Strategic Decision Part-II

The decision by Boeing or Airbus to develop a new aircraft involves a large capital investment. Reports indicate that Airbus has spent around 25 billion US dollars to develop the A380. For airlines, operating the A380 (or a new class of aircraft), results in a requirement to make investments in training pilots and aircraft maintenance engineers so that they are certified to fly and maintain the new aircraft. In addition, several airports around the world have had to make investments to reconfigure their facilities and to make fresh investments to accommodate an aircraft as large as the A380.

These include modifications to the gates at airport terminals, the widening of taxiways and parking bays to accommodate the A380. All of these activities involve a significant commitment of financial, human and organizational resources. Decisions which involve a significant commitment of such resources are ‘strategic’ in character.

Airbus’s decision to spend 25 billion US Dollars in developing the A380 and committing vital and scarce organization resources towards developing this aircraft is not easily reversible as it would entail significant write downs and lost time with regard to pursuing alternative strategic choices such as developing a medium capacity long range aircraft (a space which Boeing sought to focus its energies on). The irreversible character of ‘strategic’ decisions also results in a strong credible signals in the form of conveying a ‘commitment’ to the decision which has significant strategic implications particularly in a duopoly (two player in an industry) setting.

Airbus’s decision to enter the very large commercial transport space, Boeing’s decision to not enter that space, the decision of Southwest airlines (a leading low cost carrier) to not enter the full service carrier space and the decision of some airports to upgrade their facilities to cater to the requirements of A380 are examples of calls made by organizations regarding what to do and what not to do which have important long run strategic implications for the future of these organizations. These represent a key attribute of decisions which have a strategic character. It is important to appreciate in this context that a key element of strategy is deciding what you will or what you will not do. Deciding to do everything under the sun is not a 'strategy' or a very confused 'strategy'.

I have now elaborated on what constitutes a 'strategic' decision. However, I had in my introductory remarks in this segment raised the question of how does it differ from a 'tactical' decision.

Let me conclude by talking briefly about 'tactical' moves or decisions. In contrast to 'strategic' decisions, 'tactical' decisions have a short term outlook. For instance, a price cut announced by an airline in a particular city market pair for a specified duration can be considered 'tactical' in nature. Similarly, decisions which are not in the nature of betting on the future survival of the company, such as investments of the magnitude associated with developing the A380, but take the form of say developing an incentive plan to spur innovation in the company are more 'tactical' in nature as opposed to being 'strategic'. In closing, it is however important to appreciate that while I have sought to highlight the distinction between 'strategic' and 'tactical' decisions, it should also be understo od that 'strategic' decisions have several 'tactical' decisions which undergird or comprise it. A series of 'tactical' decisions often lie behind the 'strategic' decisions that we have discussed so far.