

# Strategic Decision Making & Critical Reasoning

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1

## Strategic Decision Making & Critical Reasoning

- Strategic Decision Making
  - The entire process by which decisions get made
  - Different than “problem solving”
  - Requires critical thinking
- Critical Reasoning
  - The ability to examine “both sides” of an issue
    - Without getting committed to your favored option
  - The knack to understand that any chosen option has its benefits and costs
    - And to accept that

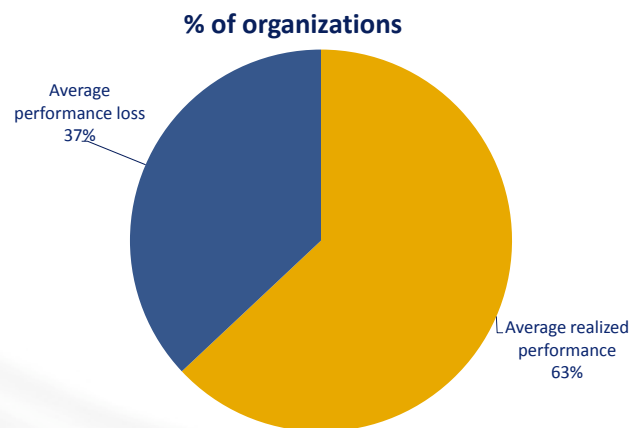
2

## Problem Solving vs. Strategic Decision Making

	Problem Solving	Strategic Decision Making
Do we have the right..	Tools and techniques	People in the team
Focus on	“The” right answer	The right people, their relationship, and “how” they interact
Resulting improvement in	<ul style="list-style-type: none"> <li>- Quality of estimate</li> <li>- More alternatives</li> <li>- Perhaps more efficiency</li> </ul>	<ul style="list-style-type: none"> <li>- Mutual relationships</li> <li>- Mutual understanding</li> <li>- Ability to execute</li> </ul>
Process justice	Not important	Very important
Underlying metaphor	Mechanistic	Organic
Focus your time on	Speaking, advocating your position	Listening, understanding other person’s position
Resulting downside		Conflict, poor understanding of objectives, uncommitted leadership and employees

3

## Strategic Decision Making: Performance Loss



Source: Mankins, M.C. & Steele, R. 2005. Turning Great Strategy into Great Performance. *Harvard Business Review*.

## Causes of Performance Loss

- 7.5% Inadequate or unavailable resources
- 0.7% Other obstacles (e.g., inadequate resources and skills)
- 5.2% Poorly communicated strategy
- 4.5% Actions required to execute not clearly defined
- 0.7% Unapproved strategy
- 3.7% Organizational silos & culture blocking execution
- 2.6% Poor senior leadership
- 1.9% Uncommitted leadership
- 3.0% Inadequate performance monitoring
- 3.0% Inadequate linking of or rewards for failure or success
- 4.1% Unclear accountability for execution

Resources  
(22%)

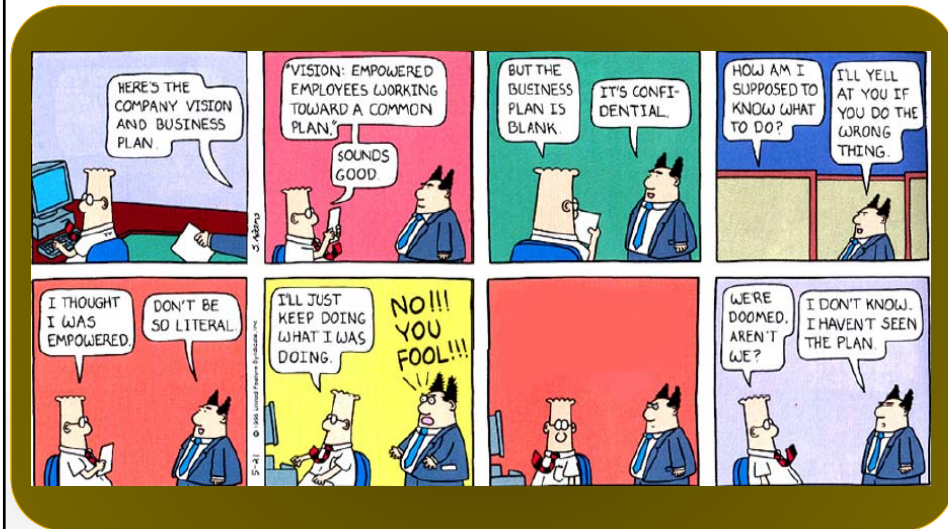
SDM  
(78%)

