

Chapter III: Strategic decision-making.

Strategic decision-making is an essential process for any organization, as it commits its long-term future. Unlike operational decisions, which concern day-to-day management, strategic decisions aim to guide the company in the long term, taking into account its environment, resources, and objectives. This process is not limited to a simple choice: it is based on a series of structured steps that enable the situation to be analyzed, possible options to be identified, their consequences to be assessed, and the most appropriate course of action to be selected. The main stages of strategic decision-making, from the initial assessment to implementation and monitoring, ensure consistency between the organization's ambitions, market opportunities, and internal constraints. They thus form a methodical framework that guarantees informed decisions aligned with the long-term vision.

III.1. Selection and formulation of strategic objectives

Strategic objectives depend on the purpose of the organization and the interpretation of the strategic diagnosis. To achieve their objectives, organizations will make strategic decisions that can be a source of conflict. The organization will then seek points of consensus. One of the essential functions of management is to control the organization, which involves evaluating the objectives set and the means used to achieve them. This dimension is common to all types of organizations, but the indicators used to evaluate objectives vary greatly, as they must take into account their different purposes.

III.1.1. What is a strategic objective?

Strategic objectives are the results that an organization aims to achieve in the medium/long term in order to fulfill its purpose, taking into account the strategic diagnosis.

An objective is a result that we seek to achieve. It clearly shows the purpose of the organization and mobilizes the energy of those who seek to achieve it. The objective has three functions:

- **Clearly show the goal:** the objective gives direction to the organization, showing it the path to follow to ensure its sustainability.
- **Mobilize energy:** the objective motivates individuals and improves their performance. For example, an athlete who sets himself the goal of being the best in the world will have to redouble his efforts to achieve it. The same is true for individuals in general, who need to give meaning to what they do in order to motivate themselves.
- **Appreciate the result:** the goal is measurable. It provides information on the effectiveness of the organization's choices in ensuring its sustainability. If the goals are not achieved, the organization will make new decisions to achieve them. In order to achieve its strategic goals, the organization will have to integrate social, societal, and environmental dimensions.

Strategic objectives can be:

-**Economic**, i.e., related to the profitability and development of the organization (e.g., maintaining its leading position in the market, expanding into e-commerce, etc.), or non-economic, i.e., social or societal in nature (e.g., improving the living environment, promoting sustainable development, etc.).

-**Corporate social responsibility:** i.e., taking into account the economic, social, and environmental consequences of their activities on all stakeholders: customers, suppliers, employees, public authorities, local residents, etc.

-**Quantitative** (e.g., increasing the number of points of sale by 10% over the next five years) or **qualitative** (e.g., improving member satisfaction).

A strategic objective is one that is set by management, commits the organization to the long term, and requires the mobilization of significant resources to achieve.

III.1.2. Characteristics of an effective strategic objective

For strategic objectives to be effective, they must be consistent with the company's overall strategy and ensure that all initiatives are working toward the same goal.

In addition, the objective must be measurable and realistic. The SMART method (Specific, Measurable, Attainable, Realistic, Time-bound) is a recognized approach for defining clear and precise objectives.

Good strategic objectives specific to sustainable development should ideally be aligned with recognized international standards, such as the Sustainable Development Goals (SDGs) established by the United Nations.

Finally, it is also essential that the objectives are linked to the strengths and weaknesses identified through a SWOT matrix (strengths, weaknesses, opportunities, and threats). This market and competitive analysis allows objectives to be adapted according to the resources available and the challenges to be overcome.

III.1.3. Development of strategic objectives

The development of strategic objectives begins with the identification of key areas of intervention that require special attention, with a focus on sustainability issues. It is essential to define short-, medium-, and long-term priorities, while integrating specific sustainable development criteria into this planning.

This approach helps to focus efforts on the aspects that are most crucial to the success of the business, balancing immediate needs with long-term objectives, particularly those related to social and environmental responsibility. The strategic plan must include a clear approach and a detailed action plan, incorporating performance indicators to measure progress in sustainable development.

