

Chapter 4

Strategic decision enablers

Learning outcomes

After reading this chapter, you should be able to:

- distinguish between the different strategic decision enablers
- explain the nature of competitive intelligence and its relationship to knowledge management
- explain the importance of business intelligence systems in strategic decision making
- demonstrate how people, processes and technology combine to support strategic decision making
- critically evaluate the use of strategic decision enablers in your own and other organisations.

4.1 Introduction

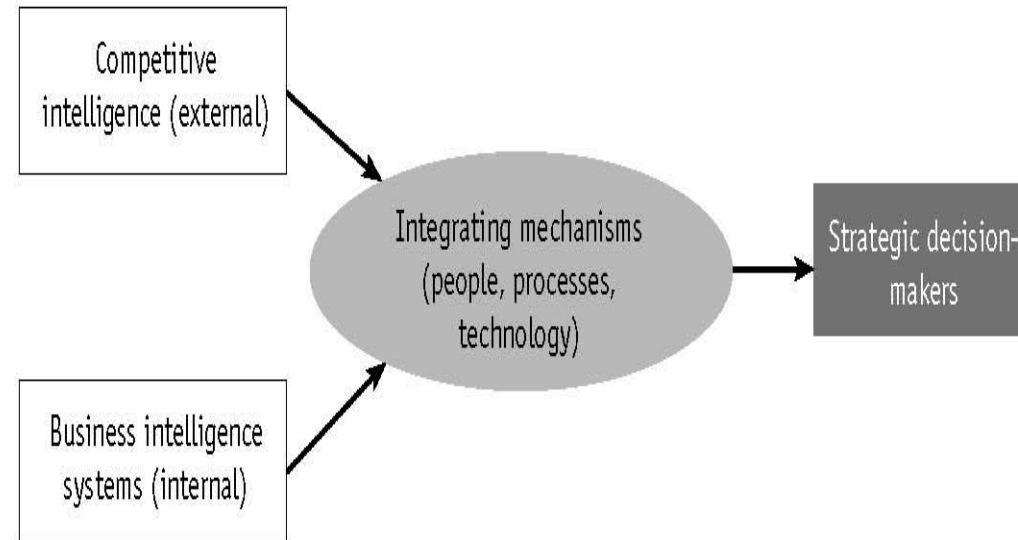
- Sensing and adapting to environmental change are key elements of successful strategies.
- This chapter focuses on the sensing mechanisms that enable organisations to sense and adapt – strategic decision enablers.

4.2 A framework for strategic decision enablers

- Strategic management is a complex and ongoing process, suggesting that the information required for strategic decision making will reflect these complexities as outlined below:
 - Forward and backward looking information enables proactive decisions that will direct the organisation in the future.
 - The organisation needs an internal and external focus to align internal resources with external opportunities and threats.
 - Strategic management cannot focus on every single detail – it thus needs to focus on the ‘big issues’.
 - Information is obtained from many different sources.
 - Good strategic information integrates the different types of information from different sources to develop a ‘big picture’ of the organisation’s environment and its place in this environment.
 - Information is not objective, and different managers may interpret the same information differently depending on their personal characteristics and goals.
 - It could thus be said that the interpretation of information has both a cognitive and a political component.

Figure 4.1 Strategic decision enablers

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4.3 Competitive intelligence (CI)

- The focus of CI:
 - Competitors and complementors
 - Customers and distribution channels
 - Suppliers
 - Economic environment
 - Technological environment
 - Industry regulators and legislation.