-----  
~37%

Source: Mankins, M.C. & Steele, R. 2005. Turning Great Strategy into Great Performance. Harvard Business Review.

5

## What Poor Strategic Decision Making Looks Like...



6

## Key concepts

- Conflict management
- Belief formation
- Risk
  - Loss aversion
  - Risk seeking

7

## Manage Conflict



8

## Stakeholder Conflict

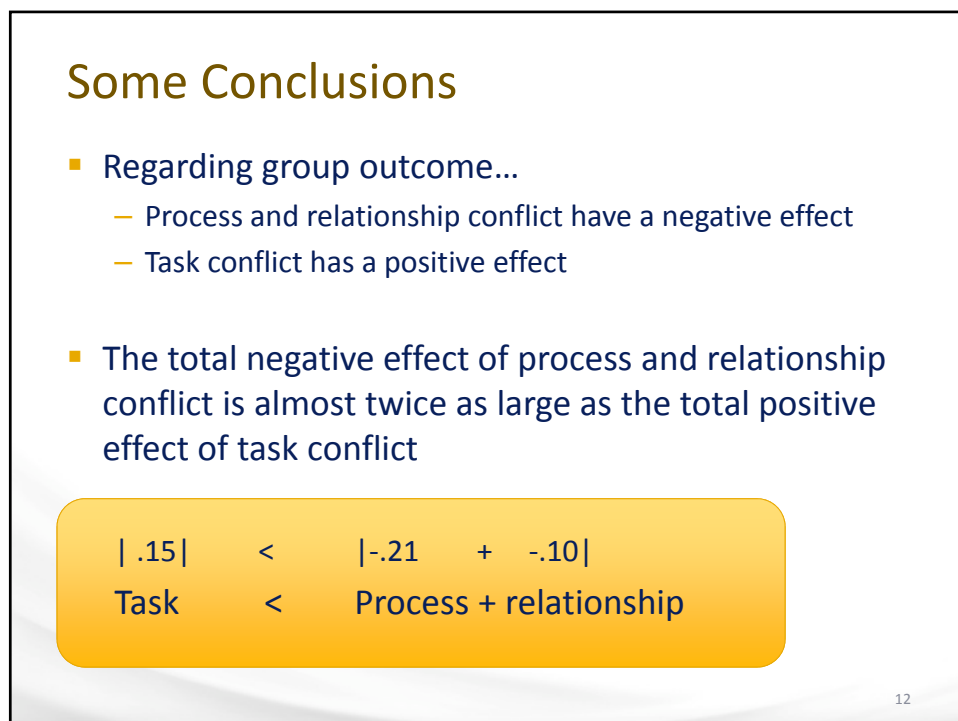
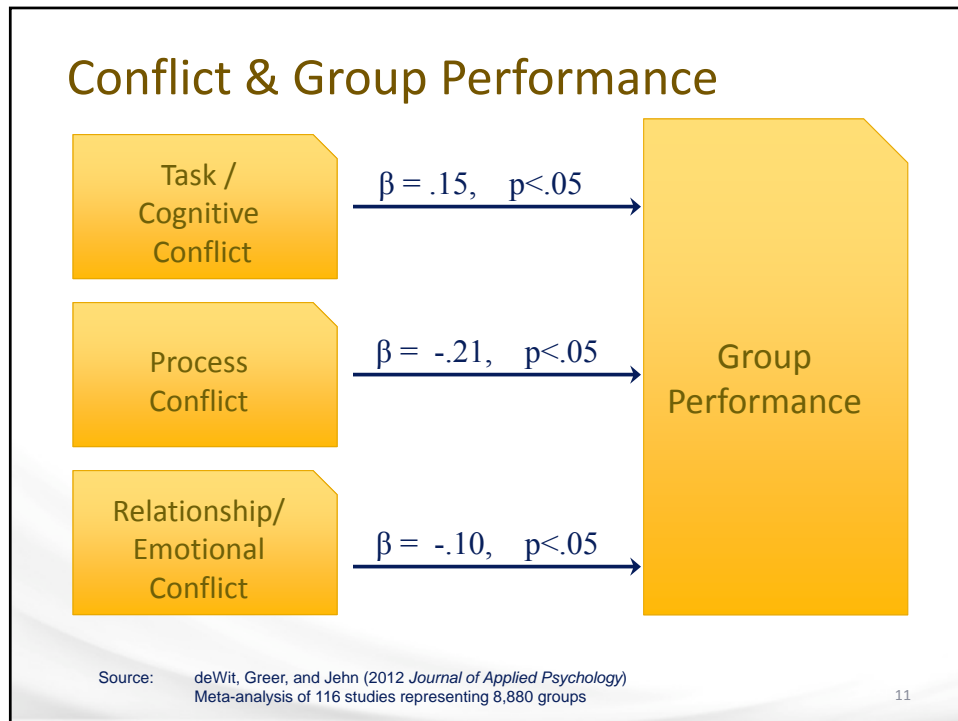
- Arises from
  - Differences in frames, which leads to different weights on different attributes/outcomes
- *Task conflict (cognitive)*  
Involves disagreements about the work that is being done or decisions being made
- *Process conflict (how to...)*  
Centers on task strategy and delegation of duties and resources
- *Relationship conflict (emotional)*  
Involves disagreements based on personal and social issues that are unrelated to work but can emerge because of work
- Question(s): **How do they affect performance?**

