Contemplations For The Modern Business

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THE RATIONAL DECISION-MAKING PROCESS

THE LIMITATIONS OF THE SIX-STEP PROCESS OF RATIONAL DECISION-MAKING

Rational decision-making is an important process used by businesses to deliver thoroughly analysed and educated decisions. Doyle (1998, p.1) defines rational decision-making as ‘choosing among alternatives in a way that “properly” accords with the preferences and beliefs of an individual decision-maker or those of a group making a joint decision’. In order to follow this ideology, a six-step process is implemented (Ogu 2013). Due to the extensity of the process, rational decision-making ensures that each part of the decision is treated incrementally. The implementation of this incremental method ensures the delivery of optimal, well-educated and well-thought-out decisions (Herbert 1979). In the infamous ‘Ford Pinto’ case, the rational decision-making process was used to the benefit to the company, but also to the detriment of the consumer (Leggett 1999). Firstly, Ford identified that the cars were extremely dangerous for the consumers, and as a result of this discovery, Ford was left with two options: to recall the cars at the cost of $137 million, or incur the costs of the deaths and damage to the consumers which amounted to $49.5 million. Ford weighed the positive and negative economic consequences of these options, and ultimately decided that the best economic decision would be to ignore ethical considerations and to leave the consumers with their dangerous vehicles.

Undoubtedly, there are considerable advantages to be gained from having an extensive rational decision-making process in place, but there are limitations (McWilliams & Williams 2014). The business environment is complex, and these complexities can often confuse decision-makers, so having access to correct and complete information is essential. Without access to quality information, decision-makers in business cannot make optimal and well-founded decisions. High-quality information is particularly essential when a business wishes to introduce a new product to a new market; however, rational decision-making is a time-consuming process, which is problematic in cases where there are time constraints (Chongming 2014). Nevertheless, if the rational decision-making process is thoroughly implemented, analysed and used in the correct circumstances, it can lead to decisions that benefit all involved.

THE STRATEGY-MAKING PROCESS

HOW TO MAINTAIN A SUSTAINABLE COMPETETIVE ADVANTAGE IN AN EVER-CHANGING BUSINESS ENVIRONMENT

The strategy-making process is an integral tool used by organisations to maintain a competitive advantage. Miller and Dess (1996) state that strategic management consists of the analysis, decisions, and actions an organisation undertakes to attain and sustain a competitive advantage. Organisations use a three-step process known as the ‘strategy-making process’ in order to incorporate strategic management into their operations (Hart & Banbury 1994). The first step in this process involves ‘assessing the need for strategic planning’, and this is where competitive inertia needs to be avoided. Competitive inertia is neglecting the need for change, and instead opting to maintain processes that historically work, but no longer perform optimally. Eastman Kodak, who was an early instigator of digital photography, was guilty of competitive inertia (Symonds 2006). Kodak believed that there was a far greater demand for traditional camera rolls, and opted out of furthering digital camera technology. Consequently, as technology advanced and the demand for digital photography increased, Kodak’s sales heavily declined and they were ultimately forced to declare themselves bankrupt (Persinger 2007).

The second step in the strategy-making process is a situational analysis, which is commonly performed by examining the strengths and weaknesses of an organisation’s internal environment, as well as the opportunities and threats of an organisation’s external environment. This step is commonly referred to as a SWOT analysis (Fiegenbaum, Hart & Schendel 1996). In order to determine an organisation’s strengths and weaknesses, a distinctive competence test is performed which determines the extent in which one company outperforms another. In terms of the car industry, when observing the most reliable, high quality cars, brands such as Honda and Subaru have a distinct competency advantage over other, lower quality car manufacturers (Consumer Reports 2011). The third step in the strategy-making process requires an ascertainment of the political, economic, sociocultural, and technological elements of an organisation’s external environment (PEST). As a result of the PEST analysis, businesses are able to take action against threats and act upon the opportunities that present themselves externally (Queensland Government 2014). Lastly, decisive action is required in order to finalise the process, and strategic reference points are an integral tool used to achieve this (Bamberger & Fiegenbaum 1996). Strategic reference points act as a benchmark and allow companies that are focused on supreme customer service, such as Telstra, to base their success on how well this core component is performed. If the targets are met, top management will be satisfied with the company’s strategy. The opposite occurs if the benchmarks are not met. Thus, the strategy-making process can be advantageous in a company’s endeavour to maintain a sustainable competitive advantage in an ever-changing business environment.

