, so the definition of a car does not include how to make a good car no matter how important it is, for it is an extension of the definition. Although how to make a good car is important to both car manufacturers and customers, it is the content of the extension of the definition of an automobile. Similarly, terms of "matching organizational resources and capabilities to the external environment", and "rational utilization of resources" fall into the category of how to make a better strategic decision. They are the scope of the extension of the strategic concept, which can help the decision-maker to avoid mistakes when formulating the strategy. Therefore, in my opinion, the two terms do not fall within the strategic definition, but are important for strategy decision making.

We see that some extension contents about strategy decision-making principles are included by some literature on defining the strategy concept. Although it may seem like an error, it provides the context for our search for the principles of strategic decision-making. These terms, along with the cases presented earlier in this chapter, provide ideas for strategic decision-making principles.

(1) **The matching principle 1—the external matching principle**

One of the key principles to safeguard the quality of strategic decision is matching up the strategic decision with the external environment. The decision should be in line with the requirements of the industry and environment that company's business is operating in, and be in line with the future development direction of the company's industry.

The external environment of an organization refers to its social environment, which can be divided into general external environment and specific external environment. The general external environment includes the following factors:

social population, culture, economy, politics, law, technology, resources, etc. These factors of the general external environment, the impact on the organization is indirect, long-term. When the external environment changes dramatically, it will lead to significant changes in organizational development. Specific external environmental factors are mainly for enterprise organizations, including suppliers, customers, competitors, government policies and relevant social groups. These factors of specific external environment have direct and rapid impact on business of an organization.

Strategic management work needs to pay attention to both internally inside the company and externally outside of the company (Priem and Butler 2001). The previous cases show that poor understanding of the external environment can lead to errors in strategic decisions. When the strategic decision does not conform to the real situation of the industry and the environment, the decision violates the principle of conformity with the external environment. There are many examples of strategic missteps, such as the aforementioned Microsoft decision on piracy (unfamiliar to consumers and the local environment) and Kodak's digital camera business failure (underestimating alternatives and competitors).

To make the strategic decision conform to the external environment of the industry the company is in, the decision-maker needs to make a realistic analysis of the overall environment involved in the strategic decision, and should not stick to self-conceit. These include the judgment of the future development direction of the industry, the understanding of industry consumers, the understanding of competitors, and the prediction of the policy in the environment of the industry and so on. Thus, in addition to competitors, in business competition, consideration should also be given to the political and economic situations, technology and culture of the competitive area, which have an impact on consumers in the industry.

Thus, a key principle that can avoid biases and mistakes in strategic decisions is strategy decision has to be in line with the external environment of the organization. See Fig. 7.2.

(2) The matching principle 2—the internal matching principle

Another key principle to safeguard the quality of strategic decision is matching up the strategic decision with the internal resources and capabilities of an organization. That is the decision should be in line with the company real financial strength and its managerial capability.

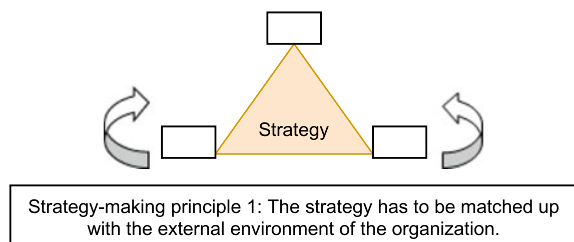
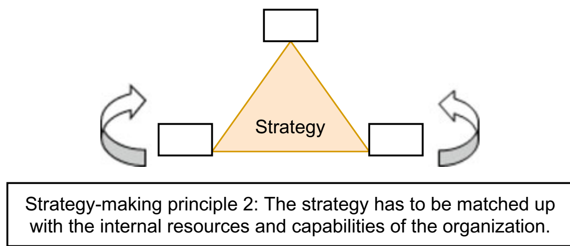


Fig. 7.2 The External Matching Principle

Fig. 7.3 The Internal Matching Principle



Strategic decisions are different from day-to-day management decisions and generally require large amounts of capital. In February 2018, Geely holding group acquired 9.69% of the voting shares of Daimler for 9 billion US dollars, becoming the largest shareholder of the company (Zhang Hong 2018). The investment involved in this decision is huge. The strategic decisions also require investment of human resources and sometimes, new management capabilities. However, generally speaking, resources are limited in every organization, if not allocated rationally, decision risks will be increased. Therefore, considering the rational allocation of limited resources in strategic decisions can improve the quality of decisions. In other words, the strategy matches the company's resources and capabilities, or "living within your means" (Fig. 7.3).

To make the strategic decision conform to the company's ability, it is necessary to estimate the capital investment involved in the implementation of the strategic decision and judge the company's capital and other strength. When the actual required capacity and capital far exceeds what the company has and can pay, problems will occur. There are many strategic failures in this regard, such as the previous BenQ case, the diversification of Chinese giant group in the early 1990s and so on.

(3) **The matching principle 3—the RC-EE matching principle**

The resource-based view (RBV) (Barney 1991, 1995) holds that enterprises possess resources, some of which enable them to obtain competitive advantages. Valuable and scarce resources are important to the creation of competitive advantages.