9

## Understand/Resolve Stakeholder Conflict

- Arises from
  - Differences in frames, which leads to different weights on different attributes/outcomes
- *Task conflict (cognitive)*  
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10



## Is Being Assertive Bad?

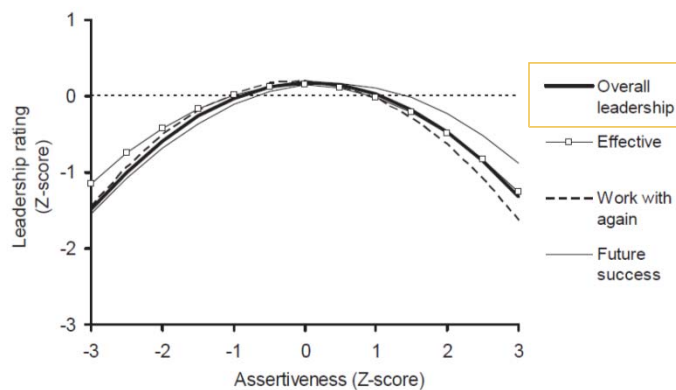
Evaluation about the most recent manager that participants have worked under in a meaningful fashion

- Overall leadership (3 items)
  - **Effectiveness:** “Overall, s/he was an effective leader”
  - **Willingness to work with again:** “If I had the change, I would definitely want to have this person as my leader again”
  - **Expected future success:** “Looking ahead, I expect this person will experience great success as a leader”
- Assertiveness (3 items)
  - S/he is **assertive**
  - S/he is **competitive, aggressive**
  - S/he is **passive, submissive**

(1=strongly disagree ; 7= strongly agree)

13

## Assertiveness and Leadership



Source: Ames and Flynn (2007) What Breaks a Leader, *Personal Process and Individual Differences*