4.3.1 The strategic CI cycle

Figure 4.2 The CI cycle

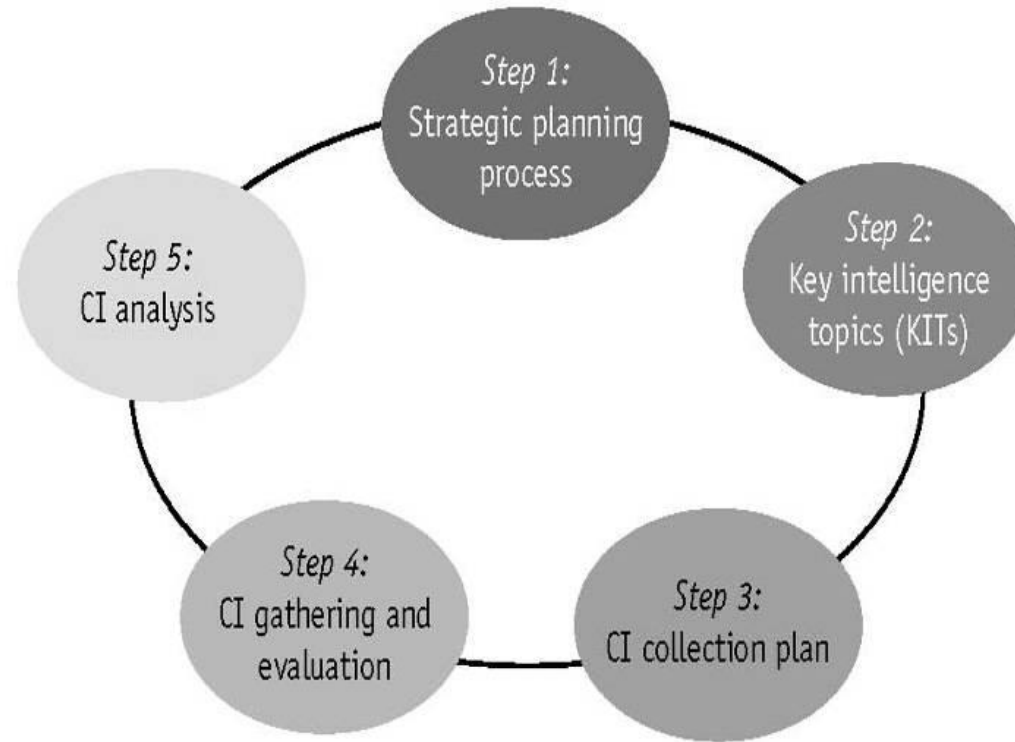
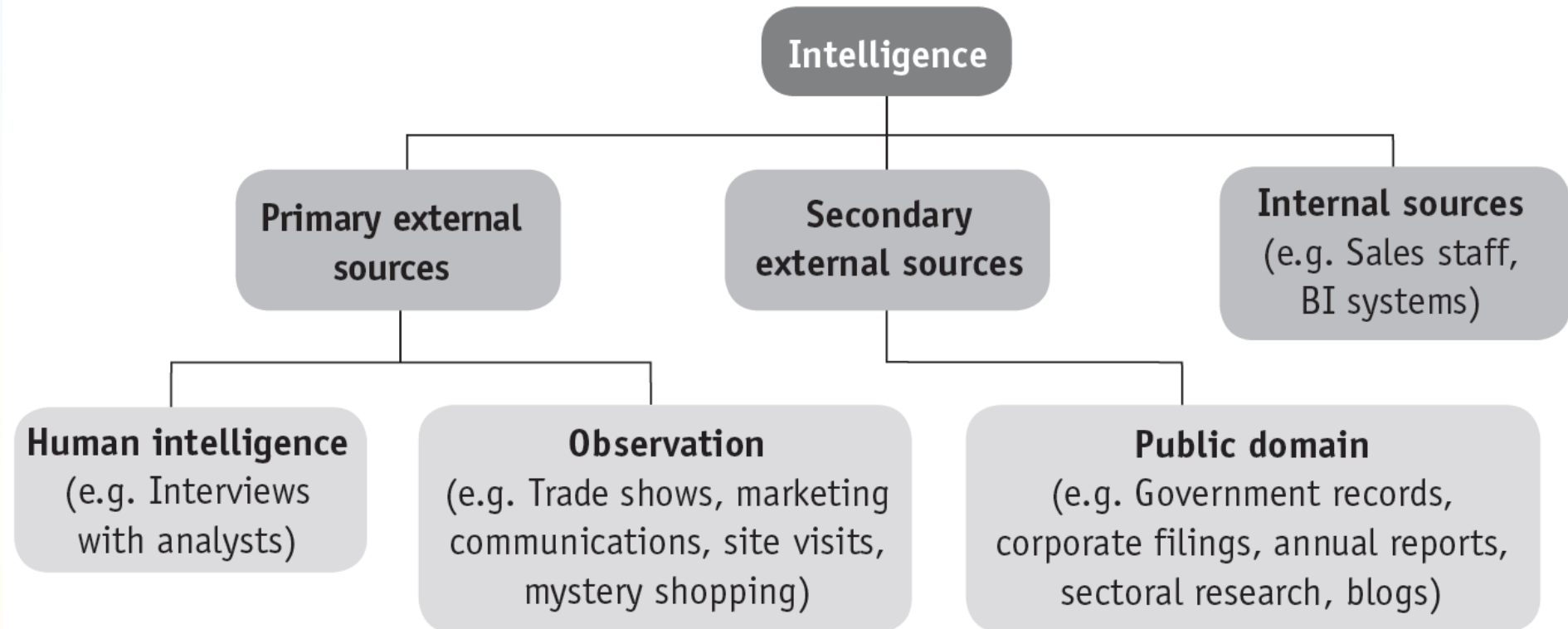


