Strategy, Decision Making, and Cognition: An Integrative Perspective

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ABSTRACT

Reflecting the dis-equilibrium provoking, ongoing process nature of competition, the role of management in firms has evolved from determining quantity and implementing production function to recognizing, understanding, creating, selecting, implementing, and modifying strategies. The quest for competitive advantages compels firms to continuously engage in strategy and related activities. Given that decision making and cognition are two, somewhat implicit and highly intertwined, concepts that are central to strategy, this research responds to the call for integrating developments in cognition to make strategic decision making more impactful. Therefore, given that cognition (1) is seen as a missing link for strategic management and (2) can impact strategic decision making, this research integrates the perspectives from strategy, decision making, and cognition to develop a framework that can shed light on how firms can succeed in their quest for competitive advantages. The paper concludes with a discussion of the contributions and the corresponding implications for research and practice.

KEYWORDS

Cognition, Cognitive Science, Decision Making, Decision Science, Strategic Outcomes, Strategy

INTRODUCTION

Over the last century, reflecting the dis-equilibrium provoking, ongoing process nature of competition, the role of management in firms has evolved from “…determining quantity and implementing production function to recognizing, understanding, creating, selecting, implementing, and modifying strategies…” (Hunt, 2000; Hunt & Madhavaram, 2006). Accordingly, scholars have paid considerable attention to, among other things, what strategy entails (e.g., Porter, 1996; Zeleny, 2010), what strategic management is (e.g., Chandler, 1969; Schendel & Hofer, 1979), and different forms of strategy such as industry-based strategy (e.g., Porter, 1980), resource-based strategy (e.g., Penrose, 1959; Barney, 1991), competence-based strategy (e.g., Chandler, 1990), and knowledge-based strategy (Huber, 1991). However, why do firms need to engage in strategy? The fundamental thesis of all strategy is to achieve competitive advantage, and thereby, superior financial performance (Madhavaram & Hunt, 2008). This quest for competitive advantages compels firms to continuously engage in strategy and related activities. However, what do strategy and related activities entail? Decision making and cognition are two, somewhat implicit and highly intertwined, concepts central to strategy.

Despite the multitude of definitions and perspectives on strategy, there is consensus that decision making undergirds all strategy related activities. For Mintzberg (1978), strategy can be seen as a pattern

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in a stream of decisions. For Schwenk (1984), decision making is critical to strategy formulation, generation of strategic activities, and evaluation and selection of strategic alternatives. For Hart (1992), decision making across organizations varies based on strategy mode, the manner in which strategy is formulated and implemented in different organizations. For Porter (1996), the essence of strategy involves decisions to perform different activities and/or specific activities differently, compared to rivals. For Hendry (2000, p. 956), “decisions are the most visible elements of the strategy process and a major focus of top management effort and attention.” In fact, strategy scholars in marketing explicitly made decisions a part of the marketing strategy definitions. For Slater and Olson (2001, p. 1056, italics added), “Marketing strategy is the set of integrated decisions and actions by which a business expects to achieve its marketing objectives and meet the value requirements of its customers.” For Day, Weitz, and Wensley (1990), marketing strategy refers to marketing activities and decisions related to building and maintaining a sustainable competitive advantage. Synthesizing and building on the conceptualizations of marketing strategy, Varadarajan (2010, p. 130, italics added) defines marketing strategy as “an organization’s integrated pattern of decisions that specify its crucial choices concerning marketing activities to perform and the manner of performance of these activities, and the allocation of marketing resources among markets, market segments and marketing activities toward the creation, communication and/or delivery of a product that offers value to customers in exchanges with the organization and thereby enables the organization to achieve specific objectives.”

Given that decision making is central to strategy, it is important to integrate developments in decision science into researching, understanding, and practicing strategy. There is growing recognition in decision science research that the explanations provided by the expected utility theory, that forms the core of decision science, are inadequate (Busemeyer, 2015; Sahlin, Wallin, & Persson, 2010). For Sahlin et al. (2010), theories proposed as alternatives to the expected utility theory, such as dual process theory, lack robust theoretical frameworks and the quest for good theory/theories in decision science should continue. Along the same lines, Busemeyer (2015) calls for integrating theories developed in cognitive science to make decision science more impactful. Specifically, for Busemeyer (2015, p.43), “One of the main contributions of cognitive science to decision science is the development of dynamic models that describe the cognitive processes that underplay the evolution of preferences during deliberation phase of making a decision.” The impact that cognition can have on decision making is also not lost on strategy researchers.

In fact, strategy researchers like Stubbart (1989) and Schwenk (1984, 1995) have shed light on the impact that cognition can have on strategy related decision making. For Stubbart (1989), even though cognition must figure prominently in strategy-making, it is not explicitly explored in academic and business literature on strategic management. In fact, Stubbart (1989) contends that Schendel and Hofer’s (1979) influential book that represents the crystallization of the strategic management discipline overlooked the critical role of cognition in strategy. Around the same time, Schwenk (1984) examined how research in cognitive psychology and behavioral decision making can inform strategic decision making involving the activities of goal formulation, problem identification, alternatives generation, and evaluation/selection. In recent times, Narayanan, Zane, and Kemmerer (2011) integrated the literature on cognition and developed a framework that links the antecedents, structure, and processes of strategic cognition with outcomes. Specifically, they develop a distinctive cognitive perspective on strategic processes such as strategy formulation, strategy implementation, strategic change, and organizational learning.

This research integrates the perspectives from strategy, decision making, and cognition to develop a framework that can shed light on how firms can succeed in their quest for competitive advantages. Specifically, given that cognition (1) is seen as a missing link for strategic management and (2) can
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