14

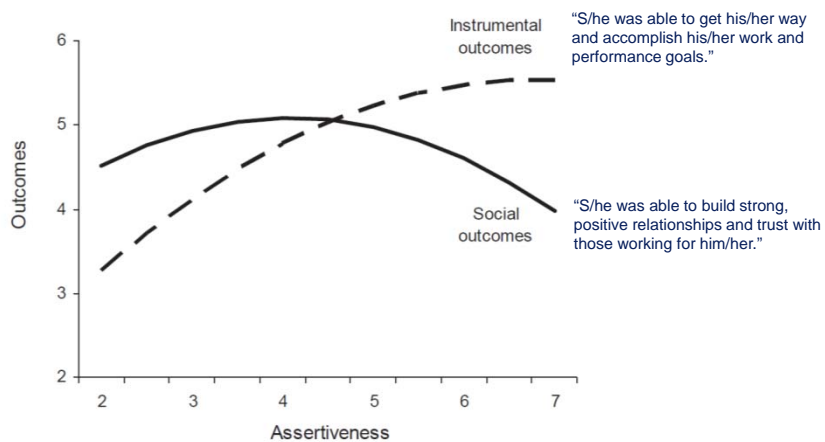
## Assertiveness: Social vs. Instrumental Outcomes

- Social effectiveness
  - “S/he was able to build strong, positive relationships and trust with those working for him/her.”
- Instrumental effectiveness
  - “S/he was able to get his/her way and accomplish his/her work and performance goals.”
- Assertiveness
  - S/he is assertive
  - S/he is competitive, aggressive
  - S/he is passive, submissive

(1=strongly disagree ; 7= strongly agree)

15

## Assertiveness: Social vs. Instrumental Outcomes



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16



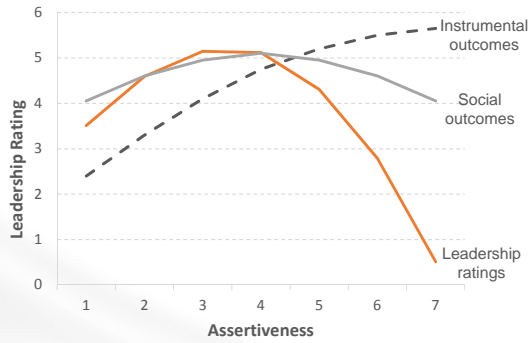
## Assertiveness and Leadership

### Leadership Rating

$$= \text{Assertiveness} \times 0.14 + \text{Instrumental outcomes} \times 0.51 + \text{Social outcomes} \times 0.39$$

$$+ \text{Instrumental outcomes} \times \text{Assertiveness} \times (-0.39)$$

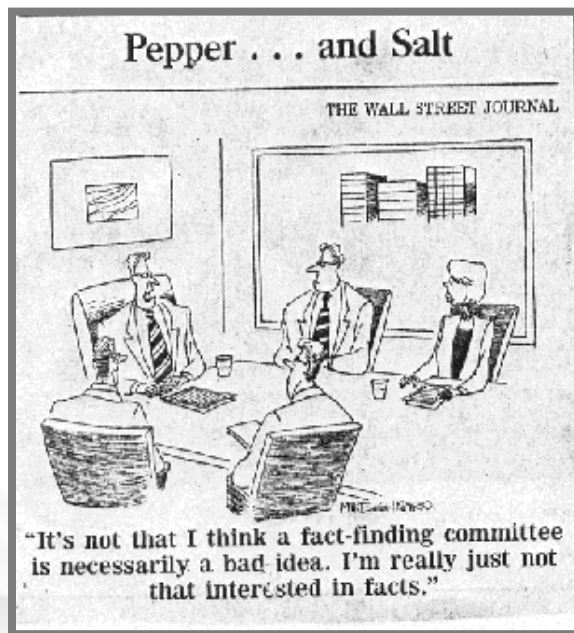
$$+ \text{Social outcomes} \times \text{Assertiveness} \times 0.37$$