Figure 4.3 A summary of CI sources



CI sources (cont.)

- CI sources:
 - Primary information
 - Observation of competitors' facilities and operations
 - Reverse engineering of competitive products or mystery shopping
 - Publicly available information
 - Institutional information in the public domain
 - Internal sources include intelligence obtained from employees.
 - An aspect that is often overlooked is competitive signalling.

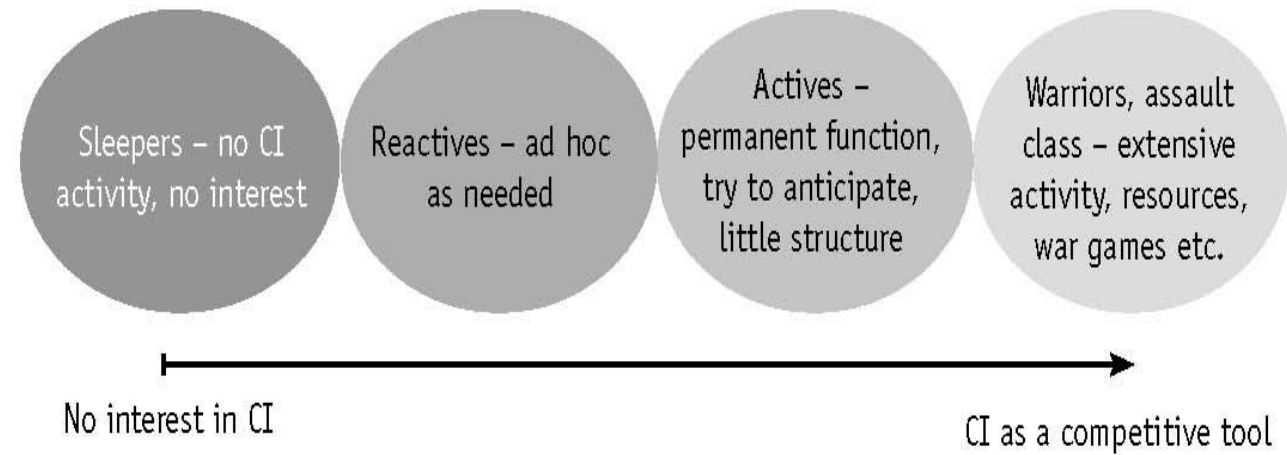
4.3.2 CI and competitiveness

There are five categories, namely sleepers, reactives, actives, warriors, and the assault class (see Figure 4.4):

- Sleepers are organisations with no interest in CI and, accordingly, no CI resources or activity.
- Reactives have no formal CI operation, but in the face of specific competitive threats they may undertake some ad hoc CI activity.
- Actives have a CI function and dedicate modest resources to CI.
- There is a large gap between the preceding categories and the last two, namely the warriors and the assault class.
- These categories dedicate considerable resources to CI activities, such as dedicated 'war rooms' and playing executive 'war games'.
- They hold the view that CI is a strategic resource, and focus on both strategic and tactical CI.