The accumulation of human wisdom has accelerated the pace of technological development. The emergence of internet, artificial intelligence, aerospace, chip technology, high-speed trains and so on has made it impossible for people a hundred years ago to imagine our life today. The resources and capabilities are the keys to ensure constant market provision of products and services to consumers. Without progress, the resources and capabilities that the company has today may become a burden tomorrow. Strategic management work needs to pay attention to centering on matching up the organizational resources and capabilities with the environment (Bourgeois 1985).

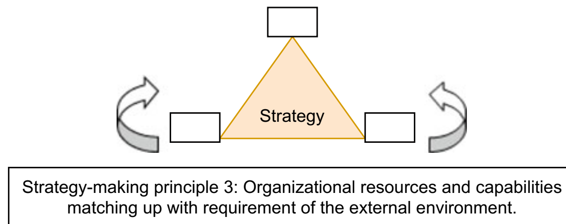


Fig. 7.4 The RC-EE Matching Principle

Therefore, the third principle of strategic decision-making is to matching organizational resources (R) and capabilities (C) in line with the needs of the external (E) environment (E) (Fig. 7.4).

A company's resources and capabilities can ensure that satisfying products and services are continuously provided to consumers when demand changes. If a company can do this, in my opinion, it meets the criteria of "matching organizational resources and capabilities with the external environment'. When the environment changes, if an organization cannot change with it, its resources and capabilities will become obsolete. That is to say, when the resources and capabilities of the company do not match the external environment, the company should start to develop the resources and capabilities that are compatible with the external environment, instead of ignoring the changes of the external market and blind protection. Companies need to make decisions, change the status quo, and maintain the company's foundation.

Making strategic decisions in line with the principle of "matching resources and capabilities with the external environment", it requires executives to constantly pay attention to the changes in the environment (including competitors, technological trends, substitutes, consumers, etc.) and to examine and analyze the company's own resources and capabilities.

The word "crisis" is familiar to many of us. Richard Pascal professor of Harvard Business School once said, "There is no sense of crisis, which is the biggest crisis you face." Compliance with strategic decision-making principles requires the company's top management to have a crisis feeling and sense of mission. The rise of the Internet has put many traditional industries at risk of being eliminated. Suning Company in China was originally a traditional electrical appliance sales entity. When it realized the coming of the Internet economy era, the company soon had a huge sense of crisis. It made a strategic decision to transform from a traditional electrical retailer to a combination of traditional sales with Internet sales. It not only succeeded in transformation, but also made achievements that they did not dare to think about. In 2018, Suning Tesco's operating income was 48.84 billion US$, a year-on-year increase of 30.53%. In the context of the overall slowdown in the retail industry, double-digit growth has been achieved for two consecutive years (Stock Market Red Week 2019).

(4) **Specific principles for strategic decision making**

The three principles in strategy-making mentioned above requires the executives to be fully aware of the key internal situations and external information, which is the so-called internal and external analysis. Therefore, the external environment and corporate resources and capabilities should be taken into full account in making a corporate strategy.

In military affairs, the principle of strategy is a set of principles that must be followed in the overall direction of war. For example, on the issues of preserving oneself and eliminating the enemy, concentration and dispersion of forces, focus and sub-focus of operations, persistence and quick decision, and centralized and decentralized command, some general provisions and requirements should be put forward in accordance with the spirit of the strategic principle.

Similar to military affairs, business strategy also needs to be determined according to specific conditions. Therefore, the strategic principles mentioned above are the general principles to be followed in formulating strategies. They are the basic principles. While adhering to these basic principles, a company's strategy also needs to develop its own specific strategic principles. And different strategies shall have different individual principles.

For example, a company wants to acquire advanced technology from the market through acquisition strategy. In addition to following the first three basic principles, strategic decision-making should proceed from the purpose and conform to the principles formulated by the company in technology acquisition. These principles may include: the target size should not be too large, the target entity has leading technology in industry, and the price is acceptable, and so on.

7.7 Other Factors Affecting Strategic Decisions

Strategy is a decision concerning an organization's development on the basis of analysis. We have known from above that the quality of the decision is directly influenced by how well the decision-maker knows about the external environment and the organization's internal resources and capabilities. At the same time, personal value and interest of the decision-maker also affect the quality of the strategic decision.

For example, some companies or organizations will give away short-term interests for long-term ones, some will focus only on short-term profit or performance which applies to the occupant limited time of job tenure who only focuses on short-term goals. In the beginning of the reform and opening up policy, the assessment of a regional official in China was based on Gross Domestic Product resulting in performance-driven GDP at the expense of environmental and resource sustainability.

Besides, if the decision-maker (person or team) who makes the call mixes personal interest or organization internal politics with the decision-making, the quality of the strategic decision will be influenced. Therefore, assessment of the decision-maker is of essential importance to make sure the company standing on the side of overall interests.

There are many ways to make strategic analysis. In a relatively democratic organization, the strategy can be made through collective conference; while in a power centralized company, strategies are made by one person or those in power. Whether the analytical method is appropriate or not also influences the quality of the strategic decisions.

The influencing factors and mechanisms on the quality of the strategic decision are complicated. Chapter 9 will bring up the subject and delve into the question.

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