Source: Ames and Flynn (2007) *What Breaks a Leader, Personal Process and Individual Differences*

17

## Belief Formation

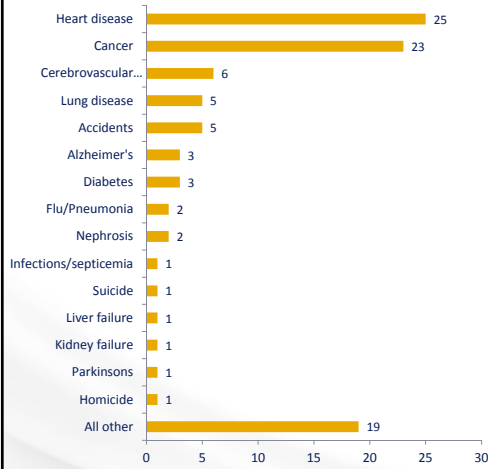


18

# Leading Causes of Death in the U.S.

Murder?  
Suicide?  
Accidents?  
Others?

% Total Deaths Due To...



Source: National Vital Statistics Report (2010), U.S. Dept. of Health and Human Services



# Why?

**Two killed in Franktown collision**

FRANKTOWN (AP)—Two people were killed and two others injured in a head-on collision on Interstate 70 in Franktown, Colo., on Monday.

The collision occurred at about 10:30 a.m. on Interstate 70, about 10 miles east of Denver. The vehicles involved were a 2007 Ford Focus and a 2006 Chevrolet. The driver of the Ford was killed, and the driver of the Chevrolet was killed. Two other people were injured.

The cause of the collision is still under investigation. The Colorado State Patrol is investigating the crash.

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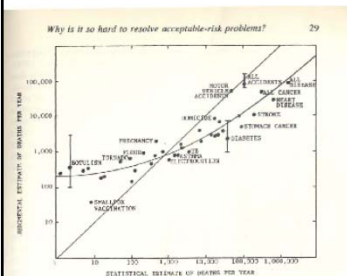
Correlation between newspaper coverage and estimated frequency of deaths by people in 3 studies

$$R = .97$$

$$R = .94$$

$$R = .98$$

Newspapers “overemphasize homicides, accidents, and disasters and underemphasize diseases as causes of death”



Source: Combs and Slovic (1997)

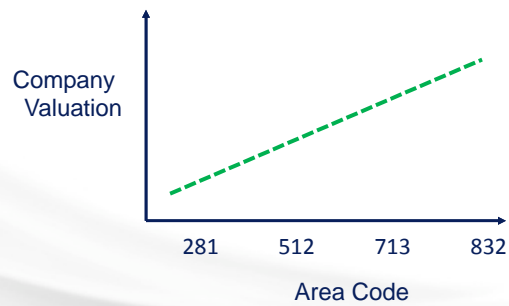


## Financial Analysts are Given the Task of Valuating a Company for Potential Acquisition...

**Pre-task:** On this sheet of paper, please write the first three digits of your phone number

281      832      713      etc.

**Question:** What, if any is the correlation between the area code, and valuation of the company?



23

## Belief Formation

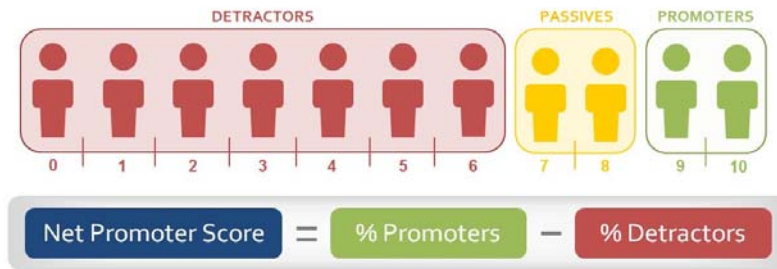
### Customer Metrics

24

## Net Promoter Score (NPS) Fixation...

The VP of strategy for an engineering company with ~ \$10 billion in revenue:

*“We don’t care, and you cannot convince us otherwise. Our board wants to increase sales, margins, and stock price, so they need to see improvements in promoter scores. That’s what they want, and that’s what we will deliver, better promoter scores.”*



Question: In each cell please put a “yes” if you believe the metric predicts a financial outcome

Customer Metrics	Financial Outcomes				
	Sales Growth	Gross Margin	Operating Cash Flow	Market Share	Shareholder Return
Customer satisfaction					
Repurchase Intentions					
Customer complaints					
Word-of-Mouth Recommendations					
Net promoters					

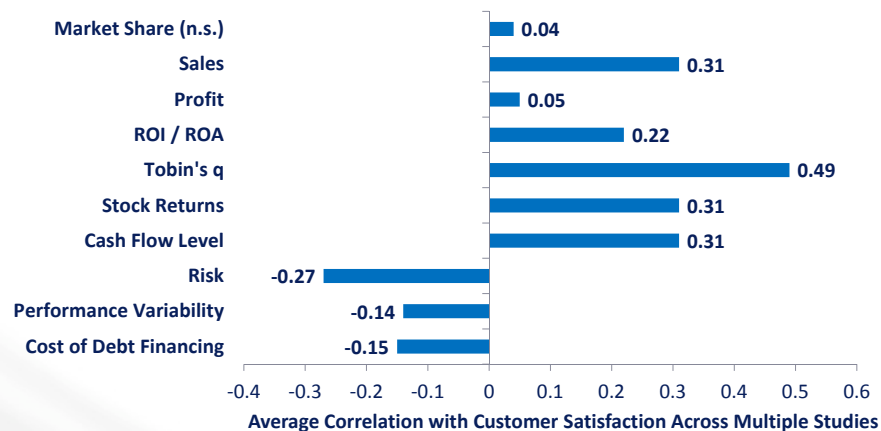
Source: Morgan & Rego (2006, *Marketing Science*)

## Question: Relative to Other “Metrics” Customer Satisfaction is the Best Predictor of Financial Outcomes

Customer Metrics	Financial Outcomes				
	Sales Growth	Gross Margin	Operating Cash Flow	Market Share	Shareholder Return
Customer satisfaction	Yes	Yes	Yes	Yes	Yes
Repurchase Intentions	Yes	Yes	No	Yes	No
Customer complaints	Yes	Yes	No	No	No
Word-of-Mouth Recommendations	No	No	No	Yes	No
Net promoters	No	No	No	No	No

Source: Morgan & Rego (2006, *Marketing Science*)

## Customer satisfaction and financial outcomes



Source: Mittal, Vikas, Markus Blut, & Carly M. Frennea (2017) "The outcomes of customer satisfaction at the individual and firm level: A meta-analysis," Rice University.

## Belief Formation

### First-Mover Advantage

29

## Why is Important to be the First Mover?

- Lock in customers
- Experience curve advantage
- Economies of scale
- Brand name advantage
- Customer loyalty

*But...*

30

## Why is Important to be the First Mover?

Examples of first movers...



Late Entrant	Pioneer
Microsoft	QDOS
Amazon	Books.com
Apple	Blackberry, Sony
Google	AltaVista
Facebook	Myspace

In general, how positive is the effect of first mover advantage on long-term ROI?

31

## Pioneer Disadvantage: Evidence

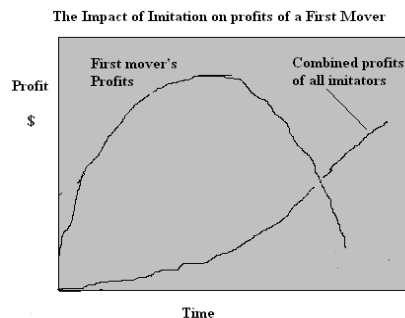
*Pioneers, almost always do worse than late entrants.*

*The initial advantage dissipates rapidly, and doesn't last over ten years.*

*Late entrants with strong marketing budgets have enduring advantage.*

Pioneers in consumer goods industries had ROI 3.78 points lower than late entrants. In industrial goods sector, it was 4.24 points lower. Pioneers were substantially less profitable than followers over the long run, controlling for all other factors that could account for performance differences.