Figure 4.4 CI typologies

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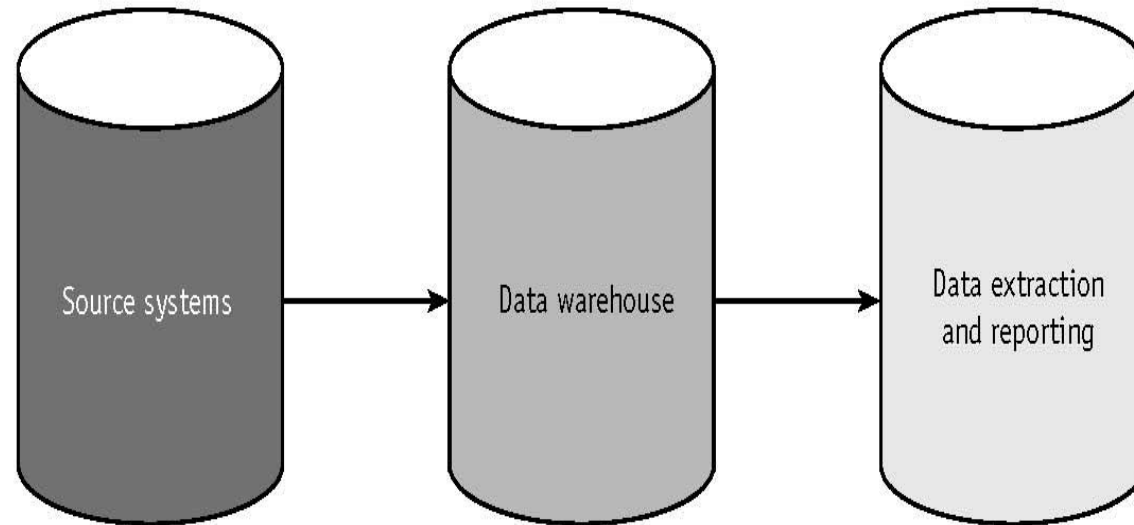


4.4 Business intelligence (BI)

- Most organisations generate large amounts of data about their internal operations.
- For example, a retailer may constantly be generating data about sales transactions, customer data, purchasing transactions, debtor and creditor management, and inventory.
- In its raw form, this data is mostly useless to strategic decision makers.
- The purpose of BI is to convert the massive amounts of raw data into useful and actionable intelligence.

4.4 Business intelligence (BI) (cont.)

Figure 4.5 A simplified view of business intelligence systems



4.4.1 Source systems

Large organisations may have many systems, but a few general examples of source systems are provided below:

- Legacy systems are historical and possibly outdated systems, but for some reason are still being used by the organisation.
- Enterprise resource planning (ERP) systems such as SAP are operational systems that have been developed over years to run a business and generate operational information.
- The focus of ERP is typically supply chain activities.
- Customer relationship management (CRM) systems are regarded as the marketing equivalent of ERP systems, and serve to integrate the customer-facing functions such as marketing, sales, and customer service.
- Online transaction processing (OLTP) refers to those systems that facilitate and manage transaction-oriented applications, for example a bank's automated teller machines (ATM s).
- Clickstream data is the record of an Internet user's 'virtual trail' that is left while surfing the Internet.
- It includes details of activity on the Internet, for example every website and every page of every website visited. This data is potentially valuable to Internet marketers and advertisers.

4.4.2 Data warehouse

- The data warehouse has become widely accepted as the ‘heart’ of the business intelligence system.
- It is typically a central system where information from diverse sources is combined to make it available to marketing and other decision makers.
- According to most authors, BI technology has coalesced around the use of data warehousing and online analytical processing (OLAP).
- The data from the various sources is brought together in a central storage facility, where it is archived and prepared for extraction by users of the information.
- In most organisations, this facility is known as a data warehouse.
- The purpose of a data warehouse is to provide rich, timely, clean, and well-structured information to BI analysis tools.

