Strategic Decision Part-I

So, what is a 'strategic' decision?

How does it differ from a say a 'tactical' decision?

Strategic decisions are typically characterized by the following features: Strategic decisions:

- Tend to have a long-term orientation.
- Focus on the "Big Picture".
- Have significant cross-functional implications.
- Involve a significant commitment of resources.
- Are not easily reversible.
- Involve a conscious choice of what to do and what not to do.

To explore how these 'strategic' decisions play out in the world around us, let's take the example of the airline industry:

The decision of an airline to procure a fleet of only Boeing 737s versus Airbus A330s is strategic in that it has long-term implications associated with target city market pairs and customers that can be served owing to aircraft flying range and passenger carrying capacity restrictions.

The decision by a key supplier to this industry (i.e., an aircraft manufacturer such like Boeing) to not compete with Airbus with an offering to counter the A380which incidentally is the largest commercial aircraft available has "Big Picture" implications. It indicates a fundamentally different world view of how the airline industry is likely to evolve. Airbus is betting on the traditional Hub and Spoke model, an approach that involves the plying of large aircraft between Hubs and smaller aircraft from the Hubs to the cities/towns on the spoke.

Airbus's "Big Picture" call is that flying larger aircraft between hubs is a solution to the increasing congestion in airports and the difficulty to increase the number of flights in the hubs and that the larger capacity aircraft would enhance the scale economies in this business.

Boeing in sharp contrast is betting on airlines offering more point to point direct services by circumventing the traditional hubs. In line with this perspective, Boeing has invested in medium capacity long range aircraft such as the 787 that aim to fly direct to the cities without the need to go via traditional hubs. While Point to Point services are usually considered to be more expensive to offer, Boeing aims to alter the economics associated with it by offering these 787s constructed out of more lightweight composite materials and configured with fuel efficient twin engines. In addition, the higher humidity levels, lower cabin pressure, fresher air is expected to help passengers feel less jet-lagged when they arrive at their destinations, features which Boeing believes will make frequent flyers in particular more desirous of flying long-range point to point.

In the airline industry, players in the industry take decisions regarding their positioning in the market. For instance, the industry is broadly divided today into Full service carriers and Low cost carriers. The decision to operate either as Full service carrier or as a Low cost carrier has significant implications at the functional levels in the organization as well. The marketing and promotional methods and expenditures incurred between full service and low cost carriers are likely to differ.

The incentive mechanisms that reward employees may be calibrated differently for full service and low cost carriers. There is also a likelihood of organization structural attributes such as hierarchical layers and reporting structures differing between full service and low cost carriers. Similarly, budgetary control procedures are also likely to differ between the two organizations. Strategic decisions therefore have significant cross-functional implications that span the organization. A change in a strategic decision would typically necessitate a need to change several functional level attributes of the organization in order to ensure a ‘fit’ between the new ‘strategy’ and the functional level attributes.