Source: Boulding & Christen (HBR 2001)



Source: Hill, C. & Jones, G. Strategic Management "An Integrated Approach"

32



# Belief Formation

Fix

33

## How to fix it?

➤ Meta-cognition

- **Step 1:** Ask people to rate their BMW  
1.....10
- **Step 2:** Please provide \_\_\_\_\_ reasons why you love your BMW car
  - Group 1: 2 reasons
  - Group 2: 12 reasons
- **Step 3:** Ask people to rate their BMW, again  
1.....10
- **FIX:**
- Force yourself to list 10+ reasons about why what you are thinking is correct (confirming evidence)
- Now list 10+ reasons about why what you are thinking is in-correct (disconfirming evidence)
- Do this AFTER you've talked to people with opposing views!



34

## Decision Framing & Risk



### Auction a \$20 bill

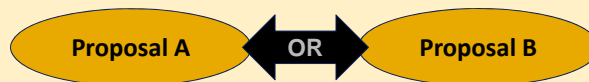
- A \$20 bill is auctioned off to the highest bidder.
- Bidding begins at \$1.
- All subsequent bids must be in single dollar increments.
- The highest bidder wins the twenty dollar bill
- The second highest bidder must pay to the auctioneer what the highest bidder bid.
- **Question:** How high does the auction go?



## Decision Framing and Risk

- Imagine that a company is preparing to negotiate with a foreign country in a project in which we will invest \$600 million. Two alternative proposals have been drafted:

- Proposal A: "\$200 million profit will be made."
- Proposal B: "There is a 1/3<sup>rd</sup> chance of making \$600 million, and a 2/3<sup>rd</sup> chance that nothing will be made."
- Which proposal would you choose? Why?

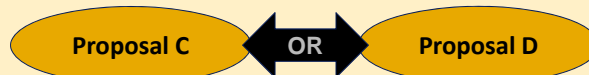


37

## Decision Framing and Risk

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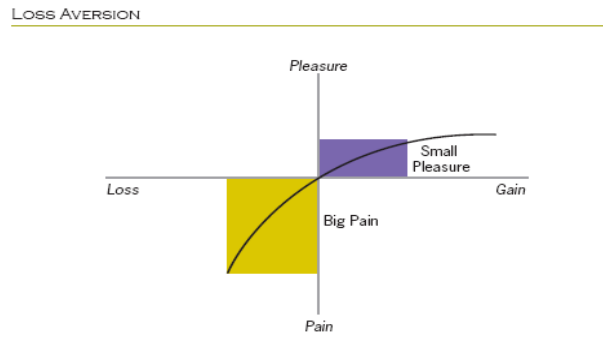
- Proposal C: "\$200 million will be lost."
- Proposal D: "There is a 1/3<sup>rd</sup> chance that we will make \$600 million, and a 2/3<sup>rd</sup> chance of losing \$600 million."
- Which proposal would you choose? Why?



38

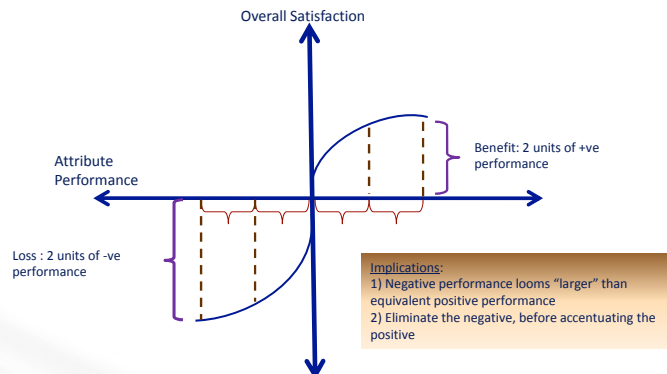
## Decision Framing and Risk

- Typical results:
  - Majority choose A over B
  - Majority choose D over C
- Why? (*Kahneman & Tversky 1970's*)
  - We tend to perceive options as gains or losses relative to a reference point



