Strategic management: Decision making, environmental analysis

Decision making

- One of the management functions
- Strategic decision making
- The word “strategy” is derived from the Greek word “stratçgos”; stratus (meaning army) and “ago” (meaning leading/moving).
- Decision making according to type of goals
  - Strategic goals
  - Operational goals
  - Tactical goals
Management - Funnel

problem

goal

criteria

strategic
tactical

how

operational

Conflict Pyramid
Strategic thinking

Obr. 3.7 Základné typy myslenia
Decisions- rational

- **Rationality**
  - Managers make consistent, value-maximizing choices with specified constraints.
  - Assumptions are that decision makers:
    - Are perfectly rational, fully objective, and logical.
    - Have carefully defined the problem and identified all viable alternatives.
    - Have a clear and specific goal
    - Will select the alternative that maximizes outcomes in the organization’s interests rather than in their personal interests.
Assumptions of rationality

- The problem is clear and unambiguous.
- A single, well-defined goal is to be achieved.
- All alternatives and consequences are known.
- Preferences are clear.
- Preferences are constant and stable.
- No time or cost constraints exist.
- Final choice will maximize payoff.
Decisions- bounded rationality

- Bounded Rationality
  - Managers make decisions rationally, but are limited (bounded) by their ability to process information.
  - Assumptions are that decision makers:
    - Will not seek out or have knowledge of all alternatives
    - Will *satisfice*—choose the first alternative encountered that satisfactorily solves the problem—rather than maximize the outcome of their decision by considering all alternatives and choosing the best.
Decisions- intuitive

- Intuitive decision making
  - Making decisions on the basis of experience, feelings, and accumulated judgement.

- Advantage: speed- an emotional reaction can be immediate and lead directly to a decision
  - decisions based on emotional intuitions lead directly to action: the positive feeling toward an option will motivate you to carry it out

- Disadvantages: it may be based on inaccurate or irrelevant information
  - problematic in group situations where decisions need to be made collectively
Intuition

Managers make decisions based on ethical values or culture

Values or ethics-based decisions

Subconscious mental processing

Managers use data from subconscious mind to help them make decisions

Experience-based decisions

Managers make decisions based on their past experiences

Affect-initiated decisions

Managers make decisions based on feelings or emotions

Cognitive-based decisions

Managers make decisions based on skills, knowledge, and training
Intuition

- If a decision maker faces a conflict between selecting a problem that is important to the organization and one that is important to the decision maker, self interest tends to win out.

- Moral development is relevant in decision making because many decision have an ethical dimension - from “Sticking to rules to avoid physical punishment”, to “Following self-chosen ethical principle even if they violate the law“
Decision as calculation

- Rational decision making model by Bezerman (1994):
  1. Define the problem, characterizing the general purpose of your decision.
  2. Identify the criteria, specifying the goals or objectives that you want to be able to accomplish.
  3. Weight the criteria, deciding the relative importance of the goals.
  4. Generate alternatives, identifying possible courses of action that might accomplish your various goals.
  5. Rate each alternative on each criterion, assessing the extent to which each action would accomplish each goal.
  6. Compute the optimal decision, evaluating each alternative by multiplying the expected effectiveness of each alternative with respect to a criterion times the weight of the criterion, then adding up the expected value of the alternative with respect to all criteria.
Programmed vs. nonprogrammed decisions

- **Structured Problems**
  - Involve goals that clear.
  - Are familiar (have occurred before).
  - Are easily and completely defined—information about the problem is available and complete.

- **Programmed Decision**
  - A repetitive decision that can be handled by a routine approach.
Programmed vs. nonprogrammed decisions

- **Unstructured Problems**
  - Problems that are new or unusual and for which information is ambiguous or incomplete.
  - Problems that will require custom-made solutions.

- **Nonprogrammed Decisions**
  - Decisions that are unique and nonrecurring.
  - Decisions that generate unique responses.
Types of PROGRAMMED decisions

- A Policy
  - A general guideline for making a decision about a structured problem.

- A Procedure
  - A series of interrelated steps that a manager can use to respond (applying a policy) to a structured problem.

- A Rule
  - An explicit statement that limits what a manager or employee can or cannot do in carrying out the steps involved in a procedure.
Decision-Making Conditions

- **Certainty**
  - A ideal situation in which a manager can make an accurate decision because the outcome of every alternative choice is known.

- **Risk**
  - A situation in which the manager is able to estimate the likelihood (probability) of outcomes that result from the choice of particular alternatives.

- **Uncertainty**
  - Limited or information prevents estimation of outcome probabilities for alternatives associated with the problem and may force managers to rely on intuition, hunches, and “gut feelings”.

Decision making styles

According to Robbins and Coulter

2 dimensions:

Ways of thinking
- Rational, orderly, and consistent
- Intuitive, creative, and unique

Tolerance for ambiguity
- Low tolerance: require consistency and order
- High tolerance: multiple thoughts simultaneously
Decision making styles

- Analytic
- Conceptual
- Directive
- Behavioral
Types of decision makers

- **Directive**
  - Use minimal information and consider few alternatives.

