STRATEGIC REASONING BY ANALOGY: DO HOSPITALITY SENIOR MANAGERS USE IT?

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ABSTRACT

A large number of strategic management studies have focused on the nature of the strategic decision-making process. However, very few of them have concentrated on how senior hospitality managers formulate important strategic plans. The purpose of this study is to evaluate senior hospitality managers' approach to strategic decision-making and assess to what level strategic reasoning by analogy is used in the strategic decision-making process. This study will be conducted in the fall of 2008 in Dubai, UAE. Focus group interviews will be conducted with senior hospitality managers who are involved in devising strategy.

Key words: strategy, decision-making, reasoning, analogy, focus groups

INTRODUCTION

In today's unpredictable business environment senior managers are often challenged by complex and dynamic circumstances in which they have to formulate important strategic decisions. The main purpose of such strategic decisions is to provide a company with a sustained competitive advantage in the marketplace. Therefore, the accuracy of such decisions is of fundamental importance to the future successful development of the business organization. Increasingly, many external and internal factors are becoming less predictable, which puts additional pressure on the strategic decision-making process. This fact is even more evident in rapidly growing and developing industries like hospitality and tourism.

The formulation of sound strategic decisions can be completed through three different approaches of deduction, trial and error, and reasoning by analogy (Gavetti & Rivkin, 2005). On the one hand, senior managers should use deductive strategic decision-making when there is abundant information about an existing problem and the industry in which the company operates is stable and well-established. This allows managers to choose the most coherent option and suggest a rational solution to the problem. On the other hand, when a specific context is extremely dynamic, unfamiliar and complex and cannot be tackled in a rational way, then the trial and error approach should be employed. When strategic dilemmas are not very complex and dynamic or when they are not very familiar, then reasoning by analogy should be used by strategy makers. When strategists reason by analogy they usually refer to past experiences and apply this knowledge to the current situation.

Reasoning by analogy also encompasses the use of winning examples from other industries and their transfer to the industry in which the company operates (Gavetti & Rivkin, 2005).

Strategic thinking and decision-making is an area that has been overlooked in hospitality strategic management research. No previous hospitality research studies have focused on the importance of analogical reasoning in the strategic decision-making process among senior hospitality managers. In this increasingly dynamic and complex industry, managers are often faced with challenges directly impacting the strategic decision-making process. The hospitality industry is very susceptible to political, competitive and economic factors, and is also very dependent on factors such as labor, new technology, financial resources and management expertise. Consumer preferences are also constantly evolving which contributes to the multifaceted and vibrant development of the industry. Hospitality managers have to continuously meet these challenges by devising strategies which take into consideration the new consumer trends, economic conditions, competitive forces, and technological developments.

In this dynamic and changing environment hospitality strategy makers can take advantage of their past experience and apply it to the novel conditions by using strategic analogical reasoning. The purpose of this study is to assess to what degree senior hospitality managers use strategic reasoning by analogy during the strategic decision-making process. The following research question was formulated: What approach do hospitality managers use during the strategic decision-making process?

LITERATURE REVIEW

Strategic planning has turned into a top priority for many hospitality organizations as a result of the increased competition, the changing market conditions, and the development of new strategic techniques that many hospitality senior managers find helpful (Harrison, 2003). Managers' knowledge, expertise and intuition have become critical factors in the successful formulation and implementation of strategies. Out of the large number of strategic management studies, few have focused on how hospitality senior managers take important strategic decisions.

Quain, Render, and Higgins (1990) conducted a study on strategic decision-making in the convention industry. They described three types of decision making based on the nature of the business environment. In an environment that is secure and has certain conditions, decision-making is relatively uncomplicated and straightforward and the outcomes are easy to predict. The authors suggested that such an environment is not descriptive of the dynamic nature of the convention industry, nor it is applicable to other hospitality industry segments. In an environment that is risky, decision-making is more challenging and different outcomes with different levels of probability can occur. In such an environment, strategy makers should use their knowledge and use the expertise of external consultants in order to evaluate potential outcomes. In a business environment in which the conditions are uncertain, predicting the probability of the outcomes is not possible. In this type of environment decision makers have to use their intuition of optimism or pessimism in order to evaluate the possible outcomes.

