



Antecedents and effects of decision comprehensiveness: The role of decision quality and perceived uncertainty



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ARTICLE INFO

Article history:

Available online 14 November 2013

Keywords:

Decision comprehensiveness
Performance
Decision quality
Mediation effect
Perceived uncertainty

ABSTRACT

On the basis of a sample of 184 top executives, we investigated the roles of decision quality and perceived uncertainty in the relationship between decision comprehensiveness and performance. Our results show that decision quality mediates a large proportion of the comprehensiveness–performance relationship and may thus provide a more proximate outcome measure of the effect of comprehensiveness. In addition, we found that perceived uncertainty directly affects the level of comprehensiveness in organizations rather than moderating its effect on performance as conceptualized by previous research. Based on the integration of behavioral and information processing theories we suggest that more process-oriented measures such as decision quality and perceived uncertainty may overcome conflicting empirical results in the field.

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Introduction

How much value does an exhaustive and inclusive process add to the quality of a firm's strategy? Research on decision comprehensiveness focuses on answering precisely this question. It analyzes whether comprehensiveness – defined as the extensiveness of the strategy process (Miller, 2008) – increases the quality of strategic decisions (Forbes, 2007; Priem, Rasheed, & Kotulic, 1995). Still, a clear answer has not yet been provided.

Scholars in the field have theorized about the effects of comprehensiveness on decision quality (Forbes, 2007). However, most empirical studies in the area have only implicitly tested this relationship by analyzing the link between comprehensiveness and performance under different environmental conditions. This research has yielded mixed results (see Miller, 2008 for a review). While some empirical studies suggest a positive influence of decision comprehensiveness on performance in unstable industries and a negative effect in stable ones (Bourgeois & Eisenhardt, 1988; Eisenhardt, 1989; Glick, Miller, & Huber, 1993; Goll & Rasheed, 1997; Papadakis, 1998; Priem et al., 1995; Zahra, Neubaum, & El-Hagrassey, 2002), others found the opposite effect (Fredrickson, 1984; Fredrickson & Mitchell, 1984).

These inconclusive findings may be explained by the focus of previous research on performance as the decision process outcome instead of more proximate outcomes, such as decision quality, and by differences in the way in which instability is conceptualized in

these studies (Forbes, 2007). In contrast to decision quality, performance is influenced by a multitude of factors outside the strategy process, which make the analysis of the relationship significantly more complex and less conclusive (Dean & Sharfman, 1996). At the same time, environmental (in) stability has been operationalized using a variety of concepts, such as turbulence, dynamism, and uncertainty (Glick et al., 1993; Goll & Rasheed, 1997; Zahra et al., 2002). More importantly, both objective and perceptual conceptualizations of environmental uncertainty have been used to measure these concepts in different studies. Objective uncertainty is based on measures that use archival sources built on indicators such as market volatility or patent applications to operationalize uncertainty (Dean & Sharfman, 1993, 1996; Forbes, 2007; Glick et al., 1993). This approach is based on the idea that patents provide a good approximation for the level of potentially destabilizing technologies in the industry (Dean & Sharfman, 1996). In contrast, perceived uncertainty relies on decision makers' subjective judgments of environmental conditions (Priem et al., 1995; Zahra et al., 2002).

However, research on environmental uncertainty has shown that only weak correlations exist between these measures (Boyd, Dess, & Rasheed, 1993). These studies also show that perceived uncertainty, in contrast to objective uncertainty, may operate as an antecedent to the strategy process. As such, it may facilitate decision comprehensiveness rather than moderate its influence on performance (Boyd & Fulk, 1996).

In this paper, we analyze these issues by focusing on the roles of decision quality and perceived uncertainty in the relationship between decision comprehensiveness and performance. We

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investigate this relationship using a sample of 184 executives in German small and medium-sized companies.

Our results advance the discussion on the antecedents and effects of comprehensiveness found in the strategy process literature in two main ways. First, we show that decision quality serves as a crucial mediator in the relationship between comprehensiveness and performance. We thus contribute to the discussion about reframing research on the effects of decision comprehensiveness from performance-based to decision quality-based measures (Forbes, 2007). In this regard, we show that the analysis of comprehensiveness, decision quality, and performance may provide a more accurate description of the strategy process.

Furthermore, we suggest that the level of environmental uncertainty perceived by decision makers directly affects the level of decision comprehensiveness, rather than moderating its effect on performance. This result indicates that the *perceived* uncertainty in the industry, rather than the objective uncertainty, may guide the decision to pursue higher comprehensiveness in the strategy process. It also shows that the effect of instability is more diverse than suggested in previous research, and points to the importance of behavioral and information processing elements in the relationships among decision comprehensiveness, decision quality, and performance. Our results thus contribute to a more detailed analysis of the influence factors and effects associated with comprehensiveness and help overcome divergent empirical results in the field.

