Why do Leaders often make Poor Strategic Decisions?

by Jeffrey Leventry

(June 28, 2023)

During my recent Strategic Management course at The College of New Jersey, I challenged my students to analyze strategic decisions that were made by business executives at companies from various industries. We utilized many Case Studies to investigate successful and unsuccessful business strategies, as well as the reasons why Leaders make both good and bad decisions. During the debrief of individual Case Studies, we looked for common themes and patterns of behavior so we could understand the factors that led to either good or bad decisions.

Among others, we discussed decisions that were made by such icons of business as Kodak, Blockbuster, Circuit City, BlackBerry and Sports Authority. By the middle of the semester, we had developed a framework to explain many of the poor decisions that ultimately resulted in the demise of long-time successful firms.

Despite the many lessons that business executives should have learned over many years of experience, we noticed the same mistakes being made by Leaders who possessed excellent credentials, experience and expertise. This caused me to investigate why Leaders often make poor decisions, and led me to articulate approaches for avoiding decision traps.

Reasons for poor strategic decisions:

The literature on this topic contains numerous explanations for poor Leadership decisions in business. Based upon my personal experience and research, I believe there are 5 principal reasons why Leaders often make poor decisions, as follows:

- Falling prey to the decision-making villain of narrow framing
- Failing to learn from past experience and others' mistakes
- Pressure to make quick decisions without proper analysis and research
- A decision-making process that does not adequately consider contrary views and opinions
- Lacking an appreciation for what is currently happening in the marketplace and not taking notice of consumer trends until it is too late

How can Leaders overcome the impediments to good decision-making?

Many experts in the field of decision-making have offered novel approaches and sound techniques for overcoming the obstacles that stand in the way of optimal decisions. Among the best in my opinion are the ones formulated by Chip and Dan Heath in their book "Decisive – How to Make Better Choices in Life and Work."

Based upon my own corporate experience, I suggest that the following techniques can be utilized to improve strategic decision-making:

- **Overcoming Narrow Framing** – Chip and Dan Heath define narrow framing as "unduly limiting the decision options that we consider in any given decision scenario." In order to address this issue, I recommend that several members of your Leadership Team brainstorm multiple viable decision options. Developing 5 – 7 options allows the Team to critically evaluate each option and ultimately select the one that is optimal.
- **Learning from Past Experience / Mistakes** – Leaders typically have years of experience from which to draw upon as they analyze decision scenarios. The challenge is to transfer this knowledge and translate their experience to the current situation to make a satisfactory decision. I suggest that Leaders take the time to reflect upon their experience and consider "lessons learned" that can be incorporated into their current decision analysis to improve decision outcomes.
- **Increasing Analysis and Research** – Today, Leaders are pressed for time and are often forced to make decisions without thorough analysis and research. Since the pace of business and the need to act decisively are not likely to change anytime soon, I believe that utilizing corporate resources to support an in-depth analysis is crucial to improving decision-making. Drawing upon diverse expertise available at the firm enhances the ultimate decision process and improves the probability that an optimal solution can be uncovered.
- **Improving the Decision-Making Process** – The most effective Leaders invite contrary views, welcome constructive disagreement, and encourage subordinates to play the role of "devil's advocate." This approach fosters healthy debate and supports weighing the pros vs. cons of each decision option. This technique also ensures that the final decision has been properly vetted by a team with varying expertise.
- **Taking Notice of the Business Environment, including Consumer Trends** – Over the past twenty years, many organizations failed to keep abreast of changes in the marketplace, and did not fully appreciate evolving consumer trends. Some of these firms were also in denial and were overly confident that the trends were mere fads that would not survive the test of time. In light of this, I recommend that all firms constantly assess market conditions and devise strategies to address trends early in their development, before the situation becomes insurmountable.

What is the impact of Leaders' poor decisions?

The ramifications of poor decision-making are numerous and run the gamut from underwhelming financial results to bankruptcy, and even extinction in a worst-case scenario. Because the consequences of bad strategic decisions are so significant, it is vitally important that Leaders avoid the decision traps mentioned above. Failure to do so can lead to the following repercussions in their organizations:

- **Financial implications –** the most obvious consequence of poor decisions is the impact to the bottom line. When an organization faces financial difficulties, the ripple effect pervades all aspects of the firm. This creates a domino effect that touches all employees and negatively influences corporate practices and procedures, including compensation policies.
- **Missed opportunities –** one of the first implications of financial problems is the inability to take advantage of opportunities within the industry since valuable human resources may be cut or reduced. With less resources and diminished expertise, the firm is at a competitive disadvantage compared to its rivals. Innovation and revenue growth may also suffer in the short-run as a result.
- **Decreased productivity and employee performance –** employee morale is negatively affected when poor strategic decisions lead to financial issues at the firm. If employees are less engaged, both productivity and performance suffer as workers are distracted by issues concerning job security or career development insecurity at the firm.
- **Brand / Reputational damage –** when the strategic decision becomes public, key stakeholders (including customers) and the local community react in various ways to express their displeasure. Customers may switch their loyalties and buy from a competitor and overall customer satisfaction may plummet. Shareholders and suppliers may also voice their frustration in ways that reduce the overall value of the firm.

The Challenge:

While many ideas and approaches exist for improving strategic decision-making, the above recommendations have proven to be successful for many of today's most profitable and admired organizations. The reality is that most of these suggestions are relatively easy to implement, assuming the right corporate culture is already in place. In light of the adverse consequences of poor strategic decision-making, what is preventing your organization from making the required changes to ensure that all important corporate decisions are properly analyzed, researched and vetted?