



Corporate Strategy Decision Making, Demystified

For leaders of multi-business firms, the best decisions aren't necessarily those that produce the best immediate outcomes.

For senior leaders of single-business companies, making high-level strategic decisions can be a daunting challenge. The difficulties involved in such decisions only increase with the number of businesses under the company umbrella. With multi-business firms, the problem shifts from achieving *competitive advantage* within a certain industry or market, to achieving *corporate advantage*—i.e., managing interactions between businesses in a portfolio so that the whole is greater than the sum of the parts.

Key corporate strategy decisions may include whether to enter, retain, or exit a given business; whether to pursue growth internally or externally, i.e. through alliances or acquisitions; and how to allocate resources within a portfolio. In addition to being extremely risky, these decisions must often be made based on partial or incomplete information. And of course, they involve large amounts of money, and can't easily be reversed. In light of the above concerns, how can we ensure the quality of corporate strategy decisions?

In the world of management, it is tempting but incorrect to define good decisions after the fact, based on the favourability of their apparent outcomes. In an uncertain world, we should never underestimate the ability of luck—either good or bad—to come between a strategic plan and its

rightful realisation. Good decisions, then, could be thought of as those that (1) are the best given current limitations on information (and may involve recognition of those limitations), and (2) can be persuasively justified to others within the organisation.

Let's take a closer look at these two components.

Decision-making structure

It's impossible to discuss corporate strategy decisions in any depth without acknowledging that professional advisers play a significant role, and often an overly dominant one. Corporate strategists' heavy reliance on advisers may be the nature of the beast, but it becomes a concern when leaders cannot engage knowledgeably with consultants, investment bankers, etc. After all, experts come equipped with their own biases and lapses in knowledge, and indeed their own agendas. Left unchallenged, they can become like the magician who forces you to pick the card he wants you to pick. Of course, the strategic sophistication of an individual leader or team is never all-encompassing. But strategists can get a better handle on the entire range of alternatives available to them, if they learn to ask the right questions.

In fact, all corporate strategy decisions boil down to

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just a few key alternatives, with underlying trade-offs in mind. The right answer in a particular case can only come from analysing firm-specific factors such as the nature of synergies, how long investments take to mature, and contracting challenges. My new book ***Corporate Strategy: Tools for Analysis and Decision-Making*** (co-authored with Bart Vanneste of University College London) offers a diverse set of tools and frameworks for this purpose. While there are no guarantees, the book is designed to help people move toward better decision making.

Decision-making process

However, frameworks such as those in our book truly work only if they help corporate strategists bring two crucial elements to their decision-making process: *diversity of opinion* and *clarity of language*. For example, two teams could use the same tools to analyse a pending diversification decision—with one team primed to focus on minimising the chance of an error of commission (i.e., taking ill-advised action), and the other on minimising the chance of omission error (i.e., missing a good opportunity).

The same problem, viewed in this way from opposite angles, is likely to provide a highly valuable diversity of information and thus of opinion. At the same time, as long as both teams engage in a rational discourse incorporating common terms for analysis, they will have achieved a clarity of language conducive to real, insightful communication and a productive end result, even when the teams differ in their conclusions. The above methodology could be applied to almost any major corporate strategy decision.

Note that the goal here is not to manufacture opposition by assigning teams to argue for or against a predetermined outcome, but rather to have each team give an open-ended analysis based on a discrete point of view.

In an ideal world...

Corporate strategy decisions are often made in stressful, compromised circumstances. Political pressures from higher-ups, rivalries across departments, and compressed timeframes can lead to rushed or muddled decision making. Even so, having a benchmark for how decisions would be made in an ideal world can help strategists stay focused despite the instability.

In sum, from a substantive perspective, better corporate strategy is about making sure that you have weighed the most likely alternatives in a logical manner. From a process perspective, it is about engaging with enough people in the organisation to be confident that you've extracted

the best, most complete information available, and that your decision is widely accepted as being both appropriate and fair.

Phanish Puranam is Roland Berger Chair Professor of Strategy & Organisation Design at INSEAD. He is also Academic Director of INSEAD's PhD programme.

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