In addition to the SMART method and SWOT matrix, effective communication of objectives at all levels of the organization is crucial to ensuring the commitment of every team member. This ensures that everyone understands how their actions contribute to these strategic objectives, thereby reinforcing the culture of sustainability within the company.

III.1.4. Examples of strategic objectives

To illustrate the implementation of strategic objectives, here are some diverse and concrete examples:

- Increase revenue by 20% over the next 3 years
- Increase market share to 10% by 2027
- Enter the Asian market within 2 years
- Achieve a customer satisfaction rate of 90% within 12 months
- Increase customer conversion rate by 10% by 2026
- Increase website traffic by 30% over the next 12 months
- Launch a new product line on the European market within 18 months

III.2. Strategic decision-making process

III.2.1. Definition of strategic decision-making

A decision is a voluntary act whereby, after examining questionable or contentious issues, one is obliged to make a choice and take a stand. Running a business therefore means constantly making decisions and choices that lead to action. However, managers question the rationality or irrationality of decisions.

A strategic decision is a decision made by management to achieve the objectives it has set for itself, which commits the organization in the long term and requires the allocation of significant financial, human, material, and intangible resources. Thus, every organizational leader will make decisions that stem from strategic objectives, purpose, and the results of strategic analysis.

III.2.2. Types of decisions

Presenting the most common distinctions in management;

In relation to uncertainty, we observe:

- Decisions faced with certainty.
- Decisions faced with random events.
- Decisions whose uncertainty
- Decisions involving intelligent opponents

In relation to the subject of the decision, we often find a functional classification (production decision)

Depending on the importance of the issue at hand, economists have introduced a classification that has become famous:

- Operational decisions relating to day-to-day operations
- Administrative decisions relating to structure
- Strategic decisions relating to the development of companies

Many authors have presented other classifications:

-Strategic decisions: which, according to MARTINET, determine the nature of the company and its relationship with the outside world (environment) in the long term.

-Routine technical decisions: which aim to solve day-to-day problems in order to modify general orientations.

III.2.3. The stages of strategic decision-making

One technique for selecting a strategy is based on the best-known and most universal model of decision-making, developed by Simon (1960), which comprises the following stages:

a. The first level represents intelligence, or the search for possible choices, in other words observation and understanding, with a view to building information for action. The starting point is the company's objectives and strategic gap, the latter resulting from a comparison between the objective and the forecast, which itself is derived from external and internal analyses. The search for possible choices may be influenced by the principle of bounded rationality, which leads managers to stop searching for possible solutions when they find one that is "satisfactory" in relation to the objectives set.

B. The second level is modeling, or evaluating possible choices. This means that the company uses and interacts with human-model systems to design a solution to a problem. This involves assessing the contribution of strategies to the achievement of the company's objectives and mission, within the constraints of available resources and taking into account foreseeable trends in the environment. At this stage, the company studies the feasibility of the objectives, using an approach based on a comparison grid. This approach consists of the following steps:

- Defining selection criteria;
- Weighting these criteria;
- Scoring each possible choice in relation to each criterion;
- Totaling the scores;

c. The final step is selection, which allows the company to compare the different solutions developed in the previous step in order to choose one that will be implemented according to the company's priorities. This choice depends on the following factors:

- The values of the management team, both economic and social, and even moral;
- The probability of achieving the objectives;
- The risk associated with each possible choice, bearing in mind that the pursuit of high profits comes with significant risk.
- The results of the internal diagnosis;

III.3. Models of strategic decision-making

In fact, decision-making theories are based on the logic of rationality, which could, depending on the circumstances, be unlimited in nature, while in other circumstances, it could be limited. The purpose of this section is therefore to identify the different understandings of the concept of rationality in terms of choice and decision-making.

1. The classical model

In this model, the concept of decision-making is conceptualized in a context where the environment is stable and predictable. Thus, access to information is available. The decision-maker therefore has all the information available to make an optimal choice, and its consequences are known in advance.

In this sense, this rational actor will maximize their objectives. The margin for error is therefore very low, particularly for strategic decisions that have an impact on the future or even the sustainability of the company. The model also recommends that all actors share the same tastes, which would avoid intra-organizational conflicts whose repercussions would affect the organizational performance of companies.