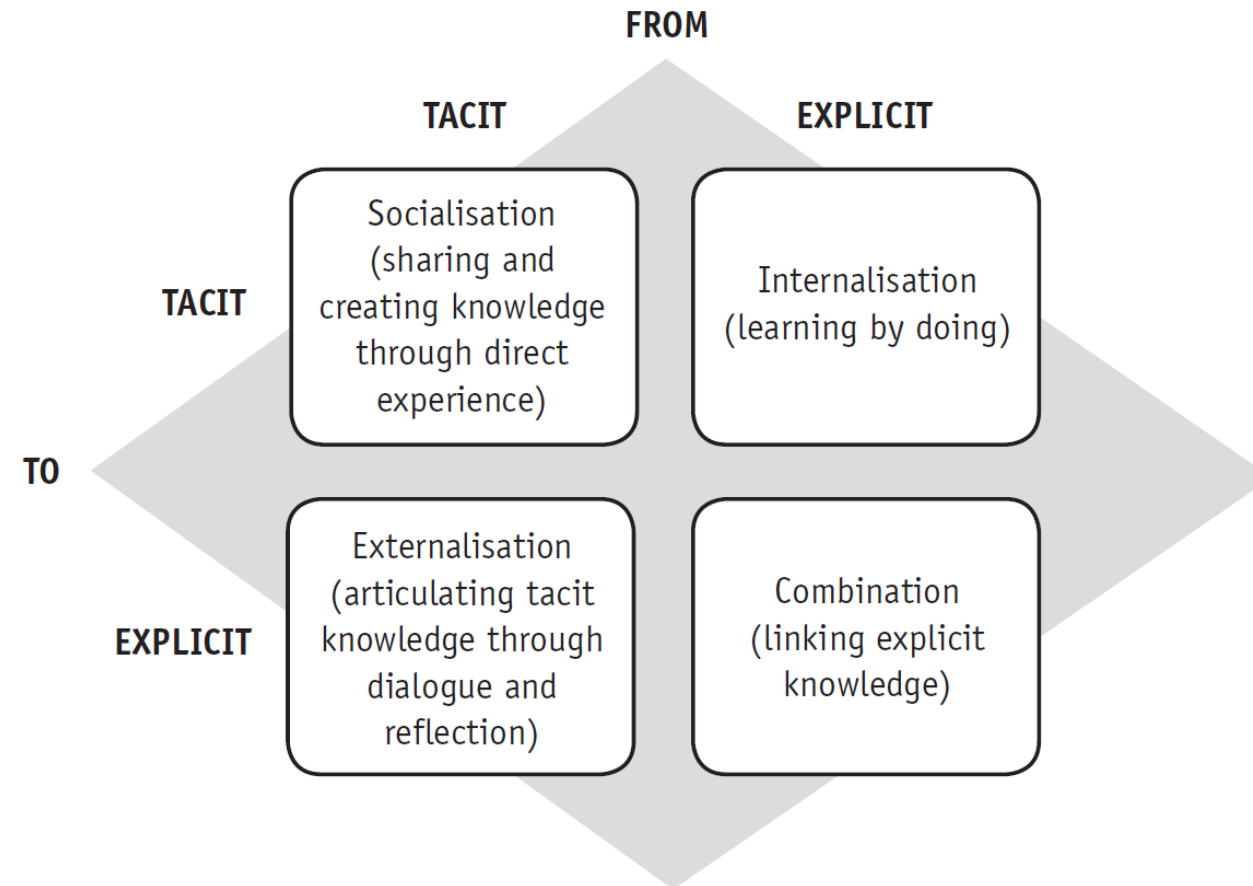
4.4.3 Data extraction and reporting

- The last step in the process of adding value to the organisation's data is data extraction for use by managers using management information and analysis tools such as OLAP, data mining, and executive information systems, including dashboards.
- *OLAP* provides a means for users to view the data from a data warehouse in a multidimensional format, for example comparing data on geographical areas, product lines, and time.
- Data mining is an analytical process consisting of statistical techniques, artificial intelligence and database research.
- It is designed to explore data (usually large amounts of data, typically business or market related) in search of consistent patterns and/ or systematic relationships between variables.
- Executive information systems (EIS) refer to operational data presented in the form of charts, tables, and reports for the use of managers.

4.5 Integrating mechanisms

- People - provide the creative insights that cannot be duplicated by technology or process.
- The role of people in integrating intelligence is thus critical and can be:
 - multidisciplinary intelligence teams,
 - Executive intelligence officer (EIO)
 - and Intelligence specialists.
- Processes- although there are many different processes that contribute to the integration and dissemination of intelligence, three of the more important processes are focused on, namely knowledge management, the process of amplifying weak signals, and war gaming.