39

## Customer Satisfaction: Asymmetric



## Decision Framing & Risk

- “Facts” that we now know from decades of research.
  - Negative frame is more consequential than positive frame
    - LOSSES LOOM LARGER THAN GAINS
  - Most people are loss averse (different than risk averse)
    - Because of loss aversion, people become progressively more risk seeking!
      - Negatively framed information induces more risk taking among decision makers

41

## Losses Loom Larger Than Gains

- The pain of losing 10 dollars is more than the pleasure of finding 10 dollars
  - <http://www.youtube.com/watch?v=Ng9V2JneJ68>  
DECISION FRAMING and RISK
- How companies overspend
- For customers, the disutility is more when performance is below a reference point, than the utility from performance above the reference point

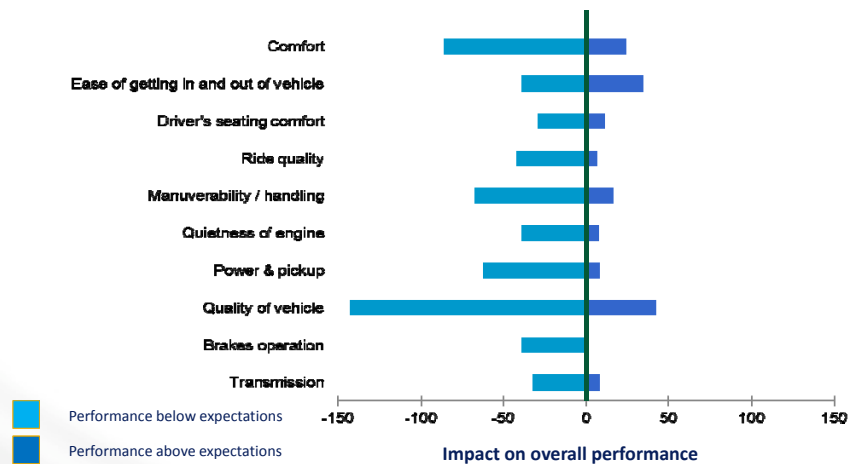
42

## Example: Healthcare

	Impact on overall satisfaction		Impact on overall satisfaction
Thorough/Attentive	.11	Not Thorough	-.66
Spends time with me	.17	Doesn't spend enough time/rushes you in & out	-.40
Not afraid to refer to another doctor	.07	Won't give referrals / trouble getting referrals	-.77
Listens to his/her patients	.03	Doesn't listen	-.94
Convenient office hours	.07	Office hours are not convenient	-.37
Convenient office location	.02	Distance to office is inconvenient	.07
Always available/availability of doctor	.15	Not available/isn't always in office	-.67
No waiting time/sees patient right away	.14	Wait too long/ office is too crowded	-.38

Source : Mittal, Ross, & Baldasare (1998, *Journal of Marketing*)

## Example: Automobile



Source : Mittal, Ross, & Baldasare (1998, *Journal of Marketing*)

## Improving Strategic Decision Making Process

	Advocacy	Inquiry
<b>Concept of decision making</b>	a contest	collaborative problem solving
<b>Purpose of discussion</b>	persuasion and lobbying	testing and evaluation
<b>Participants' role</b>	spokespeople	critical thinkers
<b>Patterns of behavior</b>	strive to persuade others defend your position downplay weaknesses	present balanced arguments remain open to alternatives accept constructive criticism
<b>Minority views</b>	discouraged or dismissed	cultivated and valued
<b>Outcome</b>	winners and losers	collective ownership

45

## Perhaps this can be avoided!



46