It was suggested by Lovallo and Kahneman (2003) that managers tend to be overoptimistic when making important strategic decisions. Strategy makers often miscalculate potential costs and overrate future benefits which can undermine the success of important strategic projects. Generally, there are two types of business situations in which this phenomenon can be observed. The first one is when managers are using their personal intuition and are willing to modify project plans based on research and analysis and fit them to their own intuition. The second situation is when managers are concentrating on the strengths and the capabilities of their own companies without considering the strengths and the capabilities of their competitors. These pitfalls can be avoided if managers base their decisions on research, analysis and previous experience. Prior experience can help a manager to employ an outside view of a particular business situation and take the most accurate decision (Lovallo & Kahneman, 2003).

In today's dynamic and constantly changing business environment top managers are forced to make important strategic decisions in a hurried manner. When executives are under pressure, they have a tendency to simplify the decision-making process and take decisions that have worked for them in the past. Those decisions are not based on exhaustive strategic analysis but rather on personal experience. In such stressful situations executives often have a tendency to replicate the strategic decisions of other companies (Hambrick, Finkelstein, and Mooney, 2005). This efficient approach to decision-making has proved to be successful for executives who operate under constant pressure and are faced with novel challenges.

Mintzberg and Wesley (2001) suggested three main approaches to decision-making. They labeled them as "thinking first", "seeing first", and "doing first". When managers use the "thinking first" approach they make decisions based on facts and analysis. This approach is preferred when the problem is clear, the information is reliable, and the context is structured. The "seeing first" approach is based on ideas and is appropriate when there are too many elements that have to be combined into creative solutions. The third "doing first" approach works best when the situation is novel and complex and data is nonexistent. In order to achieve the best possible results decision makers have to consider using a combination of all three approaches.

Accurate strategic thinking and decision-making are some of the key components of a company's success. Strategic thinking and decision making should be perceived not as events but as processes that develop over a significant amount of time (Garvin & Roberto, 2001). According to Goldman (2007) strategic thinking is a result of several different experiences which are essential for an individual's ability to think strategically. Among them are education, previous work experience, influence from mentors, competition from other colleagues, dealing with threats, involvement in strategic planning activities, and the interactions with others in similar roles.

METHODOLOGY

This research will be conducted in the fall of 2008 in Dubai, UAE. Dubai was selected for this study because of its dynamic and novel business environment. The city is often labeled as the fastest growing tourist destination in the world. In this constantly changing environment hospitality managers are forced to make important strategic decisions under pressure and reasoning by analogy could be used as an appropriate strategic approach.

For the purpose of the study an inductive qualitative research method will be employed. Focus group interviews will be conducted with senior managers who are involved in devising strategy of hospitality companies in Dubai. Convenience sampling procedure will be used for selecting participants for the focus groups. Participants will be contacted by phone and e-mail and asked to participate. Ten to twelve participants will be invited for the focus group interviews. Between eight and ten questions will be asked in each focus group. The questions will be tested for face validity by a panel of faculty members.

The goal of the focus group will be to identify the approach that hospitality managers use when they are involved in strategic decision-making activities. The participants in each focus group will be selected on the basis of certain characteristics and similarities. The focus group interviews will be videotaped and audio taped and notes will be taken. They will be conducted by a trained professional who is familiar with the topic but not familiar with the participants. All focus group participants will be given a satisfaction questionnaire at the end of each session.

The data will be analyzed using a grounded theory, constant comparative approach (Strauss & Corbin, 1998). By constantly comparing the interviews and using note-taking procedures theoretical propositions will emerge and, since the theory is drawn from the data, it will likely portray reality. The grounded theory approach will allow for descriptive and exploratory examination of hospitality managers' approach to strategic decision-making. The analysis process will include examining and breaking down the data, conceptualizing and comparing categories, and formulating categories into themes and key ideas.

Concept mapping will be used to organize the data in a meaningful way. By developing a concept map it will be possible to portray the interconnections and the relations between the main concepts, and visualize and analyze the emerging themes (Strauss & Corbin, 1998).

The current study can be used as a starting point for future hospitality research in the area of strategic decision making. It will provide help in the development of a theoretical framework and in the development of an integrated strategic making approach that can be applied to dynamic and novel business environments such as the hospitality industry.

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