4.5.1 Processes for knowledge creation and sharing in an organisation



4.5.2. Amplifying weak signals

- With the deluge of information available to decision makers, it is somewhat surprising that many industry experts feel that organisations are data rich but poor in actionable information.
- It could thus be argued that those organisations that are able to cut through the clutter to get to the intelligence that no or few other organisations have, will be in a better position to establish a competitive advantage.
- This principle is depicted in Figure 4.7, which suggests that organisations that are able to derive insights from weak signals are in a better position than organisations that simply react to events, or base their decisions on 'strong signals' that are visible and available to everyone.

4.5.2. Amplifying weak signals (cont.)

Figure 4.7 The strategic value of CI

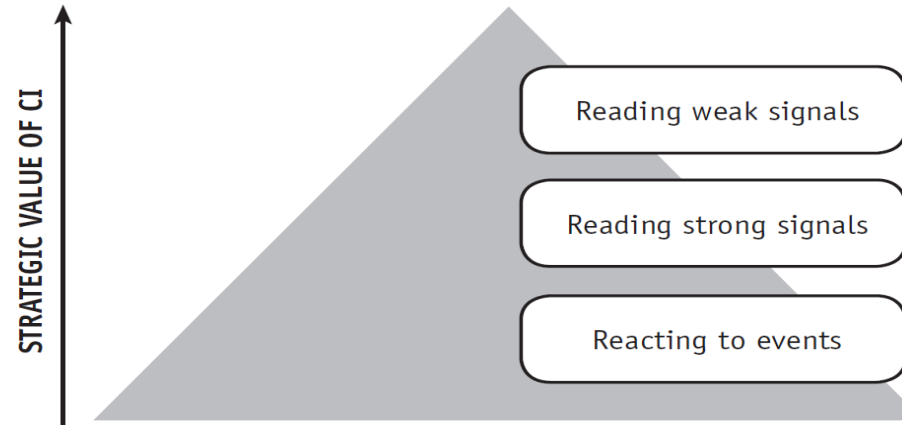
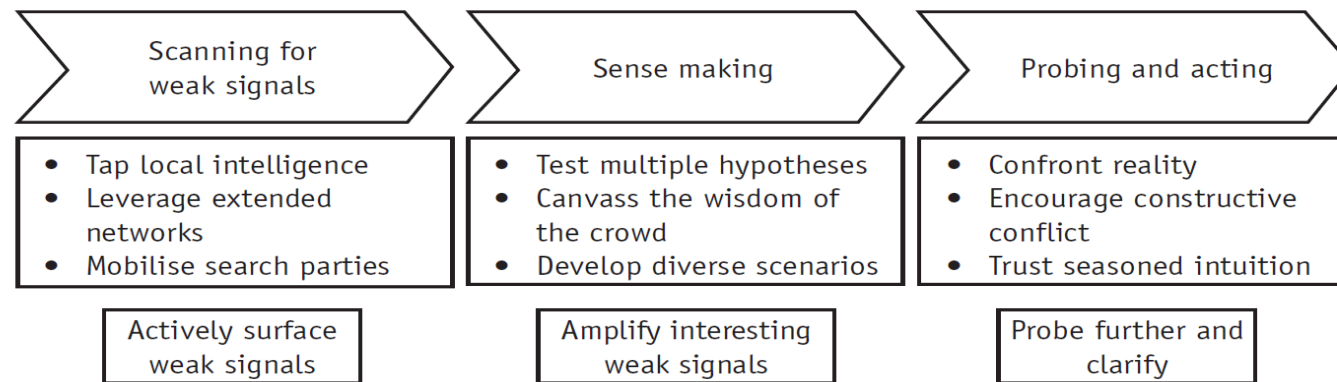