- **Analytic**
  - Make careful decisions in unique situations.

- **Conceptual**
  - Maintain a broad outlook and consider many alternatives in making long-term decisions.

- **Behavioral**
  - Avoid conflict by working well with others and being receptive to suggestions.
Decision making errors and bias
Effective decision making process

- It focuses on what is important.
- It is logical and consistent.
- It acknowledges both subjective and objective thinking and blends analytical with intuitive thinking.
- It requires only as much information and analysis as is necessary to resolve a particular dilemma.
- It encourages and guides the gathering of relevant information and informed opinion.
- It is straightforward, reliable, easy to use, and flexible.
Group decision making

- **Brainstorming**
  - group members verbally suggesting ideas or alternative courses of action
  - useful means by which to generate alternatives, but does not offer much in the way of process for the evaluation of alternatives or the selection of a proposed course of action

- **Nominal group technique**
  - structured decision making process in which group members are required to compose a comprehensive list of their ideas or proposed alternatives in writing privately
  - Then each group member is asked, in turn, to provide one item from their list until all ideas or alternatives have been publicly recorded on a flip chart or marker board

- **Delphi method**
  - The individuals in the Delphi "group" are usually selected because of the specific knowledge or expertise of the problem they possess
  - e-mail, fax, or online in a discussion room or electronic bulletin board
  - other group members ask questions and alternatives are ranked or rated in some fashion
"All those in favour say 'Aye'."

"Aye."

"Aye."

"Aye."

"Aye."

"Aye."
Environmental analysis

1. The internal environment e.g. staff (or internal customers), office technology, wages and finance, etc.
2. The micro-environment e.g. our external customers, agents and distributors, suppliers, our competitors, etc.
3. The macro-environment e.g. Political (and legal) forces, Economic forces, Sociocultural forces, and Technological forces. These are known as PEST factors.

Environment
  - External environment
    - Macro environment
    - Micro- specific environment
      - Interactive environment
      - Industry environment
  - Internal environment
PEST analysis of macro environ.

- **P**olitical factors
- **E**conomic factors
- **S**ociocultural factors
- **T**echnologic factors
Political Factors

1. How stable is the political environment?
2. Will government policy influence laws that regulate or tax your business?
3. What is the government's position on marketing ethics?
4. What is the government's policy on the economy?
5. Does the government have a view on culture and religion?
6. Is the government involved in trading agreements such as EU, NAFTA, ASEAN, or others?
Economic Factors

1. Interest rates.
2. The level of inflation Employment level per capita.
3. Long-term prospects for the economy Gross Domestic Product (GDP) per capita, and so on.
Sociocultural Factors

1. What is the dominant religion?
2. What are attitudes to foreign products and services?
3. Does language impact upon the diffusion of products onto markets?
4. How much time do consumers have for leisure?
5. What are the roles of men and women within society?
6. How long are the population living? Are the older generations wealthy?
7. Do the population have a strong/weak opinion on green issues?
Technological Factors

1. Does technology allow for products and services to be made more cheaply and to a better standard of quality?
2. Do the technologies offer consumers and businesses more innovative products and services such as Internet banking, new generation mobile telephones, etc?
3. How is distribution changed by new technologies e.g. books via the Internet, flight tickets, auctions, etc?
4. Does technology offer companies a new way to communicate with consumers e.g. banners, Customer Relationship Management (CRM), etc?
Interactive environment

- Shareholders
- Governmental institutions
- Interest groups
- Unions
- Local administratives
- Industrial chambers
- Basically stakeholders without internal stakeholders
Industry environment

- Porter’s 5 forces model

Diagram showing the intensity of rivalry among current competitors with factors such as threat of new entrants, bargaining power of buyers and suppliers, threat of substitutes, and bargaining power of suppliers.
Risk of entry by potential competitors

Potential competitors refer to the firms which are not currently competing in the industry but have the potential to do so if given a choice. Entry of new players increases the industry capacity, begins a competition for market share and lowers the current costs. The threat of entry by potential competitors is partially a function of extent of barriers to entry. The various barriers to entry are-

- Economies of scale
- Brand loyalty
- Government Regulation
- Customer Switching Costs
- Absolute Cost Advantage
- Ease in distribution
- Strong Capital base
Rivalry among current competitors

- Rivalry refers to the competitive struggle for market share between firms in an industry. Extreme rivalry among established firms poses a strong threat to profitability. The strength of rivalry among established firms within an industry is a function of following factors:
  - Extent of exit barriers
  - Amount of fixed cost
  - Competitive structure of industry
  - Presence of global customers
  - Absence of switching costs
  - Growth Rate of industry
  - Demand conditions
Bargaining Power of Buyers

- Buyers refer to the customers who finally consume the product or the firms who distribute the industry’s product to the final consumers. Bargaining power of buyers refer to the potential of buyers to bargain down the prices charged by the firms in the industry or to increase the firms cost in the industry by demanding better quality and service of product. Strong buyers can extract profits out of an industry by lowering the prices and increasing the costs. They purchase in large quantities.
Bargaining Power of Suppliers