This model has been criticized for its unrealistic nature in certain aspects of the company, particularly in terms of the environment, which is constantly changing. Another criticism concerns the similarity of tastes among the company's actors.

2. The organizational model of R. Cyert and J. March⁶⁶

Unlike the classical model, this decision-making model stipulates that individuals' objectives may differ from those of the organization. In this sense, conflicts may arise as a result of divergent objectives. In other words, this theory contradicts the classical theory, which views decision-makers as homogeneous, unique actors with similar objectives. To mitigate conflicts, the organizational model relies on negotiating objectives to find a compromise and avoid misunderstandings that can lead to organizational dysfunction.

3. C. Lindblom's political model⁶⁷

The political model is based on individual differences, whereby individuals behave differently in identical situations and do not envisage the same solution. These differences mainly relate to their psychological traits, experiences, skills, etc. Decision-making is therefore based on the degree of agreement among the members of the organization, with a minimum of cohesion.

- **Factors Influencing Model Selection**

The choice of a strategic decision-making model is often guided by external factors such as market uncertainty, competitive intensity, and regulations. Internally, corporate culture and organizational structure also play a significant role. In addition, emerging technologies and innovation are increasingly informing how strategic decisions are made.

The fit between the chosen model and the environment in which an organization operates is therefore crucial to ensuring that strategic decisions lead to sustainable success.

III.4. Portfolio strategies

The 1970s were marked by a trend toward diversification among most companies, which led to more complex management. Portfolio matrices responded to the need to redefine the strategy of large groups with multiple activities. Although criticized, matrices remain an indispensable tool for strategic management at the organizational level.

4.1. Portfolio analysis matrices

A company that is involved in several activities, several markets, or even just several products cannot analyze them independently of each other, but must take a holistic view. To do this, many consulting firms have proposed appropriate tools: matrices.

- **The BCG Matrix**

In the late 1960s, the Boston Consulting Group (BCG) proposed analyzing a company's business portfolio using two indicators: market growth (annual growth rate) and relative market share (the company's market share divided by that of the leader, or the challenger if the company in question is itself the leader).

A BCG matrix evaluates each of the company's activities. This matrix is a resource allocation matrix within a portfolio of activities used in corporate strategy. It concerns diversified companies that are present in several strategic areas of activity.

The stronger the market growth, the more cash the activity consumes (invested in communication, etc.). If we cross-reference the two dimensions of the BCG matrix, four types of businesses emerge:

- The “stars.” This is the ideal situation, in which the company is the leader in a growing market. In this case, it is advisable to maintain this position until the market matures and the business becomes a “cash cow.”
- “Dogs.” This is the worst-case scenario. The only option for the company is to abandon these businesses.
- “Cash cows.” These mature and dominant activities generate cash that should be invested, particularly in “dilemma” activities.
- The “dilemmas.” To become “stars,” these growing activities, which have a smaller market share than the leader, require investment. The company is therefore faced with a choice: allocate resources or abandon them.

III.5. The concept of strategic risk

Strategic risk is defined as the risk associated with a company's strategic choices aimed at adapting to its competitive environment. Strategic choices must meet the expectations of shareholders and customers, ensure profit growth, and improve the quality of services and products. They encompass topics as diverse as development strategies through internal growth (new products and distribution channels) or external growth (mergers and acquisitions, agreements, partnerships), marketing strategy, lobbying, brand management, research and development, technological innovation and intellectual property protection, business model and activity portfolio development, governance (leadership, delegation, authority, relations with shareholders and investors), and more.

➤ Examples of strategic risks

- Economic environment (growth, inflation/deflation, crises)
- Political (tariffs, trade restrictions, taxation) or demographic (aging population, declining fertility, migration flows, inequalities)
- Poor resource allocation and availability issues
- Rapid growth of the company
- Lack of resources available for the project
- Ineffective communication between team members
- Slow decision-making
- Uncontrolled increase in the number of customers
- Loss of market share
- Changes in the economic context (evolving customer needs) and regulatory context (new laws introduced by the government, changes in government regulations)
- Increased competition in the market, market disruption due to technological innovation, increased competition, etc.