The results reported in this study highlight the importance of research in the domain of comprehensiveness and the strategy process in general. They suggest that the quality of strategic decisions in corporate practice can be improved through comprehensive strategy processes.

Background and hypotheses

Strategy and decision-process literature has portrayed the causal relationships among the decision process, the resulting choice, and the decision outcome as a three-step interaction (Dean & Sharfman, 1996; Hitt & Tyler, 1991). Particular attention has been devoted to the roles of rationality (Dean & Sharfman, 1993; Elbanna & Child, 2007a, 2007b; Simon, 1955) and comprehensiveness (Miller, 2008) in the decision process, which are used to help explain differences in decision outcomes based on the synoptic model of strategy (Ansoff, 1965). In this paper, we define decision comprehensiveness as the extent to which decision makers are exhaustive and inclusive when making strategic decisions (Fredrickson, 1984; Fredrickson & Mitchell, 1984; Glick et al., 1993). This includes the amount of investigatory activity, the degree of environmental scanning, and the generation of alternative courses of action encompassed in the decision-making process (Dean & Sharfman, 1993; Miller, Burke, & Glick, 1998).

Previous empirical research on decision comprehensiveness has largely focused on its effects on decision-process outcomes measured in terms of organizational performance (Jones, Yurak, & Frisch, 1997). The results of such studies show that the performance impact of decision comprehensiveness depends on the degree of environmental instability, which describes the dynamism and complexity of an organization's environment as well as the extent to which frequent and unpredictable changes occur (Hart & Banbury, 1994). While scholars generally argue that comprehensiveness increases performance because it gives decision makers more holistic insights into the environment and thus leads to more realistic evaluations in their strategic choices, empirical studies have yielded mixed results (for reviews see Forbes, 2007; Miller, 2008).

Fredrickson (1984) and Fredrickson and Mitchell (1984), for example, have found a positive influence of comprehensiveness

in stable industries and a negative effect in unstable or turbulent industries. They argue that uncertain and dynamic environments tend to be complex and difficult to analyze. The cognitive limitations of decision makers make a holistic analysis of all environmental factors in these environments even more difficult (Braybrooke & Lindblohm, 1963). Consequently, decision comprehensiveness does not offer any benefits in these situations (Fredrickson, 1984; Fredrickson & Iaquinto, 1989; Fredrickson & Mitchell, 1984). Rather, Fredrickson (1984) and Fredrickson and Mitchell (1984) suggest that decision comprehensiveness is only beneficial in stable environments.

Other studies, in contrast, have arrived at completely opposite results. They have found that comprehensiveness is particularly effective in unstable environments (Bourgeois & Eisenhardt, 1988; Eisenhardt, 1989; Glick et al., 1993; Goll & Rasheed, 1997; Priem et al., 1995; Zahra et al., 2002). Eisenhardt (1989) argues that decision makers accelerate their cognitive processes in dynamic environments. Therefore, comprehensive decision processes can also be beneficial in such circumstances. In fact, comprehensive processes have been found to foster holistic considerations of important factors in the strategy process and to lead to more accurate perceptions of environmental factors (Dean & Sharfman, 1996). Comprehensive processes may even reduce the negative effect of cognitive biases, such as confirmation or focusing biases (Tor & Bazerman, 2003), which often result from fast or insufficient information searches in turbulent environments (Miller, 2008).

Forbes (2007) argues that the mixed results found in previous research can be explained by two factors: (1) the focus on performance as an outcome of decision comprehensiveness and (2) deficits in the way in which environmental instability is conceptualized within the comprehensiveness–performance relationship. He argues that performance, as an outcome of the decision process, may be too remote from the actual strategy or decision process, and that it may be influenced by a multitude of external factors that are not part of the decision process itself.

Environmental stability has been conceptualized and measured in previous studies on the basis of a multitude of different constructs. This may have biased results and makes comparisons between studies difficult. At the same time, the sources of uncertainty as well as the role of decision makers' perceptions of environmental instability have received little attention so far. These factors, however, may play a crucial role in overcoming the divergent results in the field (Atuahene-Gima & Li, 2004).

Given these arguments, we suggest two important additions to the present conceptualization of the relationship between decision comprehensiveness and performance. First, we argue that decision quality plays a crucial role as an intermediary in the comprehensiveness–performance relationship. Specifically, its integration may help to more accurately assess the consequences of decision comprehensiveness. Second, we suggest a need to rethink the role of environmental instability in the decision comprehensiveness–performance relationship. Instead of conceptualizing objective environmental instability as a moderator of the relationship, we argue that the environmental instability perceived by decision makers plays an important role as a predictor of decision comprehensiveness.

Decision quality as a mediator in the relationship between comprehensiveness and performance

An increasingly dominant school of thought in the strategy process literature argues that decision processes should be evaluated on the basis of the quality of the process itself rather than on the basis of decision outcomes, such as financial performance (Amason, 1996; Keren & de Bruin, 2005). This reasoning is in line with Dean and Sharfman (1996), who show that performance is

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