Figure 4.8 The process for amplifying weak signals

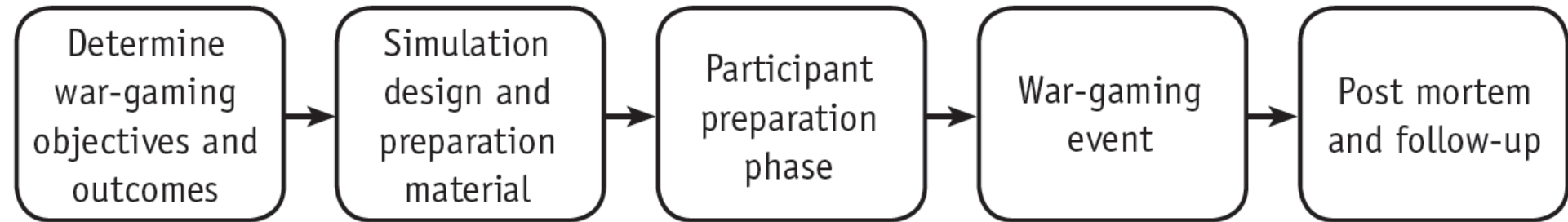


4.5.2.3 Executive war gaming

- Due to its complexity and the cost associated with it, war gaming is not used as often as it should be.
- However, it provides a unique way of gaining insight into competitive issues by placing the organisation's own executives in the shoes of their competitors or other key industry players, for example regulators.
- Figure 4.9 is a flow diagram that outlines a typical war gaming project.
- Typical goals may include:
 - developing a strategy for a new market entry or a new product launch
 - assessing the effect of a strategy on the competitive landscape and competitive reaction
 - learning more about the organisation's environment and strategic options
 - developing future scenarios with a strong focus on the competitive landscape.

4.5.2.3 Executive war gaming (cont.)

Figure 4.9 A typical war gaming project³⁵



4.5.3 Technology as an integrating mechanism

- Planning and decision-support tools
 - Simulation tools
 - Planning templates
- Artificial Intelligence (AI)
 - Expert systems
 - Artificial neural networks (ANN)
 - Intelligent agents

4.6 Strategic decision making and strategic decision enablers in volatile environments

- Intuitively we might feel that some environments are so turbulent and volatile that managers do not really have the time to collect, process and make sense of information, and might rely more on their experience or “gut feel” to make decisions.
- However, Kathleen Eisenhardt found that managers in volatile environments make more use of information than managers in more stable environments.
- Moreover, there are certain guidelines that managers can use to speed up decision making.

4.6 Strategic decision making and strategic decision enablers in volatile environments (cont.)

- Building multiple alternatives-Instead of investing all available time and effort in developing just one alternative (and risking the alternative being rejected and having to start over), multiple alternatives should be developed and presented.
- Tracking real-time information-Instead of relying on trends and statistical analyses (which may age very quickly anyway), managers in fast-moving environments may be more predisposed towards real-time information, which focuses on the latest information from current operations.
- Seeking the views of trusted advisors-The experience of older managers can be very valuable, often more so than more extensive analyses by more junior staff members or consultants.
- Aiming for consensus, but not at any cost-In many instances, achieving consensus may be too difficult and time-consuming to achieve. So, while consensus should be the “first prize”, a strategic decision-maker should have the courage to make a decision at a certain point despite the status of consensus-seeking efforts.

4.7 Managers as interpreters of information

- Managers are not dispassionate and rational machines that will always make the most optimal decision under any circumstances.
- While most managers are trained to use their logic and cognitive skills in analysing and interpreting information, they are also political beings, influenced by their own search for power.
- The way that they interpret information is influenced by their own abilities and characteristics.
- Given this, it can be seen that different managers will attach different meanings to the same information.
- To add to the complexity, the same managers may even interpret the same information differently under different condition.

4.8 Summary

- The analysis of information on the macroenvironment, industry, and internal environment is the result of a process of intelligence gathering, analysis, and dissemination.
- Many organisations tend to focus on and use information that is close to hand and easy and cheap to obtain (for example, internal financial information, or online information in the public domain).
- The quality of intelligence is related to the investment in obtaining intelligence from internal and external sources in line with strategic direction.
- It is also related to the use of integrating mechanisms in the form of people, processes, and technology to add value to intelligence for the sake of decision-makers.
- Research and experience have shown that organisations willing to do this have the opportunity to develop a competitive advantage.

Discussion questions

1. Explain the link between CI, BI, and KM.
2. In the case of a potential new competitor entering the industry, give examples of:
 - a) five key intelligence topics
 - b) the CI activities that will assist strategic decision making
 - c) the BI that will assist strategic decision making
 - d) the integrating mechanisms that will be useful in integrating and analysing intelligence.
3. Explain how an organisation would go about accelerating its strategic decision making processes.
4. Explain the role of managerial sense making and sense giving in strategic decision enablers.