- Suppliers refer to the firms that provide inputs to the industry. Bargaining power of the suppliers refer to the potential of the suppliers to increase the prices of inputs (labour, raw materials, services, etc) or the costs of industry in other ways. Strong suppliers can extract profits out of an industry by increasing costs of firms in the industry. Suppliers products have a few substitutes. Strong suppliers’ products are unique. They have high switching cost. Their product is an important input to buyer’s product. They pose credible threat of forward integration.
Threat of Substitute products

- Substitute products refer to the products having ability of satisfying customers needs effectively. Substitutes pose a ceiling (upper limit) on the potential returns of an industry by putting a setting a limit on the price that firms can charge for their product in an industry. Lesser the number of close substitutes a product has, greater is the opportunity for the firms in industry to raise their product prices and earn greater profits (other things being equal).
Internal environment

- Resources
- Abilities
- Capabilities of the company
Strategic management: SWOT analysis, stakeholder analysis

Management basics, FaFUK 2010/1011
SWOT analysis

- Strengths
- Weaknesses
- Opportunities
- Threats
SWOT Analysis Diagram

**Strengths**
- Staff
- Customer Base
- Market Position
- Financial Resources
- Sales Channels
- Products/Services
- Profitable
- Growing

**Weaknesses**
- Staff
- Profit Margins to Low
- Financial Resources
- Competitive Vulnerability
- Market Position
- Lack of New Products/Services
- Sales Channels

**Opportunities**
- New Complimentary Market
- Strategic Alliance
- Funding
- Sales
- Product/Services
- Mergers/Acquisition
- Market Positioned for Growth
- Competition Weaknesses

**Threats**
- Economy
- Loss of Key Staff
- Lack of Financial Resources
- Cash Flow
- New Technology
- New Competitor
- New Government Regulations
- Falling Sales
- Decreasing Profits
Stakeholder analysis

- Internal – External – Positive – Negative

- Strength: staff, customer base, market position, financial resources, sales channels, products/services, profitable, growing

- Weaknesses: staff, low profit margins, financial resources, competitive vulnerability, market position, lack of new products/services, sales channels

- Threats: economy, lose of key staff, lack of financial resources, cash flow, new technology, increased competition, new regulations, falling sales, decreasing profits

- Opportunity: new complimentary market, strategic alliance, growing market, weak competitor
Pharmacompany stakeholders

- Internal - Medical Representatives (MRs), clinical and medical staff, the president’s office, staff implicated in R & D, marketing, manufacturing, recruiting, etc.
- External - Doctors - Pharmacists - Microbiologists - Nurses - Other Healthcare Professionals
- External - Business environment
External- healthcare stakehold.

- Leading medical institutions professors, as needed
- Trialists in the therapeutic areas the company is targeting
- Company's current clients-doctors
- The group of High-prescribers the company is targeting
- High-prescribers prescribing in areas your Company is / would be in
- Leading hospitals pharmacists
- Hospitals pharmacists
- "Street" pharmacists
- Other healthcare professionals such as microbiologists, contrast-media technicians, etc.
- Nurses
External- business stakehold.

- Patients and their relatives
- Wholesalers’ managers & salesmen
- Company's current group of wholesalers, at the manager and / or the seller level
- Health & other governmental authorities
- Suppliers
- Pharmaceutical industry (colleague companies" staff, etc.)
- General & specialized media (including TV commercials)
- Financial community
- Stock analysts
- Public & private research institutes
- Potential employees (scientific students in their last year of studies, etc.)
References

- http://cogsci.uwaterloo.ca/Articles/Pages/how-to-decide.html
Lectures available at:

### Department of Organisation and Management in Pharmacy

**Kalinčákova 8, 1st floor, ☎ tel. no. 50 117 348**

The education within the following basic subjects: Computing, Pharmaceutical propedeutics, Social pharmacy, Biostatistics: Basics of management for pharmacists, Pharmaceutical informatics, Economy and drugs production, Management in Pharmacy. Grants a compulsory six-month training and organises other professional practices in pharmaceutical companies.

The activities of the department are focused on the problems of:
- Computing, epidemiology and pharmaceutics management,
- the state of pharmaceutics and health care to the other EU states,
- consumption to health state of the population,
- historiography,
- Information systems in pharmaceutics.

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### Faculty of Pharmacy

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<tr>
<td>Department of Chemical Theory of Drugs</td>
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<td>Department of Cellular and Molecular Biology of Drugs</td>
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<td>Department of Pharmaceutical Chemistry</td>
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Available options for further consultation:
- Department of Organisation and Management in Pharmacy
- Education

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### Povinné predmety

- Computer data processing
- Pharmaceutical propedeutics

### Výberové predmety

- Management Basics in Pharmacy

### Rigorózné konanie

- Diplomové práce

### Aktuálny rozvrh

- Termínové skúšok
Thank you for your attention