METHODS OF REDESIGNATION

REDESIGNING INTERNAL AND EXTERNAL PROCESSES

There are two main ways in which organisations are able to redesign their operations: Firstly, by altering their 'intra-organisational' processes, and secondly, by modifying their 'inter-organisational' procedures. Intra-organisational processes are defined as 'the collection of activities that take place within an organisation to transform inputs into outputs that customers value' (McWilliams & Williams 2014, p.160). Two commonly used concepts to apply internal change to organisations are by reengineering and empowerment. During the early 1980s, Ford North America discovered they had 400 excess accounts payable clerks, when competitors such as Mazda only had five. Consequently, they realised the need to reengineer their accounts payable department through employee reductions. They managed to reduce numbers predominately through increasing the work done by the remaining clerks, which increased their responsibility (Hammer 1990). Furthermore, this change increased the employees' empowerment as the increased responsibility caused the employees to perceive their work to have a greater impact, leading them to feel as if they were more component and increasing their internal motivation (Spreitzer 1995).

Inter-organisational processes are 'a collection of activities that take place among companies to transform inputs into outputs that customers value' (McWilliams & Williams 2014, p.162). Modular and virtual organisations consistently apply the concept of inter-organisational processes. Modular organisations have contractual agreements with external parties to perform their non-core business processes (Miguel 2005). They are beneficial as they result in significant cost reductions, as the organisation only pays for outsourced labour, expertise or manufacturing when needed, thus significantly limiting wasted resources (McWilliams & Williams 2014). Ahuja and Carley (2001) describe virtual organisations as 'geographically distributed organisations whose members are bound by a long-term common interest or goal, and who communicate and coordinate their work through information technology'. The most notable virtual organisations often involve shorter, loosely linked relationships between the company and external parties, which allows companies to combine their efforts and to share costs. Apple, a prominent virtual organisation, was able to place their product in the market more efficiently by combining their easy to use software with Sony's quality manufacturing. Consequently, this combination led to an increased market share in the notebook segment of the PC industry (Reference for Business 2015). Despite the numerous advantages of intra- and inter-organisational processes, there are also some challenges; however, if these challenges are manageable, and various processes are used gainfully, businesses will profit significantly.

TEAMWORK

THE ADVANTAGES AND DISADVANTAGES OF TEAMWORK IN THE BUSINESS PLACE

Teamwork is used by businesses to increase the workload and the overall effectiveness of their workforce. Work teams are defined as ‘a small number of people with complementary skills who hold themselves mutually accountable for pursuing a common purpose, achieving performance goals and improving interdependent work processes’ (McWilliams & Williams 2014, p. 165). Teams provide significant advantages for organisations, but there are some drawbacks. Various case studies have proven that teams improve product and service quality, employee job satisfaction and decision-making (Kirkman & Rosen 1999). Teams also allow businesses to increase their customer satisfaction ratings. This is done through creating work teams that are trained to meet specific customer needs. To ensure customer satisfaction, consulting group ‘Hewitt Associates’ changed their customer service department through the implementation of specialised teams to handle specific benefits-related questions (Marquez 2006). Moreover, teams allow firms the potential to improve their product and service quality. Teams take a unique approach to business by accepting full responsibility for their output, whereas management accepts responsibility in traditional organisations (Banker, Field, Schroeder & Sinha 1996). Furthermore, teams allow job satisfaction to increase, most notably through a concept known as cross-training, where team members learn how to do the jobs performed by their colleagues (Ebeling & Lee 1994). Cross-training allows a team to function normally, and without output loss, by allowing other team members to compensate for absent personnel. Cross-training also allows individuals to broaden their skills and capabilities, as well as offering job variance. Teamwork is also satisfying because it ensures intellectual property of the firm is known to more people within the organisation, which gives employees the recognition they deserve (Whole Foods Market 1997).

Despite the undoubtable advantages that teamwork provides, there are disadvantages. One of these significant disadvantages is social loafing. Teams are not for everyone, and when teams are introduced into a traditional work setting, some workers are intimated by the increased responsibility, which can lead to social loafing. Social loafing occurs when workers reduce their output on the assumption that their teammates will compensate (Liden 2004). Latané, Williams, and Harkins (1979) determined that when in a group of six or more people, the individual often significantly reduces their physical effort compared to when they work alone. However, businesses are able to keep individuals to account by keeping teams small (George 1992). The disadvantages posed by teamwork are limited and are easily overcome. Once drawbacks such as social loafing are rectified, teamwork provides boundless benefits for businesses and employees alike.

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